

INTER-AMERICAN INSTITUTE FOR COOPERATION
ON AGRICULTURE (IICA)

RURAL DEVELOPMENT FOR SMALL FARMERS IN THE
ANDEAN REGION THROUGH DIVERSIFICATION OF
PRODUCTION ACTIVITIES FOR NEW MARKETS

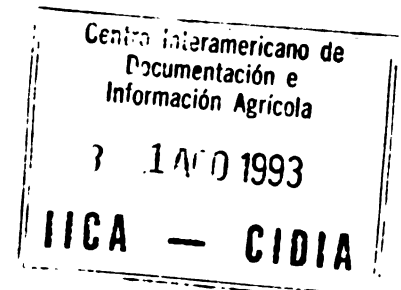
November, 1990

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PROGRAM III:
ORGANIZATION AND MANAGEMENT FOR RURAL DEVELOPMENT



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ON AGRICULTURE (IICA)**



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I. INTRODUCTION

The countries of the Andean Region (Bolivia, Colombia, Ecuador, Peru and Venezuela) primarily export fuel, minerals and metals, except for Colombia, whose major exports are agricultural. Agriculture's contribution to the gross domestic product, throughout the region, is considerable and fairly stable. Over the last decade, the sector's share in the GDP rose slightly in Bolivia and Venezuela, but declined somewhat in Colombia, Ecuador and Peru.

The majority of the population in Bolivia and Ecuador is linked to the agricultural sector, whereas in the other countries the percentages are lower, as low as 20% in Venezuela. The agricultural sector has higher production and unemployment levels than any other, and is the sector which produces the bulk of the food and raw materials needed for domestic use.

Within this general context, the traditional role of small farmers in the Andean region, as suppliers of foodstuffs (primarily corn, beans, cassava, rice, potatoes, legumes, milk, etc.) has become increasingly important, accounting for more than 50% of the food security needs of most of the countries in this region. Small farmers also produce a significant portion of exports of certain traditional products, coffee and cocoa for example. Despite their important position, no carefully planned proposals have been brought forth to link a significant percentage of them, directly or indirectly, to new markets for nontraditional agricultural products.

Even though there is considerable research demonstrating the contribution small farmers make to food security in the countries of Latin America and the Caribbean ¹, not enough attention has been given to the farmers' capacity for responding to market incentives and their gradual insertion new production activities geared to more sophisticated national and/or international markets. In some countries of the Andean region, groups of small farmers have developed a more business-like approach to production through their linkages with new markets for specific products such as vegetables, fruits, spices, tubers, etc.

These new ventures in producing non-traditional crops have usually involved middlemen who facilitate access to new markets. These relations, however, generally detract from the economic benefits derived by the farmers. As a matter of fact, the mark up on certain products can be as high as 70% of the final selling price.

¹ Jordan, F. "La Economía campesina, crisis, reactivación y desarrollo." IICA, San Jose, Costa Rica, 1989.

Regardless, the relations between farmers and middlemen can serve a useful function and involve mechanisms that ensure a more equitable distribution of benefits.

IICA's Organization and Management for Rural Development Program has been developing a subregional rural development program aimed at strengthening integration in the Andean area through which it has provided support to national efforts to improve the small-farm sector, based on experience gained and development achieved by the countries related to rural development.

Furthermore, the problems created by the financial crisis in all the countries, and the subsequent need to generate foreign exchange to cover their balance of payment deficit, purchase imports and service their foreign debts, demand that the role played by all economic agents be redefined.

Under these circumstances, it is necessary for the agricultural sector in these countries to be reactivated and for most of the strata making up the rural population to become involved in economic development. To achieve this, it will be necessary to increase the production capacity of small farmers who will be able to respond to market incentives specifically designed for this purpose.

The alternative offered is to reactivate agriculture using a modern concept of development, ensuring that such development will distribute economic and social growth equitably among different areas through actions promoting social and ecological equity.

Sustained growth will be possible only if the agricultural sector achieves a minimal level of modernization, expands its production base and involves more people in production processes.

Modernization should focus on diversification of production, which will make it possible to use more modern and efficient methods in the production of new crops, to satisfy the changing demands of future markets.

The objective of this proposal is to begin identifying the real alternatives that exist for incorporating a large portion of small farmers into production processes aimed at special market niches for nontraditional agricultural products.

To accomplish this, it will be necessary to select production activities for which factors of production are available, which fully occupy available labor and which use appropriate technological alternatives. It will also be necessary to determine the minimum requirements of potential markets. At the present time, IICA's Marketing and Agroindustry Program is executing a project to quantify demand for agricultural

products in U.S. and Canadian markets. One of the goals of this project is to determine which institutional requirements, in both the exporting and importing countries, constitute incentives or impediments. The results of this project will provide valuable inputs for the formulation of the diversification program.

The first stage of this effort will serve as the basis for a production diversification program in the Andean region, as an instrument for modernizing certain agricultural production activities by strengthening and consolidating small rural enterprises.

Later, and as a complement to the first stage, it will be necessary to train technical personnel and farmers in the use of alternative technologies, administration of production activities, marketing, etc. This will be accomplished through intensive technical training on the administration and organization of enterprises, which will prepare organized small farmers for the complexities of new markets.

II. SPECIFIC OBJECTIVE

To draw up guidelines for a proposal to involve small farmer organizations in the Andean region in the production and marketing of non-traditional agricultural products such as: tropical fruit, vegetables, plants, roots, tubers and spices, in accordance with market opportunities and comparative advantages.

III. ACTIVITIES TO BE UNDERTAKEN DURING THE PREPARATION OF GUIDELINES FOR THE PROPOSAL

- A. Studies in the five Andean countries in order to:
1. identify and describe national and international markets and determine the demand for three or four "new" products from each country. These products should be selected on the basis of: comparative advantages, potential for forward linkages through processing (small-scale rural agroindustry), generation of employment opportunities and income, availability of information on market niches, etc.;
 2. determine current and potential production levels for small farmers with potential markets (production schedules, cultural practices, current markets, location, quality of output, etc.);
 3. make a preliminary estimate of possible supply and additional needs in terms of technology for the four products selected;

4. determine national and international supply of the products, in order to identify potential competitors, the difficulty of penetrating markets and existing levels of know-how in the Andean countries;
 5. determine potential demand nationally, regionally and internationally for each product, as well as marketing processes (channels, costs, margins, intermediaries, national exporting requirements, potential funding sources);
 6. design mechanisms for incorporating groups of farmers, especially rural women and youths, into production and post-harvest activities such as marketing and export;
 7. make a preliminary estimate of training needs for technical personnel and farmers;
 8. identify and design, on a preliminary basis, subregional coordination mechanisms to facilitate integration through the production and/or processing of products;
 9. identify mechanisms for promoting products; and
 10. identify funding sources for both production and export.
- B. Workshop to analyze the results of the studies and to prepare general guidelines for formulating the Andean Rural Development Agricultural Diversification Program.

IV. STRATEGY

The operating strategy of this proposal should be both short- and medium-term in scope. The actions proposed in this stage of the proposal fall entirely with the short term. In other words, they are related to activities to be carried out in the first year, but are connected with actions that will be executed over a period of at least four years.

A. Short-term Strategy

Two activities scheduled for execution in the short term are the studies in the Andean countries and the seminar/workshop to discuss the results of same and plan the Andean Agricultural Diversification Program to Strengthen Small Rural Enterprises.

The objective of the studies is to identify the production potential for a limited number of crops for

new market segments, while at the same time identifying potential markets for these crops. In addition, these studies will also seek to determine the potential supply of technology and additional needs, for the products selected. They will also identify, on a preliminary basis, training needs and possible sources of credit and of the inputs that will be required to ensure the success of the program.

The seminar/workshop is intended to work with technical personnel from ministries of trade, national export-promotion offices, ministries of agriculture, and representatives of private enterprise and second degree organizations of small-farmers and indigenous people (federations), to establish the bases for:

1. evaluating the recommendations made in the studies,
2. defining the conceptual and methodological framework for designing the program,
3. drawing up terms of reference for preparing the program, and
4. identifying potential credit sources.

B. Medium-Term Strategy

An Andean Agricultural Diversification and Exports Promotion Program for Small Farmers is called for in the medium term. The following would be key actions in the medium-term strategy:

1. To identify a small number of products which offer real comparative advantages in terms of efficiency and competitiveness combined with an efficient and sustainable use of natural resources.
2. To establish a mechanism for horizontal cooperation among the countries of the region, the purpose of which would be to facilitate the exchange of procedures, techniques and technology for production, management, marketing, etc.
3. To upgrade regional integration mechanisms and bodies so as to facilitate negotiations to define complements to production (volumes, use of infrastructure needed for exportation, etc.).
4. To upgrade actions taken at the national level to lay the groundwork for successful program implementation.

5. To propose the program as a joint action among the countries, which, in the medium term, will increase in scope, and become an instrument for facilitating integration.
6. To create conditions that will ensure political support for the program at the highest levels, including JUNTA, the Andean Parliament and the meetings of the presidents of the Andean Pact.
7. To prepare profiles of investment projects on the basis of the proposed program.

Actions proposed for the medium term will be executed in three phases:

1. Phase One

Phase one (1 year) involves studying the feasibility of the proposal. It is expected to produce the following results:

- i. identification of the new products and of the areas of small farmers suitable for inclusion in the mechanism
- ii. an inventory of necessary technology
- iii. location and characterization of potential markets
- iv. definition of the institutional arrangement needed at the national and subregional levels, to ensure efficient project operations
- v. definition of business training needs for developing the products
- vi. definition of the production and marketing arrangement needed to ensure production complementarity, for each of the products, among the countries of the Andean area
- vii. accurate determination of additional infrastructure and transportation needed for exportation, and of investment needs
- viii. definition of a market information mechanism (volume of supply and demand, prices, trends, relative costs of production, etc.), to provide farmers and marketing agents up-to-date with the market situation, with a view to reducing risk and uncertainty

- ix. identification of sources of credit
- x. formulation of the program, through the elaboration of the pilot experience to be carried out in phase two

2. Phase Two

The goal of phase two (2 years) is to evaluate, through a "pilot experience" the program formulated in phase one.

To carry out this phase, it will be necessary to set up a "national and subregional fund for the promotion of exports," the governing body of which will facilitate the proposed process. Therefore, it will be necessary to consider special production and marketing insurance arrangements, financial resources, technical support and other complementary services that will be needed to consolidate this phase, taking into account the specific conditions in each country.

3. Phase Three

In phase three, the countries will formulate and execute an investment project that will make it possible to increase significantly the scale of operations of phase two and which will ensure institutionalization of the program at the regional level. This phase should last from five to seven years.

During the execution of phases one and two, the project should also execute and evaluate "special mechanisms" such as bartering and "triangulation" with third countries, the purpose of which would be to facilitate the direct exchange of products and/or products for foreign exchange, respectively.

VI. INSTITUTIONS INVOLVED IN EXECUTING THE SHORT-TERM ACTIONS OF PHASE ONE

Activities in this phase will be executed through the Inter-American Institute for Cooperation on Agriculture (IICA), with the collaboration of pertinent national counterpart institutions such as the ministries of agriculture, ministries of trade, export promotion offices, etc.

IICA will appoint a regional coordinator in Ecuador, where the project will be headquartered.

Within IICA, this project is in consonance with the proposals contained in the PLANLAC, and as such, is an effort to reactivate the agricultural sector and strengthen integration among the Andean countries.

The actions called for in this stage of the project are expected to produce analyses and proposals, which will translate into concrete benefits for the countries over the medium term.

COSTS INVOLVED IN THE SHORT-TERM PHASE OF THE PROJECT

Resources needed for phase one are estimated at US\$200,000, of which IICA will provide US\$20,000. The contribution of national agencies will be established later.

It should be pointed out that the contributions of IICA and the other institutions refer to logistic and technical support and not necessarily to financial resources.

FECHA DE DEVOLUCION

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Autor

Rural development for small
farmers in the andean region
through diversification of produc
tion activities ..

Fecha Devolución	Nombre del solicitante





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