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REFORM OF RURAL DEVELOPMENT INSTITUTIONS

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INTRODUCTION

1. Government bodies involved in the rural sector are facing demands to increase agricultural competitiveness, ensure the environmental sustainability of production processes and help reduce rural poverty. These are not new requirements. However, the instruments available to governments and the global and sectoral context in which governments used to operate have changed radically, and this is why strong emphasis has to be placed on reforming rural institutions.

2. Although centralized institutions were appropriate during the macroeconomic adjustment phase, these are not adequate to deal with conflicts of interest at a time of structural change. However, the scale of the changes and the uncertainty of the outcome prompt us to question the types of institutions that are emerging. The political regime can deal with this through strategies of inclusion and compensation, and by reformulating incentives.

3. In this context, it is proposed to take a territorial approach to the local-rural economy, shifting the focus from:

- the small farmer to the wider rural family;
- farm work to multiple forms of work;
- general agricultural policy to specific policies geared to different types of family units;
- agricultural production to its linkages with agro-industry and services;
- the contrast between market/State as a regulatory mechanism to the rebuilding of institutions to act as mediators between civil society, the State and the market.

4. Rules must be drawn up giving control of resources to persons or organizations through rights and obligations in order to reverse the preclusive trends that are accentuated by the reforms. This institutional restructuring is steered by the processes of decentralisation, understood as the devolution of power to government agencies and to society, based on wide-ranging rural development projects operating as authentic generators of development policies and institutional innovation.

CHALLENGES AND DETERMINING FACTORS IN RURAL DEVELOPMENT

DETERMINING FACTORS OUTSIDE THE RURAL SECTOR

The macroeconomic context

5. As a result of the implementation of constitutional reform in the countries of the Region, under what is termed the Washington Agreement, sectoral policy has remained subordinate to macroeconomic policy and free market influences. Indeed, fiscal discipline, unified exchange rates, the strengthening of ownership rights, deregulation of domestic markets, privatization, trade liberalization, the lifting of barriers to foreign investment and financial liberalization are all measures that have been implemented in each country at various times and to varying degrees. Many of the sectoral instruments used in the past, such as subsidies, differentiated interest rates,

tax exemptions, purchasing power of state enterprises and product price fixing have practically disappeared.

6. Quite apart from any beneficial effects that they may have, the new instruments to have emerged, such as incentives for irrigation and forestation, direct payments to farmers, progressive tax reductions on sensitive commodities and land funds, do not appear to be sufficient to reduce rural poverty and boost the competitive capacity of small farmers, whose resource potential is underutilized.

The globalisation of agri-food systems

7. Another determinant in rural development is the concentration of capital in the agri-food industries, brought about by the globalisation of agri-food systems and by the setting of food standards. The ability to control such trends in order to meet national objectives presupposes the need to create a critical mass of negotiating power among the central authorities, and this involves lending support to those sectors that are striving to reduce the effects that monopolies usually have on a population's welfare.

The sectoral context

8. In the agricultural sector, the new conditions have been beneficial to companies owning land with high potential for the production of exportable products and enjoying access to credit, technology and information on domestic and external market conditions, suggesting that the benefits accrue to certain products in certain regions and to medium and large-scale farmers. This has led to a significant increase in exports, especially of non-traditional items. Whilst there is no denying the positive aspects of this trend, there is still a risk that it will reinforce polarization, which has been a characteristic of agricultural modernization in the Region, coupled with the further difficulty that liberalization tends to make things worse in that it exposes farmers to greater competition and provides fewer public resources to protect the weakest.

9. The changes in the international environment and in the internal rules governing the economies of the Region have meant that a sustained increase in competitiveness and widespread dissemination of technical progress have become a pre-requisite for the growth and viability of the production units. Policies geared to rural families, i.e. farmers producing surpluses as well as landless families or families with little land, are expected to generate incentives and increase farmers' ability to use them to improve their working and living conditions. For this to occur, rural development strategies will have to take into account two major factors: the heterogeneity of both the production structure and rural poverty, and the deficiencies or total absence of credit, insurance, technology, information and labour markets.

Limitations of traditional approaches to rural development

10. Taking rural development strategies to mean all measures designed to improve rural people's living and working conditions, and thus establishing the scope of the considerations put forward in this paper, a number of limitations related to such strategies come to light:

- disregard for the heterogeneity of small farming and rural poverty and, therefore, for the need for specific policies for each type of farmer and each type of poor family. Such policies have only recently begun to be introduced in some countries of the Region.

- attention focused on agricultural activity and not on the multiple work undertaken by family units, despite the importance of off-farm work for the farming sector.
- with the exception of a few cases, failure to take into account the wider aspects of agriculture, i.e. agriculture's links with agro-industry, trade and other services.
- failure to take steps to tackle the deficiencies or absence of markets for operations carried out by rural families¹.

RURAL DEVELOPMENT TO ENHANCE THE SECTOR AND PROJECTS AS AN EXPRESSION OF POLICY

The local-rural economy as a framework

11. Re-examination of rural development requires placing the issue within the framework of development of local economies; in other words, emphasis must be laid on the interrelation between urban centre and its agricultural *hinterland*², and analyses conducted on how the various markets are related and how external factors affect their operation. Such a framework provides room for substantive participation and for addressing issues such as product processing or poverty and the environment.

12. This type of approach is expected to:

- detect the gaps in markets and the mechanisms for filling them, including the external factors affecting their operation;
- promote the development of “virtuous circles” of demand between towns and their agricultural *hinterland* and between the local, national and global economies, in a wide range of activities;
- detect and correct the defective links in the agricultural chains;
- remedy the compartmentalization that is characteristic of public sector organisations.

PROJECTS AS AN EXPRESSION OF RURAL DEVELOPMENT POLICY

13. Because many of the instruments that governments used to rely on to promote rural development have been dismantled, rural development policy now tends to be expressed through projects comprising policy packages targeting small groups for a fixed period of time. These packages reproduce a subset of public policies with varying degrees of help for extension, microfinancing, equipment and inputs and marketing services. Whilst it is true that many of them have succeeded in increasing farmers' yields, this has been done by sidestepping the structural obstacles and financial restrictions. Such results would therefore not be possible after project termination or on a larger scale.

¹Gaps in or absence of markets, jobs, information, technology, inputs and products, credit, insurance, etc.

²Area with crop, livestock and forestry activities.

14. Given the likelihood that rural development will continue through projects, these must be designed to act as rural development policy generators which, because of their experimental nature, will form instruments capable of adapting to the various situations inherent in the rural world, promoting institutional innovation and serving as the mechanism through which national strategies will be adjusted to local conditions.

15. Projects provide an opportunity for simultaneous, independent experiences of institutional policy and procedures and, thus, allow governments to spread risks, draw up a list of best practices through exchanges of experience, and shorten the time of evaluation of determinants of project success or failure.

16. If projects are to be key components of rural development strategies, their design must take into account considerations related to the territory and sectors of activity involved, the social structure of each territory, the time dimension of processes and the types of institutions which guarantee long-term sustainability.

THE SPATIAL OR TERRITORIAL DIMENSION

17. Traditionally, rural poverty relief measures have focused on family plots, where the aim has been to examine the technological, training, funding and infrastructure factors hampering increased production and other factors causing the degradation of the natural resources on which farmers depend.

18. To identify the rural area solely with agriculture is to reduce the scope of rural poverty relief policies, since such an optic ignores the very factors that act as a stimulus to agriculture and that could result from stronger links with nearby urban centres. Even though most rural activities will focus on agriculture, any diagnosis must also consider as part of the rural area the urban centres with which small farmers have direct contact³.

19. Examination of demand between urban centres and the *hinterland* of small farmers can provide clues as to which requirements are not being met.⁴ By introducing simple measures, these requirements could help increase the competitiveness of some farmers and improve living and working conditions of families with little or no land, by reducing their costs in a wide range of activities.

The sectoral dimension

20. Traditionally, it has been assumed that poverty is due to the fact that the agricultural potential to which families have access is underutilized or deteriorating, and that a project's role is to help tackle the factors that bring about this situation, i.e. rural development is identified with agricultural development. Without denying the importance of agriculture, to restrict rural development to this one dimension alone produces two types of constraint:

- The first is that agriculture is only one source of income for rural families and sometimes not even the main one. The income obtained from agricultural work away from the family plot and from off-farm work has risen by an annual 4.7% over the past decade,

³ As buyers or sellers of products, labour or services.

⁴ Or if they are, the costs are high.

and now accounts for about 47% of rural family income⁵. The rise in this type of work provides a means of overcoming poverty which farming alone cannot offer. It also compensates for the seasonality of farm income, reduces uncertainties and allows farmers to undertake new higher-risk activities which provide a better return than traditional crops. For these reasons, if multiple work is to be taken into consideration, the unit of analysis needs to be the wider rural family and not the farm holding alone.

- The second constraint is that the role of downstream linkages (with agro-industry or agro-trade) and the upstream linkages (with the providers of inputs, means of production and services) in the development of agricultural activity are not taken into consideration. If they were included in the diagnoses, specific measures could be designed that could play a determining role in increasing the competitiveness of many family units. Institutionalizing these linkages would help break farmers' dependency on projects⁶ for funding, technical assistance and other services.

The social dimension

21. Most project activities focus on families as producers and the measures proposed are designed to increase or diversify production, improve marketing, slow down or restore deteriorating resources, open up opportunities for women and institutionalize participation. However, the project area will include a heterogeneous community ranging from self-reliant farmers with production surpluses to farmers with very little land who depend on other work for a living, not to mention the landless farmers who miss out on the project altogether.

22. The differences in type and potential of their assets⁷, in assets to liabilities ratio, in agro-ecological potential and in distance and quality of access roads to markets are important differentiating factors to be borne in mind when defining the options for increasing competitiveness and relieving poverty, where there is a tendency to equate rural poor with poor farmer.

The temporal dimension

23. The duration of projects for the relief of rural poverty varies. Many have a time span of about five years, excluding subsequent extensions. But project impact is usually assessed in terms of achievement during the five-year period, although the perception of a project's time frame is not the same for all participants⁸.

24. For the project technicians, the time-frame is the project duration, at the end of which they hope to have achieved the expected results. For the political authorities the time-frame is the duration of their mandate. However, for the beneficiaries, the important time-frame is that required to achieve a self-sustaining improvement in their living and working conditions. This is the longest of the three and has significant implications in institutional terms.

⁵ FAO/RLC, 2000 Trends and challenges in agriculture, forestry and fisheries in Latin America and the Caribbean.

⁶The duration of which is always limited.

⁷ Land, livestock, education, emigrants, financial capital, etc.

⁸ technicians, politicians and beneficiaries.

25. Therefore, there is a discrepancy between duration of project, the time it takes for its processes to develop and the time it takes for the measures to have an effect on the beneficiaries.

The institutional dimension

26. The terms under which the public, private and voluntary⁹ sectors participate in a project are critical in determining the quality of results and the response of the population involved. Responsibility for this aspect lies with the institutions and the organisations¹⁰.

27. A project designed to transform the local-rural economy involves making various institutional adjustments, given the variety of assets concerned: private property, public property and community or common-pool resources. In the case of private property, the market is the most appropriate regulatory institution. Where community or common-pool resources are concerned, the participatory approach is usually the most appropriate when there is no single group sufficiently influential to take over the use of the community resources for its own benefit. In such cases, a hierarchical system may be most appropriate until participatory systems are set up.

28. The fact that projects may be looked upon as important components of rural development policies highlights the need to promote institutional reform as a means of strengthening local authorities' capacity for participatory management.

INSTITUTIONAL REFORM

THE NEED TO REBUILD THE INSTITUTIONS

29. The reforms implemented by the Region's countries in the 1990s have led to changes in the rules of the game and forms of arbitration. Pre-existing agreements have been jettisoned, giving rise to growing concern about the need for new agreements and revamped institutions. Even when the measures introduced to achieve macroeconomic equilibrium involved technocratic, centralised management, once a reasonable degree of equilibrium had been achieved, more complex demands or objectives¹¹ emerged in a climate of conflicts of interest of varying intensity.

30. Similarly, it is essential to enhance the credibility of the State so that it may be perceived as an honest, competent broker in resolving conflicts. This implies giving real guarantees for civil and political rights; safeguarding the effectiveness, efficiency and transparency of the legal system and government bureaucracy; eliminating corruption and favouritism; ensuring that when policies are drawn up the voices of the weakest segments of society are heard; and ensuring a more efficient system of State regulation.

⁹ Also called non-state public sector

¹⁰ Taking the institutions to mean the formal and informal rules whereby control of resources is assigned to individuals and the organisations being the groups of people working together for a given purpose (ministries, institutes, associations and others).

¹¹ (competitiveness, equal opportunity, sustainability and reduction of poverty, among others.)

31. AI legitimization mechanisms, the persistence of “patronage”, paternalism and the hereditary system has highlighted the slow progress made in tackling institutional reform, a key factor in the drive to

32. In the area of rural development, the institutional reform process must ensure that the globalisation, the trends in agri-food systems and the changes in the methods of operation of economies in a context of marked polarisation, growing heterogeneity and flawed markets.

There is now a need to draw up a new set of formal and informal rules to govern social interaction in rural areas in keeping with the changes in public, private and voluntary sector

THE LIMITATIONS OF TRADITIONAL FORMS OF MANAGEMENT

34. Traditional forms of management are too well known to need thorough analysis. Suffice it to mention:

- the pyramidal nature of the organizational structures which concentrate human, material and financial resources at the top and leave the problems at local level;
- the predilection for general measures to deal with the problems of vulnerable population groups;
- the fragmentation of responsibilities derived from tightly-focused measures taken in different areas;
- lack of transparency, prevents public scrutiny.

REORGANIZATION OF THE PUBLIC SYSTEM

In addition to making structural changes which resulted in a scaling down of many management systems and decentralizing some of their structures and operations.

Modernization of public management operations

Empirical studies have shown that countries with divided societies, inequality, ethnic fragmentation and social exclusion, and whose institutions are too weak to deal with conflicts are those that experienced the worst negative impacts due to external factors present in the seventies.

37. One of the responses of the public authorities was to introduce programmes designed to modernize the State and decentralize public management. The modernization programmes involved making changes to the bureaucratic machinery in an effort to boost the efficiency of the public management system, incorporating criteria to measure internal targets and providing incentives for public officials.

38. To restrict modernization of the management system to the purely managerial level is not sufficient to assume new tasks and mediate in emerging conflicts. By proceeding in this way, we end up in a bureaucratic system without public scrutiny because the participation processes have not been developed at the same time.

Decentralization

39. Decentralization transfers power from central authorities to local bodies and civil society organizations. It is not surprising that so many such initiatives have sprung up in the last decade, when conflicts of interest brought about by adjustment have intensified and the changes in relations between State and society require new ways of legitimizing political authority.

40. It is not possible *a priori* to establish a mechanism whereby decentralization can progress satisfactorily¹⁴, as decentralization is idiosyncratic and depends on a number of national and local factors¹⁵. As there is more than one way to decentralize, we must be wary of simplistic models that have decentralization moving in one direction - from central to local level.

41. The decentralization of resources is a first step towards the required institutional changes. However, there are some problems to which attention must be drawn: the restrictions due to fiscal austerity; the inability of mechanisms to allow demands to be included in national objectives and strategies; the lack of sufficient resources to reflect the delegation of responsibilities; the lack of mechanisms to generate own resources for the co-funding of programmes; duplication of effort between local and central government; the persistence of a paternalistic approach toward the most vulnerable sectors; the appropriation of objectives and resources for local development by elite groups; and the replication at local level of the compartmentalization of public service functions at central level.

STRENGTHENING LOCAL MANAGEMENT CAPACITY

Rationale

42. Strengthening the management capacity of local authorities with a view to implementing a participatory policy is one aspect of institutional development, given that at local level:

- insufficiencies, limitations and potential of institutional development can be clearly perceived;

¹⁴ Setting and collecting taxes, autonomy with respect to expenditure, regulations governing the environment, trade, transport, etc.

¹⁵Such as the legal framework, political regime, density of civil society, degree of national cohesion, etc.

- it is easier to make participation a productive resource and to build social capital¹⁶ in small areas with institutional interlocutors in close proximity, thereby reducing transaction costs through coordinated action;

there is a better chance for beneficiaries to monitor the social aspects of the project activities.

43. While conditions must be met to ensure that decentralization satisfies expectations: democratically elected authorities; a civil society with representative organizations; and transparency in the civil public funds.

CONDITIONS FOR LOCAL PARTICIPATORY MANAGEMENT

The definition of territorial limits for participatory management should take account of what should favour the people's perception of what constitutes their territorial group. In rural areas this territorial group is the group of families within a wider society which permanently interacts and is defined by its territory and the physical resources from which they obtain their livelihood.

45. Once the territory has been defined, the creation of conditions for participatory management is based on two interrelated components. First, the need to bring about changes in the organization of the beneficiaries of rural development policies. Second, the need to provide the new organization with the means to allow public officials to interact with each other,

CHANGES IN THE ORGANIZATION OF THE PUBLIC SECTOR APPARATUS

46. (usually dispersed and fragmented) concerned directly with increasing competitiveness and with helping relieve rural poverty.

Decentralization of authority and resources must closely reflect the type and level of responsibilities handed over to the local authorities. To transfer responsibilities without allocating resources to public authorities and local populations and discredits decentralization policy.

48.

¹⁶ taken to mean all the rules of reciprocity and networks of civic compromise which improve the efficiency of other forms of capital (human, physical and financial).

--with a view to sustaining or readjusting policy--

- all that can be managed at a lower level without incurring a cost increase;
- every function dealing with locally generated problems to facilitate measures of interest to the people concerned;
- every form of people-centred management to improve the quality of public service;
- responsibilities exercised to increase the participation and integration of the people.

STRENGTHENING LOCAL PEOPLE'S ORGANIZATIONS

49. Homogeneous and representative organizations tailored to small farmers, landless workers or rural people must be established or strengthened at local level; homogeneity in the sense that the problems to be tackled and the benefits to be achieved are felt and perceived by all, regardless of any differences that may exist in other areas.

50. So that the people may participate in the design, implementation, monitoring and evaluation of operations related to solving the problems of local development, joint bodies of officials and local community representatives must be set up. These bodies could deal specifically with a particular objective or be of a more general nature.

51. It is worth noting that the more dispersed the community, the more difficult it will be to set up participatory management systems, and the less organized the population, the more heterogeneous its interests.

EQUIPMENT AND COMMUNICATION

52. Once the basic organizations have been set up with sufficient flexibility so that changes may be made as experience is acquired, they must be provided with the necessary equipment to enable an information/communication network to be established linking the locality with the municipality, the municipality with the region and the region with the central authorities. We are talking about what is termed information technology¹⁸. We can add to this the rapid progress of the INTERNET, now being installed in rural schools in various countries and whose use in rural development has been promoted by FAO and by other organisations.

53. It is precisely these developments which enable interactive information services to be provided and which will be accessible through computer terminals in a number of focal points of the network to be created. A decentralized network, providing local autonomy and coordinated at central level would:

- raise the productivity of scarce highly qualified human resources in areas such as education, medicine and nutrition, dissemination of technology, etc. In other words, it would enable expertise to be available at low cost;
- improve ongoing coordination between functions and changes in the practices of officials and provide feedback to facilitate the timely detection of problems requiring action or resources exceeding the capabilities of local agents;

¹⁸ term used to denote the integration of telecommunication and computers.

- encourage the dovetailing of NGO and government actions designed to help vulnerable groups, overcoming the dispersed and overlapping nature of such actions, and use these action;
- enhance transparency and facilitate coordination between the different agents of the production and distribution chains;
expand experiments in farming practices in rural development, involving the farmers sophisticated levels of technology and scientific progress;
- meet the demands of markets external to the locality for products which can be provided locally and open up possibilities of remunerative work beyond those available locally.

It must be stressed that whilst the cost of extending access to the equipment required for its effectiveness depends on progress made in the organization of the public apparatus and local communities will be determined by events so long as the process is sufficiently flexible.

55.

the network's objectives and user characteristics, posing a challenge to the creativity of the programming experts.

DEVELOPMENT

Central government bodies

Administrative adjustments to deal with the new demands brought about by changes in the rural sector appear to be dispersed among a multitude of government agencies. Attempts at consequently, rural development, as an objective, lacks a specific public body able to assume full responsibility.

However, it should not be deduced that the solution is to establish some public body to organizational structure of each country. Before opting to restructure the central government apparatus, which experience has shown does not resolve the problem, it would seem reasonable to basis of general definitions, with a strengthening of local capacity to devise municipal development plans in rural districts and communities which can access those funds and adapt

Municipal development plans

58.

e to undertake rural development in spatial and multisectoral dimensions at local government level. This is

adorning urban centres to the assumption of responsibilities in the field of education and health and a growing interest in developing agricultural production projects.

59. It is in relation to these plans that the activities of line ministries and specialised agencies can be of assistance, even when some projects involve more than one locality - agreements between local governments over a microwatershed, road or some other shared entity are not uncommon.

60. The establishment of competitive funds or co-financing mechanisms are instruments by which national strategies can align with local programmes without the need for coordination at central level. Provided that the plans are based on the results of consultation with the various sectors of the local community, they will succeed in mobilizing resources and ensuring transparency and informed accountability in the use of the funds.

61. Plans designed to improve rural people's living conditions could be used as instruments for the development of adaptive learning, i.e. the ability to pinpoint trends, to correctly identify opportunities and risks, to obtain useful and pertinent information, to implement solutions consistent with the restrictions imposed by market prices, political opportunities and civic rules; and, lastly, to mould the institutions that have an effect on economic performance¹⁹.

Central and local government

62. The advantages of local management are limited unless close links exist with regional and national bodies. In a context of liberalization and globalization, it is possible to make use of economies of scale and to perceive market opportunities not found in the local context when those links are well organized and communications between them fluid. A viable institutional matrix for rural development can only emerge if care is taken to strengthen links between central government, local government and social organizations.

63. A critical area in the process of increasing competitiveness will be relations between farmers' associations and the large companies which process and distribute the farmers' products. Although negotiations between farmers' associations and the large agri-food concerns can take place at local level, the context determining the terms of those negotiations will tend to be established at national, regional or world level.

64. This highlights the need for alliances between local players and agents acting in the national and global context in order to strengthen the negotiating position of the local players. Thus, the inclusion in these alliances of universities and business schools and groups will allow local associations or municipalities to obtain information on matters such as the future round of trade negotiations, technological advancements, intellectual property rights and health regulations, which they could not otherwise obtain.

65. Thus, there is a need for ministries of agriculture to assume a lead role in building local skills, putting local agents in contact with national universities, business schools, research institutes and technical staff of industrial and trade organisations, so that local communities may be in a position to make the best of opportunities and guard against the risks stemming from the globalisation of agri-food systems.

¹⁹ FAO/RLC 2000. "Trends and challenges in agriculture, forestry and fisheries in Latin America and the Caribbean".

66. Rural development projects must be design institutional structure and for transforming production in rural areas to increase competitiveness or to relieve poverty or to pursue both objectives at the same time in a given area.

The proposed approach should enable us, , to:

understand the potential and limitations of local economies to build the

- ii) the nature of the most critical, and usually highly specific, deficiencies and limitations;
- iii) ²⁰
- iv) generate production and social infrastructure projects so as to overcome the
- v) strengthen regional market networks, especially wholesale markets which reducing operating costs;
- vi) agriculture and local small industries;
- viii) provide for the participation of civil society and the accountability of government

68. local-rural economy by incorporating, in a given area , links between agriculture and the other dimension); transition from project phase to takeover by beneficiaries (temporal dimension); and

69. :

- the small farmer to the wider rural family;
- agricultural policy to policies specific to type of family unit;
- the contrast between market/State as regulatory mechanism to the rebuilding of the

70. the absence of an

establishing national rural development funds, whose objectives would be very general - the specifics could be covered in the rural communities' municipal development plans.

71. A decentralized information-communication network that is autonomous at local level could be set up incorporating local, national and global information networks. This could also include centres of excellence for technology, trade, etc., which would mean that expertise distributed at low cost would be available once the necessary organizational structures were in place.

72. The information presented in this paper would suggest that FAO should be considered as the institution best placed to provide ongoing assistance in defining policies and generating projects for the institutional and organizational reform that is needed to eradicate rural poverty in the countries of Latin America and the Caribbean.