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## **PARTICIPATION AND DECENTRALISATION IN RURAL DEVELOPMENT : LESSONS FROM THE LESOTHO HIGHLANDS WATER PROJECT**

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*Emerging experience from many countries, including some African countries, suggests that an approach that puts communities at the centre of the development process is likely to have considerably more chance of success than the centralised, bureaucratic approach that has characterised previous rural development initiatives.*

*In Lesotho, the establishment of a central source of finance – the Development Fund – to fund community-driven development has had a positive impact on mobilising communities to implement a range of development projects. The experience of the Development Fund provides important lessons for other countries that are interested in promoting development projects that are sustainable and, at the same time, meet communities' felt needs.*

### **DEELNAME EN DESENTRALISASIE IN LANDELIKE ONTWIKKELING : LESSE VANUIT DIE LESOTHO HOOGLAND WATERPROJEK**

*Eroaring vanuit baie lande, insluitend sommige Afrikalande, dui daarop dat 'n benadering wat gemeenskappe sentraal aan die ontwikkelingsproses stel, waarskynlik 'n heelwat groter kans op sukses sal hê as die gesentraliseerde, burokratiese benadering wat vorige landelike ontwikkelingsinisiatiewe gekenmerk het.*

*In Lesotho het die daarstel van 'n sentrale finansieringsbron - die Ontwikkelingsfonds - om gemeenskapsgedrewe ontwikkeling te befonds 'n positiewe impak gehad op die mobilisering van gemeenskappe om 'n aantal ontwikkelingsprojekte te implementeer. Die ervaring van die Ontwikkelingsfonds bied belangrike lesse aan vir ander lande wat daarin belangstel om ontwikkelingsprojekte wat volhoubaar is en terselfdertyd gemeenskappe se behoeftes aanspreek, te bevorder.*

### **HISTORICAL PERSPECTIVES ON RURAL DEVELOPMENT**

There have been substantial efforts to support and promote development in rural areas over the past four decades, each having a different focus (Ruttan, 1975; 1984). For example, the integrated rural development (IRD) approach adopted during the 1970s and 1980s aimed to tackle rural poverty through programs that integrated social and productive development (World Bank,

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1974). Most IRD programs tended to contain similar components that emphasised increased agricultural productivity as a basis for raising rural incomes, while recognising the synergistic contribution of better education, health and other basic services to further improvements in people's quality of life and their overall productivity.

The case for specialised programs of intervention in rural areas was based on several sound observations concerning the particular conditions confronting rural communities. First, that successful rural development was inextricably linked to a successful agricultural sector (Haggblade *et al.*, 1989). As agriculture is the engine of growth in rural areas, so it was argued that governments should intervene directly to promote a modern, technologically sophisticated agricultural production system (World Bank, 1974). This could be achieved by making available standard packages of agricultural inputs (modern varieties of seeds, fertilisers and other chemicals, credit and extension) and outputs (processing, marketing and distribution). Second, that poverty tended to pervade rural areas. Not only were communities disadvantaged through lack of access to modern agricultural products and techniques, but they also typically had low levels of basic services, e.g., clinics, schools, roads, water supply and sanitation. This low level of social and infrastructural services was reflected in high levels of illiteracy and morbidity that further compromised individuals' productive potential. Third, although rural populations are often spatially dispersed, individual communities, or groups of communities, are usually clustered within geographically defined areas. This makes it possible to formulate development programs that are targeted at specific rural locations (World Bank, 1974).

While these three observations were—and remain—valid, it was in the design and implementation of programmes aimed to address these challenges that difficulties arose. As rural populations were poor and perceived as technologically backward, it was argued that their direct participation in project design was unlikely to be very relevant. Also due to poverty, farmers and communities were unable to pay market prices for inputs so subsidies were needed on rates of interest, seed costs, and fertilisers and chemicals. IRD programmes often had to develop elaborate delivery mechanisms to provide this diverse range of goods and services. Unfortunately, excessive subsidisation undermined incentive structures and led to widespread loan default, crop failure and the adoption of inappropriate technologies.

To organise the delivery of this wide range of agricultural, infrastructural and social services proved to be complex requiring a high level of co-ordination among government agencies, which was normally beyond the capacity of

national government departments. This led to the creation of centralised project management units that were specifically charged with the responsibility for designing a “blueprint” to co-ordinate the provision of the various components of IRD. However, despite the establishment of often sophisticated delivery systems, most project management units were unable to carry out the duties assigned to them effectively (Lacroix, 1985; Tendler, 1993).

Furthermore, during the 1970s and part of the 1980s, IRD initiatives were typically implemented in an overall policy environment that heavily discriminated against agricultural producers and rural communities. General development policies emphasised a process of import-substituting industrialisation (ISI) that resulted in a tremendous bias toward urban areas (Lipton, 1977; 1993). This urban bias in the allocation of resources was further exacerbated by macroeconomic policies that tended to overvalue exchange rates and protect inefficient industries, as well as pricing policies for agricultural producers that badly distorted incentives (Schiff & Valdés, 1992).

It is not surprising to find that the results of IRD were, in general, disappointing (World Bank, 1987). Performance was particularly poor in sub-Saharan Africa and in Latin America (Lacroix, 1985 & Tendler, 1993), where governments tended to be more interventionist in price and product markets than in south-east Asia, which achieved far higher growth rates in agricultural productivity. By the late 1970s, a serious critique of the IRD model had emerged. The limited focus of rural development projects on increasing agricultural productivity; the insufficient attention paid to the wider context of national macroeconomic policy; the failure to develop technological packages that were sufficiently flexible to deal with local conditions; the lack of attention to socio-cultural and institutional factors; and the scarcity of trained local manpower were all cited by Uma Lele (1979) as major issues constraining the effectiveness of IRD programmes.

The lessons learnt from the ISI and IRD experiences has led to the adoption of more open and participatory economic policies. ISI accompanied by a high degree of government intervention has been replaced by more export-oriented growth policies and a more laissez-faire role for government.<sup>2</sup> A new coherent policy for rural areas has not, however, replaced old-style IRD. The abandonment of the blueprint approach to rural development has left the essential challenges of rural areas still unaddressed. The central question of how to meet the aspirations of both local rural communities who are interested in

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<sup>2</sup> *Binswanger (1995) demonstrates the considerably greater success of countries that adopted more open economic policies and discriminated less against agriculture.*

having better access to social and economic goods and services, as well as those of national governments concerned to increase agricultural productivity and the socio-economic status of rural people remains unanswered.

There are, however, initiatives currently being implemented in a wide range of countries that suggest a new paradigm for rural development is emerging (Grosh, 1994; GTZ, 1993; Marc *et al.*, 1994; Van Zyl *et al.*, 1995). These new approaches retain some of the desirable characteristics of IRD, while adopting a "learning process" approach (Salmen, 1987) that is decentralised and participatory to permit more flexible programme design, which can be tailored to local needs (Parker, 1995). In the Kingdom of Lesotho, management of the revenues from the Lesotho Highlands Water Project (LHWP) is providing a new mechanism to support local development throughout the country, with an emphasis on poor, rural areas that lack basic services.

## LESOTHO HIGHLANDS WATER PROJECT

Begun in 1989, the aim of the LHWP is to construct several dams in the Maluti mountains and to transport and sell water to the Republic of South Africa. The magnitude of the anticipated revenues associated with the project<sup>3</sup> suggested that there may be difficulties absorbing these revenues into the economy without upsetting the macroeconomic balance. Consequently, a special fund—the Lesotho Highlands Revenue Fund (LHRF)—was established to manage the project revenues.

A government Legal Notice was passed in 1992 that established the broad institutional and operational procedures for the LHRF (Government of Lesotho, 1992). The Legal Notice established a number of sub-accounts designed to achieve the three broad aims of the LHRF. The main aim is to build a portfolio of national and international investments that will yield an annual income-stream of interest that can be used to supplement the government's public sector investment programme. Second, should government revenues from non-LHWP sources fall, a part of the LHWP revenues can be used to offset partially the decline. And third, a portion of the LHWP revenues is transferred to the Development Fund (DF), which is intended to be used as a source of financing separate from, but complementary to, the government's overall development spending.

Although the LHWP has not yet begun selling water to South Africa, some initial resources accumulated in the LHRF in the form of revenues earned on imports associated with the project's initial construction activities. These

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<sup>3</sup> At maturity, the LHWP is expected to yield annual revenue-flows of about \$55 million.

revenues have provided the basis to begin to put in place a funding mechanism through the operations of the DF to support community-based development in Lesotho.

## POVERTY IN LESOTHO

Lesotho is a country of 30 thousand square kilometres with a population of about 1.9 million. Though historically, the Basotho people came from a variety of local tribes, they now represent a homogeneous ethnic group having been essentially united by King Moshoeshoe II during the nineteenth century. The country has a higher annual per capita income (\$590), relative to other low-income countries (an average of \$390); however, income distribution is skewed, and as result a large part of the country's population is poor. This poverty is not equally distributed throughout the country, but is largely a rural phenomenon, with more than half of all rural people living in poverty. Linked to this is a low level of service coverage in rural areas, which is significantly less than in urban areas and especially low in remote rural areas. Rates of out-migration are high with many Basotho men seeking employment in the mining industry in South Africa. Those who remain have limited employment opportunities resulting in high rates of unemployment (World Bank, 1995).

This analysis of the challenges facing Lesotho has led to the development of a Poverty Action Plan, which is designed to support a more appropriate strategy for reducing poverty that is more responsive to people's needs (World Bank, 1995). This strategy has a number of aims, including improvement in the geographical equity of service coverage by targeting poor rural areas. Labour-intensive public works projects that address communities' needs will also play an important role in creating employment opportunities. However, two additional components of the action plan are essential if communities and local government are to take a more active role in their own development activities. The *capacity* of local government to identify, appraise and implement small, simple and poverty-targeted projects needs to be strengthened substantially. It will also be necessary to *decentralise* responsibilities for local development to locally-based institutions, such as district line agencies, community organisations, NGOs and private sector organisations.

Past development strategies in Lesotho have tended to design and implement programs through top-down mechanisms that attempt to plan development based on what central planners think communities need, while central line ministries execute the programs with little input from communities. There have, however, been several recent programs, that have tried to promote a more community-oriented approach to development, which have provided valuable

experience. For example, the Microprojects Program supported by the European Union has been making small grants to communities to assist with a range of community services and income-generating projects, and the UNDP-supported Grass-Roots Initiative Project has supported capacity-building efforts for local communities. There is also a regional project, the Mafeteng Rural Development Program, which is supported by the German government, while several other donors have small ambassadorial-level funds that can be used to implement local development projects. However, the size and scope of these programs is limited, both geographically and financially, and none of these initiatives claim to have found a mechanism that can be readily replicated to the national level.

Recent political and economic developments in Lesotho now provide an opportunity to design and implement a national development strategy that empowers local communities. Democratic local elections for new Village Development Councils (VDCs) were held in August, 1995.<sup>4</sup> The VDCs constitute important legitimate and accountable local institutions that can play a critical role in implementing and maintaining community projects. As with many other developing countries at present (Crook & Manor, 1994; Meenakshisundaram, 1994; Parker, 1995; Schmidt, 1989), the Government of Lesotho is also committed to a process of decentralisation, which should bring about the necessary reforms to permit local governments and communities to assume a greater share of the power and responsibility for local development.<sup>5</sup>

Economically, the country has been experiencing strong economic growth. In addition, revenues from the LHWP channelled through the DF may provide the basis for sustaining economic growth, as well as providing communities with a much-needed source of funding for community development initiatives. The continuing stream of revenues from LHWP will provide an assured basis to enable communities to access a dependable source of funds.

## DEVELOPMENT FUND OPERATIONS

The DF has several innovative features. First, overall responsibility for the DF rests with a Management Board that has some autonomy of decision making.<sup>6</sup> It is chaired by a senior civil servant who reports directly to the Minister of Finance and Planning. The Board is supported by a Development Committee that is

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<sup>4</sup> VDCs represent the lowest level of elected government in Lesotho. There are about 1,600 VDCs covering the entire country, with the exception of the capital – Maseru, which has its own elected municipal council.

<sup>5</sup> A draft White Paper on elected local government has recently been issued.

<sup>6</sup> For example, the Board has sole discretion in approving which applications for finance are successful.

responsible for overseeing the day-to-day management of the DF. Establishing a separate institutional structure was an important element in setting up the DF. It has enabled the Board to make rapid decisions on approving projects as compared to the usual government bureaucracy that is often unable to respond in a timely manner to community demands. At the same time, the Board has been careful not to build capacity in the DF that duplicates capacities present in line ministries. When technical supervision is required the Board can call on the relevant ministry for assistance, or can support appropriate capacity-building initiatives to enable ministries to carry out their functions more effectively.

Second, the DF has established its own internal operating procedures for screening and approving projects. Grants are made to communities to support projects that have broad communal benefits. No credit is provided, neither are grants given to individuals. The essential feature of this system is that communities themselves select the projects they wish to have financed. Communities are also responsible for project implementation, usually with the assistance of an outside technical agency, e.g. a government ministry or a private sector firm. Villagers from these communities are also usually hired as unskilled labourers on the projects, providing much-needed wage-earning opportunities. Thus, not only are communities able to select their own project, subject to certain restrictions, but they then get to participate in and benefit from its implementation.<sup>7</sup>

Third, DF grants go directly to institutions that operate at the community level, such as local Projects Committees or VDCs. Approved projects receive direct fiscal transfers from the DF, with no intermediary institutions involved. This financial link provides an effective mechanism for targeting communities directly, with a minimum of delay. This direct approach is similar to that adopted in many of the so-called Social Action Funds, which are designed to mitigate some of the negative social impacts associated with economic adjustment through community-based development (Marc *et al.*, 1994).

Already the DF has approved more than 200 individual projects, with a total cost of almost M160 million, covering three fiscal years from 1995/6-1997/8. Most of the projects approved to date are for infrastructure and include the construction of more than 750 km of rural roads, 125 small dams and 35 footbridges. The nature of these projects suggests that the DF is currently financing one of the largest labour-intensive public works program in Lesotho's history.

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<sup>7</sup> In north-east Brazil, the Government has put in place a similar system for involving communities and providing direct grant finance, which is reviewed in van Zyl *et al.* (1995).



There is no doubt that the approach used to generate and implement these DF projects has created considerable enthusiasm in the country, and that the projects financed by the DF are answering some of the communities' felt needs, as well as playing a significant role in providing gainful seasonal work for individuals who have few alternative employment opportunities. Wages earned from DF projects appear to be playing an important safety-net role in providing poorer, older members of communities cash to cover important items of consumption. Informal interviews also indicated that some villagers even intended to save a part of their earnings for investment purposes.

Continuing the type of decentralised development expenditures currently being financed by the Lesotho DF makes sense not only from an equity perspective, but can also improve the efficiency of public sector investments by replacing public expenditure patterns characterised by a top-down, centralised approach to development with a more effective decentralised approach. In this regard, the type of development promoted by the DF provides a unique opportunity to support the widespread efforts aimed at encouraging democratic decentralisation in Lesotho.

## IMPLICATIONS FOR SOUTHERN AFRICA

The experience of the Lesotho DF has shown that there is an alternative to the traditional top-down approach to rural development normally adopted by governments. This observation is of relevance to other countries in the southern African region, and other parts of the world, that are currently designing programmes in support of rural development. The DF has demonstrated the importance of a number of principles in the design and implementation of rural development programmes.

First, direct and constant participation of communities is essential.<sup>8</sup> Lessons from previous IRD programmes together with the DF experience suggest that government-supported rural development will fail if communities do not participate fully in the process of project selection, implementation and maintenance. This finding is consistent with experience from a range of countries covering a variety of project types (Cernea, 1985; Oakley, 1991; Schmidt & Marc, 1995). In Lesotho, this process of participation begins with members of a community coming together in a public forum (a *pitso*) that is called by the local chief to discuss and evaluate local needs.<sup>9</sup> Project priorities

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<sup>8</sup> Kottak et al. (1994), show the importance of participation in a rural development programme in north-east Brazil.

<sup>9</sup> Salmen (1992) describes this process of beneficiary assessment.

emerge from this needs assessment that can be subsequently submitted to the DF for possible financing.

Second, different communities will tend to favour different types of projects. It is therefore not possible to design a blueprint that will satisfy every individual community. Instead it is important to provide communities with a choice that they themselves make. Decentralising decision making to the community level is an essential element of the DF approach. The decision concerning which types of projects would be eligible for financing under a DF-type model will depend on local circumstances. But it is important to ensure that project options are kept as broad and flexible as possible, so as not to undermine the principle of local decision-making autonomy. Experience from Brazil (Van Zyl *et al.*, 1995) and India (Crook & Manor, 1994) among others re-emphasises this point.

Third, to meet these community-driven demands requires a corresponding source of finance. The DF achieves this by providing a single, central fund that is available for all communities to access. The choice of having one centralised fund or a number of funds will be affected by the size and homogeneity of the target population. In other countries that may possess large and/or ethnically diverse populations, it may make more sense to establish a number of sub-funds—possibly on a sub-national, regional basis—while still retaining the principle that it is the community that takes on most of the decision-making responsibilities.

Fourth, a shortcoming that has emerged in Lesotho is the lack of capacity<sup>10</sup> in government agencies to respond quickly to the high level of demand shown by communities.<sup>11</sup> This is mainly due to inherent weaknesses in the old system of providing government services through top-down, centralised mechanisms, with government agencies largely responsible for implementing projects. To be effective, the DF approach requires a redefined role for government. Rather than acting as a promoter and implementor of development programmes, government's role should focus on facilitation, with an emphasis on enabling communities to manage their own process of development. Scarce resources in government ministries should, therefore, be redeployed away from direct implementation, instead focusing on the roles of: providing technical support (if it is not available through the private sector); setting policies; and regulation.

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<sup>10</sup> Brinkerhoff (1994) discusses the different approaches utilised in World Bank-supported projects to building capacity.

<sup>11</sup> Experience from north-east Brazil suggests that lack of capacity among government institutions is one of the most important factors constraining local development, see Tendler (1993) and Van Zyl *et al.* (1995).

One further implication of redefining government's role is the need to promote the active involvement of private sector companies to provide the necessary technical support for communities. With the power of decision making comes the responsibility for implementation and maintenance. Communities must, therefore, learn the necessary technical skills to carry out these tasks. In their efforts to acquire these skills they may draw on the services of private sector companies or NGOs. Indeed, there are already many private firms involved in the DF projects as contractors, suppliers and engineers.

Findings from a recent survey in the former-homeland of KwaZulu in South Africa showed the importance of providing direct support to poor rural communities as a means of improving household food security and reducing poverty (Kirsten *et al.*, 1996). Farmer-support programs, which included the provision of credit and extension services, played a critical role in supporting agricultural activities (Van Rooyen *et al.*, 1987). A DF-type mechanism could also include such direct support to farmers, as is the case in the north-east Brazil programme (Van Zyl *et al.*, 1995). However, it is preferable to begin by putting in place a mechanism that can act as a financial instrument for funding projects that have broad community benefits, such as roads, schools, clinics, environmental protection. Once these types of projects and the financing mechanism that accompanies them has been accepted and well-understood by communities, it is then possible to move on and provide support for development initiatives that provide a higher degree of private benefits to individuals.

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