

35

Technical Handbook



New Options for Generating Employment and Income in the Rural Sector

Javier Delgadillo Macias

In cooperation with

Felipe Torres Torres and
Hector Cortez Yacila



Inter-American Institute
for Cooperation on Agriculture



New options for generating employment and income in the rural sector¹

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CHAPTER

The rural milieu
–a critical component
for territorial
development



1

Latin America and the Caribbean (LAC) are a region caught up in a process of sweeping transformation. Some changes are of local origin, while others derive from the international environment. Some arose only recently, while others accumulated over a long period. The rural milieu is not exempt from this transformation, and today the rural areas are home to a large nonfarm economy that employs nearly 40% of the rural labor force and generates half the local income.

This scenario has clear origins in the unfolding process of trade liberalization that has lifted tariffs and introduced free-trade agreements and multilateral commitments under the World Trade Organization (WTO), whose effects are felt both nationally and regionally. Market liberalization has slashed State intervention and its attempts to alter equilibrium conditions in the interest of equity, and has shunted aside sectoral and territorial initiatives in favor of the macro economic balance sheet (Trejos et al., 2004). Today, many instruments used in the past can no longer be wielded or are being applied with less intensity. Economic liberalization has stripped them of legitimacy as the countries pursue different development strategies or plunge into integration processes that demand policy harmonization. At the same time, the rules and agreements of international trade now forestall such intervention.

Traditional employment and the mechanisms for social and institutional response that used to bridge gaps in the rural production structure now coexist side-by-side with new organizational and productive processes and dynamics. These have yet to become fully integrated into the rural milieu due to a number of factors, including the dual structure between modernity and tradition. Rural dwellers could seize greater advantages from both their agricultural and non-agricultural activities if the new opportunities and projects offered more equitable access based on a full accounting of the assets available in rural areas. Local competitive advantages need to be modernized, and this is perhaps the greatest challenge to bringing about a new model for rural development.

This text will use the term *territorial competitiveness*. A concept of production and trade competitiveness, it emphasizes

advantages arising from the assets naturally found in a particular country, region, state, municipality, city or rural area. Because of the presence of these assets, companies working there are able to minimize operating costs and thus place their products on national and international markets at a competitive price with acceptable quality. Even beyond strictly economic concerns, the broad notion of *territorial competitiveness* covers countless factors and processes that revolve around the social stakeholders living in and identified with a given territorial system. We call this *systemic competitiveness*, a concept that acknowledges the origins of competitiveness in a given environment, taking into account the joint action of a broad range of public, private, social and personal factors acting simultaneously in a particular territory (aregional.com, 2005).²

IICA is proposing a set of strategies designed to redefine rural life in the region. It begins with a rural development approach based on the concept of the territory as a target of political and institutional action, and adds to it the construction of a new proactive institutional structure that takes a holistic, multidimensional, inter-temporal and multisectoral view of territorial interaction. It requires the presence of effective agents and broad dimensions, and it acknowledges the importance of systemic competitiveness as an instrument to make it workable. Changes that have occurred over time appear to justify this approach, and today responses can be seen in the countries and among international organizations that together share responsibility for consolidating this shift in favor of territorial equity.

² The concept of *systemic competitiveness* posits that the investments attracted by a region should translate into greater levels of employment, income and welfare. This means that a company develops its frame of action as part of a business group organized as cooperative networks that exchange inputs, both of the physical and traditional kind (raw materials and other supplies) and “intangibles” such as information, technology, skills and know-how. These are the building blocks that generate major cost savings for a production process in a territorial aggregate, thus boosting profits. Companies need to operate within an overall environment where their organizational capacity can interact dynamically with society, the State and intermediate institutions. Accordingly, the different levels of a national system, from the *micro personal and micro regional to the metanational and international*, must work together harmoniously and consistently. The concept of systemic competitiveness originated with the German Development Institute (GDI), which has produced an extensive series of studies on the subject at the international level. See for example, Esser, et al. (1994).

Box 1

Main elements of IICA's proposed territorial approach

The territorial approach for rural development grew out of several factors affecting the rural development process, including:

- a) nagging rural poverty
- b) adjustments and structural reforms that seem inadequate for meeting the basic challenges of development
- c) persistent regional and sectoral gaps
- d) the anti-rural bias of infrastructure development projects
- e) food insecurity affecting rural populations
- f) the continued strategic importance of agriculture in many economies of the region
- g) the growing weight of non-agricultural activities in rural areas and the growth of urban centers in predominantly rural areas
- h) the degradation of natural resources
- i) current transformation in rural institutional structures
- j) rising expectations of consumers and markets
- k) the boom of new information and communication technologies

Source: Sepúlveda et al. (2003).

The proposed territorial approach to rural development targets those points where human systems interact with environmental systems. This is where it promotes the integration of rural production systems and generates sustainable well-being and inclusion for the largest possible number of social groups. Rural territories are defined as geographic spaces whose cohesion is drawn from a

social fabric, a natural resource base, locally engendered institutions and forms of organization, and certain types of production, exchange and income distribution. All this confers regional specificity. Under the concept proposed herein, the territory becomes an element that integrates agents, markets and public policies, while at the same time serving as the target of intended economic development.

This idea is gradually gaining ground in the public arena of LAC countries and can be found in a number of proposals by the Inter-American Development Bank (IDB), the World Bank, ECLAC and other organizations that are pressing the need to promote rural development by adopting a broad, inclusive approach. Such organizations understand that the rural milieu consists of a wide variety of economic activities (including agriculture, forestry, fishing, agroindustry and agri-food, mining, energy and agri-tourism), in addition to other activities associated with education, health, infrastructure, transportation and financial activities.

CHAPTER

Situation of the
rural milieu in
Latin America and
the Caribbean



2

At the beginning of the 21st century, LAC registered a population of approximately 503.1 million people; 25 percent, or 125.8 million, dwelt in rural areas.³ The rural population as a share of the total population of LAC shrank by 29.3 percent, making up only 25.0 percent in the years from 1990 to 2000.

2.1 Importance of social cohesion in rural territories

Rural poverty seriously undermines the social structure of the entire population. Over half of all rural households live in conditions of poverty, and much urban poverty has rural roots.

The shortages affecting rural populations produce many dislocations, including breakdown of the family and loss of interpersonal and institutional networks. Cultural expressions and territorial cohesion in rural communities also suffer. Longstanding traditions and customs begin to disappear, and local social structures find it increasingly difficult to produce their own process of change from within.

Poverty and extreme poverty greatly hobble any possibilities for reactivating productive territories, at the same time undermining processes of identification and consensus building that are so critical for territorial development.

This paper, departing from the assumption commonly made by public policy in LAC, starts with the understanding that rural development is a social process still under construction, and that today it is building partnerships with hitherto unimagined stakeholders and cultural and productive expressions. It is a process that depends heavily on participation, social consensus building, public/private partnerships, consolidation of networks, conflict resolution, and other strategies that will facilitate social cohesion and

³ The most recent ECLAC Statistical Yearbook of Latin America and the Caribbean (2005) estimates a total 2005 population of 590.4 million people.

the integration of production processes. Governments contribute to all this by shouldering part of the responsibility for promoting greater urban-rural coordination and by launching balanced land management programs rooted in social, territorial and production planning that is multisectoral and multifunctional, emphasizing participation by local stakeholders.

The process of constructing rural identity is heterogeneous and complex if it responds to the full array of social stakeholders, respects the conditions of each territory and accommodates growing urban-rural interaction. Based on official definitions, LAC is a predominantly urban region, and this condition especially affects the rural culture, inevitably bound to the urban environment. Today's rural dwellers, especially the young, are adopting the same expectations and lifestyles found among urban dwellers. Even under these conditions, it is not at all clear that greater social cohesion will guarantee greater territorial identity or stronger territorial integrity.

2.2 Integrating the agricultural sector into the rest of the economy

Agriculture continues to be an important part of the rural economy throughout the region. In some cases, it is unquestionably the predominant way of life. Nevertheless, a wide range of nonfarm activities is also cropping up, mostly based on the use of natural resources. Examples include rural tourism (ecotourism, agri-tourism, beach tourism, and in general, recreational activities that draw on the landscape and natural resources), the environmental services market, the handicraft market and other activities closely associated with a particular territory and for which the separation between rural and urban becomes somewhat artificial.

Primary agriculture, which will always be a part of the rural territory, has been facing problems with relative profitability over the past decade (especially for traditional products), evidenced in the form of lower employment growth rates between 1990 and 1999, compared to growth

in non-agricultural sectors (Dirven, 2004). The displacement of agricultural workers will continue slowly and steadily in the near future (Tejo, 2003). The problem of workers displaced from agriculture and not absorbed by job growth in nonfarm activities feeds the phenomena of rural flight and out-migration to other countries.

Economic breakdown in the primary sectors of LAC steadily worsens under the growing onslaught of agricultural products from primary sectors that receive heavy public support in the form of subsidies and that are introducing technological development and diversification of production. The primary sector in this region has too little capacity and receives no help from secondary and tertiary markets that use and trade mostly imported inputs and other goods, thereby gradually displacing locally produced primary and secondary products. As they increasingly lose their place in the market, producers of these items eventually find themselves limited to narrow niches serving population groups with highly specific demand characteristics.

Unquestionably, these technical and structural conditions are eroding the already despondent primary economic sectors in the countries of the region. The impact is especially critical for rural societies organized around economic agents and social stakeholders that have been nudged out of playing a lead role in development. These sectors find themselves cornered into small traditional segments of the economy where rural production is subordinated, subjected and marginalized from urban sectors as a consequence of unequal terms of trade and too little integration of the primary agricultural sector into the rest of the economy.

2.3 Innovations and productive linkages to improve rural life

Many people have claimed, on many occasions, that national and regional economic integration is possible, and that rural dwellers can indeed be incorporated as active economic agents and protagonists of their own development. The

secret lies in technical change, production linkage and vertical and horizontal business integration, as well as greater added value and dynamic market penetration for primary products from the agricultural and rural sector. Such dreams seem to go nowhere in LAC because of exceeding technology dependence, little inclination to innovate and a limited capacity for incorporating even small amounts of available technology into the primary production structure. Worse yet, the capacity to produce and compete is only just emerging, making it very difficult to develop more structural linkages between agricultural and agroindustrial production. Rural businesses find themselves unable to inject greater added value into their products. These enterprises, saddled with cost structures that are too complex and expensive, face highly complex mechanisms of competition that grow and develop in the marketplace. Market mechanisms display technology and accumulation patterns far different from the traditional rural economy in the countries, where accumulation is insufficient even to maintain a constant capital-labor ratio, as capital depletion exceeds population loss through migration.

2.4 The move to develop a new body of rural institutions

There is no question that the legal-institutional system has grown stronger in LAC. National governments, together with regional and worldwide international organizations, have begun to consolidate strategies that not only favor institutional change, but contribute to improved socioeconomic and environmental conditions in rural areas. This new posture recognizes social stakeholders as leaders of change and understands that not all territories can integrate easily into the world economy. This is why it is so critical to build linkages between production and knowledge, a responsibility that lies in the hands of public institutions, especially when methodological proposals seek to transform production and institutions to reduce rural poverty.

Territories able to sustain their own development are known to have a high level of institutional backing, often in

the form of a strong cultural identity. As a result, they have more viable endogenous economic options and manage to overcome conditions of rural poverty. Even so, LAC does not seem to understand the need for technical, administrative and political skills and qualities in local, regional, provincial and national governments, or the need to build networks and communication linkages among these levels in order to cover more and broader subnational expanses in the effort to promote development. Obviously, efforts are being made to revalidate rural sectors and consider them as active agents of growth and economic development, but much remains to be learned and done in this regard.

Despite efforts undertaken in recent years by international organizations and LAC governments, there is still no political institutional framework able to guarantee sustained accumulation of successful experiences based on the territorial approach to rural development. Echeverría (2003) emphasizes that much of the current situation is the outcome of centralized rural development policies that prevailed in recent decades. These policies ignored both the macroeconomic setting—that often lured investment away from rural areas—and attempts at industrial promotion—that directly or indirectly counteracted the natural advantages of the agri-food sector. They also neglected to consider the high and growing rates of poverty and inequality that were spreading through many parts of the region. These ineffective efforts, combined with looming crisis in a bloated, overly centralized public sector, triggered a redefinition of the State's role. New market rules cannot be ignored, and national economies must find their place in the web of local and international market relations.

Public entities have seen their roles redefined to encourage more efficient use of resources (at the macroeconomic level) and tap the potential in rural areas more effectively. Policies have been redesigned to eliminate earlier inefficiencies by decentralizing, transferring responsibilities, setting fixed rates for services such as technical assistance and market information, and creating partnerships with the local community.

The new institutional framework is advancing steadily. Its goal is to incorporate rural social stakeholders more

effectively and thus strengthen the national perspective, while also granting broad advantages to sub-national and regional tiers. The idea is not only to strengthen production units, but also to introduce a planned system of land management that favors production chains, clusters and regional-level markets, all of which will transform the region's time-honored heterogeneity and diversity into significant factors of competitiveness.

One of the key reasons to reorient policies that will consider the relationships among growth, inequality and poverty is indeed to improve the distribution of assets. This should be the central focus when building economic development strategies in general and rural strategies in particular. The challenge that faces the designers of public policy is to promote development processes in rural economies that will modernize both the agri-food sector and the non-agricultural rural sector, especially taking into account poorer areas characterized by a sluggish economy and limited social mobility.

Box 2

Mexico: A new institutional framework for Rural Development

In 2002, Mexico enacted the Sustainable Rural Development Law, containing many features of the territorial approach. The law describes a rural territory as an environment defined by the use and appropriation of natural resources, where productive, cultural, social and political processes derive from location and territorial appropriation. Natural resources become local factors of production. The law thus adopts the territorial approach as a condition for developing integrated rural development policies.

The territorial approach begins by prodding every federal entity and municipality to establish sustainable rural development programs. It promotes the design of programs at the municipal, regional or watershed level, through the Rural Development Districts (DDR), and pushes federalization and decentralization so that State, Regional,

District and Municipal Boards can set priorities for their geographic territories.

The government of Mexico, through the Secretariat of Social Development (SEDESOL), is promoting a program to encourage integrated, sustainable development of micro-regions that are home to the country's worst poverty levels, through a process of participatory planning in which all parties share responsibility for economic, social and human development of the population. Already 250 micro-regions have been designated, covering 470 municipalities in 17 states of Mexico. According to SEDESOL, micro-regional development leads to better allocation of social development resources, contributes to a higher quality of life for families, creates linkages between rural and urban areas, expands economic capacity and intensifies community participation in social programs. The 2001-2006 National Social Development Program was created to reinforce the provision of services and institutional support to locations in the poorest micro-regions; physically integrate the territory in the micro-region to counteract dispersion of the population; improve sources of income for families in the micro-regions; encourage sustainable development, and ensure coordination among all three levels of government (federal, state, municipal) to give a much more coherent push to development in these zones.

Sources: Diario Oficial de la Federación (7 December 2001) and SEDESOL (2001).

2.5 The environmental challenge and rural life

The poverty so common in rural areas of LAC poses a threat to the physical environment and often leads to resource degradation. An estimated 68 million people in LAC live in fragile ecosystems and account for 88% of the poor (about 77 million people). Echeverría (2003) notes that most of these rural poor live in areas with low agricultural potential where lands are degraded, eroded or semi-desert. Such areas

include the Bolivian highlands, the *chaco*, the Brazilian *nordeste*, fragile and marginal hillsides in certain regions of Central America and wetlands. These people support themselves mainly by extracting water, food, energy and income from their natural resources. Because their resources are of poor quality and limited quantity, and few alternatives are available, they often cross the threshold of sustainability and destroy the very basis of their own survival.

Compared to other regions of the world, LAC still has great natural resource wealth. However, desertification and soil degradation, destruction of natural resources, climate change and biodiversity loss pose challenges that cannot wait. International conventions (climate, biodiversity, desertification) and various strategies promoted in the countries all seek to reverse the serious situation of environmental destruction.

The traditional pattern of agricultural development – intensive livestock production, heavy use of agrochemicals, soil salinization, wind and water erosion, slash-and-burn agriculture—have exacted a heavy toll on the environment, including loss of biodiversity and tropical forests. Rural areas are subject to an ever-lengthening list of new demands—ecosystem conservation, biodiversity preservation, stewardship of essential natural processes, protection of landscapes with aesthetic and biological qualities (to support recreational and economic activities such as rural tourism and ecotourism) and production of high-quality water resources for domestic and industrial use. They are expected to supply environmental services that become more important every day, such as improving carbon sinks and oxygen emission, protecting against floods and purifying contaminated air and water. Solutions to these problems cannot be found so long as countries continue to ignore the crushing socioeconomic conditions that created them in the first place, or to overlook the economic factors that also play a critical role in environmental degradation. The challenge is to develop public policies that will address such a complex situation.

CHAPTER

Linkages between
the agricultural
economy and the
non-agricultural
rural economy

3

Poverty reduction and the goal of improving equity in rural areas are unquestionably the responsibility of public institutions. It is also clear, however, that agriculture is not the only means to improve standards of living and quality of life for people living in rural territories.

Many complex interactions take place between agriculture and other economic activities in rural areas, and it is this complex web of activities that is acquiring greater significance. Economic interaction matters; but equally important are social relationships and the fact that all stakeholders share a single physical space whose natural resources comprise community capital. Other factors may have an even greater impact on the welfare of rural dwellers, including education, healthcare, infrastructure and transportation, to name only a few. In addition, new types of economic activity may generate even more income than primary production itself, including tourism, trade, environmental services or rural industries.

Agriculture interacts with the rest of the economy in many ways. These interactions are particularly significant in view of the fact that, for the most part, the rural territories in LAC are dispersed, and some of them are connected to urban centers through a base of highly diverse natural and productive resources. The result is a dense web of interdependent productive activities, economic and non-economic dimensions, and relationships characterized by functional integration with the urban sector. Agriculture remains the pivot of these relationships, but the transformation of economic processes has brought in new activities well beyond agricultural production. Indeed, technological progress in agriculture has lessened employment expectations for the rural population which, to a certain degree, has triggered greater diversification. In any case, rural areas reflect the full gamut of economic and social problems that call for new proposals adapted to current processes and looking beyond static agrarian-based solutions.

In short, interactions between urban and rural territories are becoming more frequent and intense, producing an intricate economic, social and environmental dynamic. Many people have returned to their rural homes, progress has been made

in transportation and communication and urban markets are expanding. Traditional centers of population and services are growing once again, and under today's spatial and functional dynamics, cities no longer enjoy the privileges of local or regional hegemony. All this contributes to the creation and gradual construction of diversified economic structures.

The territorial approach to rural development systematically adopts this frame of reference. The traditional concept of "rural" is redefined to fit into a context that accommodates a multiplicity of sectors and social constructs.

Rural development therefore covers a multiplicity of mutually complementary dimensions at the territorial level. Typical examples include increased agri-food competitiveness and sustainable management of renewable natural resources, rural social development, institutional modernization, regional or municipal development, strengthening of physical infrastructure and sub regional and regional economic integration.

This perspective takes a new view of the agricultural sector. Traditionally, agriculture was linked to non-agricultural sectors in an unequal exchange in which the land was divided into territorial hierarchies. Now, agriculture has acquired greater status because of the new conditions available through more beneficial macro economic and social policies.

The next challenge is to build closer ties between the agricultural economy and the nonfarm rural economy. This can be done first by promoting greater integration in rural areas and, subsequently, by pushing for regional and national coordination so that rural areas can become more dynamic. As this relationship grows stronger, it will become clear that the rural milieu is not a simple economic agent competing with other territories, always at a disadvantage. Instead, rural areas will increasingly drop their traditional role as mines from which raw materials are extracted and shipped to industrial centers to be given added value. They will leave behind their traditional role as suppliers of food for low-wage workers in growing cities.

3.1 Poverty reduction and rural employment

Some authors claim that rural development can make a significant difference in slow-growing, highly unequal territories. Such situations are palpable in LAC where over half of all rural households live in poverty, nearly one-third of them in extreme poverty. Rural areas are needy not only in terms of income, but also because they lack other standards of well-being such as education, healthcare and good infrastructure. This is why it is so important to reframe public strategies for rural areas, promoting comprehensive measures that will enhance macro economic and sectoral policies to promote true structural change.

Three out of four of Latin America's poor live in rural areas, and most of them rely on agriculture. Not only do rural poverty and indigence feed nagging urban poverty, but they are also on the rise, having increased in absolute and relative terms from 1984 to 2002. In some countries the problems of high rural poverty may reflect a misfit between rural workers and the labor market more than an absolute lack of jobs. Even so, it is undeniable that low unemployment rates usually reflect nothing more than out-migration of the rural population. On a related point, women continue to earn very low incomes, and the same is true for young people. Other associated phenomena include underemployment, self-employment and informal employment, all of which ultimately lead to more poverty.

In some countries of the region, the poorest 40 percent of the population receives less than 10 percent of total income, while the wealthiest 10 percent receives nearly 40 percent of total income (ECLAC, 2004). Inequality also takes the form of unequally distributed productive assets such as land and human capital, and differential access to basic services, including healthcare and, particularly, education. Recent estimates point to highly unequal patterns of land distribution in LAC. People living in rural areas complete fewer years of schooling than people living in cities and post much higher school dropout rates. All this perpetuates the so-called vicious circle of poverty in rural places.

According to Köbrich et al. (2004), poverty calls for a more dynamic form of analysis, bearing in mind at least four

factors. The first entails the movement of households through the poor (or non-poor) category—patterns of entering, exiting or remaining in this category. The question to answer is whether a household is chronically poor or temporarily poor. The second targets vulnerability, understood as the likelihood or risk of shifting from non-poverty into poverty. The third introduces the notion of inherited poverty and asks whether poor households tend to have their roots in poor households of origin and, in turn, generate a new generation of poor households. The fourth and last asks where the household is situated in the life cycle, as this cycle tends to bring changes in the composition or structure of the home. Unquestionably, these four considerations are closely intertwined, as inherited poverty is closely associated with chronic (or structural) poverty, while temporary poverty reflects the relative vulnerability of households or persons. Vulnerability, in turn, is sensitive to temporary or short-term income fluctuations, changes in household composition or access to assets, and the risk of experiencing natural disasters or personal crisis (illness or death, loss of assets to fire, theft, flooding, accidents, etc.).

Reduction of rural poverty calls for public policies not only to promote investment, but also to integrate economic sectors – combining agricultural with non-agricultural sectors, primary with secondary, trade with services. It is also important to stop defending rural flight into the cities as one of the few escape routes available to pull rural dwellers out of poverty. This type of migration does not benefit rural areas and even acts to their detriment.

Many tasks lie ahead. Public policies are needed to improve the structure of productive employment and formalize and monitor wage levels. Certain phases of industrial and manufacturing processes should be introduced into rural areas, adapted to the supply of resources and technological and socio-cultural capacities that are already present or that need to be developed, and incentives are needed for investment by small productive associations and organizations. Migrants often return to their rural homes, and the knowledge and skills they have acquired can be put to good use. Producers who serve possible alternative export niches can receive training to manage their markets better.

Conventional and non-conventional technology can be introduced, and improvements must be made in education, training, healthcare and dietary habits. Finally, policies can be developed to entice rural dwellers to stay home through a consensus-based strategy in the framework of institutional structures that offer greater social participation. In this particular case, rural areas need jobs that will help to rebuild weakened production chains and forge new linkages such as agro-environmental tourism that will raise the profile of rural activities.

3.2 Cluster economies

Production and marketing units can be combined, integrated and concentrated over a particular area in what is known as “cluster economies,” portrayed in the literature as a promising alternative for growth at the territorial level. Greater functional integration brings competitive advantages, pushes down production costs and facilitates transfer processes. These benefits do not arise from inside the companies, but take shape around them. External strengths of this kind make a territory highly attractive for investing local capital, retaining stakeholders, and attracting external resources.

The countries of LAC are experiencing a clear trend toward diversification of production structures. In the case of agriculture, this is limited to a few export crops mostly found in the hands of transnational companies that generate little local development and solve only specific problems on a very local scale.

In short, diversification of activities is not yet being felt in rural areas, and employment continues to be volatile and seasonal. Nor are long-term projects incubating locally, with a promise of regional rural development, because capital tends to come from outside. With the exception of a few productive segments that favor assembly plants, small enterprises find it difficult to compete effectively and are experiencing problems of quality, infrastructure and lack of familiarity with commercial processes. Because they are so disperse and heterogeneous, they fail to build intersectoral

productive linkages, such as supplying agricultural products for local tourist centers or raw materials for assembly plants or other industrial enterprises.

The poorest rural producers and inhabitants continue to have very limited production capacity and low productivity. This structural impediment prevents them from entering into cluster economies and playing an active, direct role in local, and national and international markets. The result is a vicious circle of poverty: they have no incentive to produce and no access to production incentives because they are not producing.

Anyone who would gain access to today's markets must overcome highly complex obstacles associated with factors of quality and competitiveness. Cluster economies offer poor rural producers a real alternative for survival. Introduced at the local level, such solutions respect the characteristics and potential of each territory and honor existing social capital and accumulated experience. The focus should be on encouraging producers to associate and cooperate in order to conquer specialized markets, and progress should be gradual. A good beginning could be to purchase inputs collectively (bringing down production costs) and market products at a larger scale so they can compete with more experienced economic agents. Other possible approaches would be to set up associations for organizing activities, although not necessarily associated with agriculture, undertaking agroindustrial production to add greater value, restoring the practice of production cooperatives with local and international financial leveraging, and introducing nontraditional production activities that mesh with nearby urban production instead of competing with it.

Cluster economies in rural areas do not necessarily cover a large territory. The objective should be to solve problems of employment, demand and competitiveness at the local level and in a particular market. Each individual farm or rural unit becomes a specific organization practicing a comprehensive strategy for sustainable development and pursuing a flexible program of economic clustering. Producers need to develop a truly entrepreneurial mentality to organize, compete, build capital and shape a new rural structure. They must learn to

focus on economic efficiency and equitable distribution of benefits. This may be the best way to consolidate processes of social and territorial cohesion.

Cluster economies hold great potential to foster socioeconomic development in both urban and rural settings. It is important to understand that the relationship between competitiveness and factors of production is a complex one, as the latter are usually not static. Processes of capital accumulation are very selective in terms of place, labor and technologies, as well as market sectors. Capital has its own logic that may well exacerbate the economic and social marginalization of anyone who is unable to join such a dynamic system.

3.3 Production and market linkages

The agri-food sector makes up 25% of the GDP in Latin America. Consequently, agroindustrial production needs to occupy a central position in development strategies. In many countries, agri-food chains are now considered an ideal vehicle for promoting policies to build competitiveness, mobilize investment and organize processes. Chains can lead to the growth of a whole new institutional framework for agriculture that will highlight the close ties between rural and urban sectors.

This approach to development attaches top priority to production and market linkages and emphasizes the need to strengthen exchanges and structural ties. It provides a means to consolidate specific rural territories and wins the market quotas that production units need if they are to secure their own position.

Chains may emerge in different ways. Some reflect a particular company's ability to forge linkages with other territories or to build networks and organizations within its own territory, combined with a public-sector management team that knows how to support the organization of these processes. According to Silva (2003), this possibility is closely related to the idea of social construction of a territory and, more specifically, to the prospect of building

an innovative and competitive territory. In order for such a program to succeed, a country's economic structure needs to accommodate local production chains that nurture the development of small- and medium-sized companies and that encourage associative, well coordinated initiatives so as to gain competitive advantages.

For the rural poor and for rural industry, the development of agricultural production systems and chains tied to international markets is a promising option. These entities have traditionally been locked into producing basic foodstuffs, a sector that has lost much of its vitality. Even so, links are broken or fraying in many agroindustrial production chains of the region's countries as economies become more and more dependent on imported raw materials for local agroindustry and production. As a result, local products become less competitive on international markets, and worse yet, local jobs begin to disappear. One of the greatest challenges facing decision-makers is to rebuild production linkages whose rupture affects both the rural territory and the overall economy.

Repairing production and trade linkages means not only diversifying production activities, but also restoring agriculture itself so that producers can receive more competitive prices, reduce post harvest losses, supply local markets and develop a niche for their products in urban markets. The strategy must also continue to support agroindustries that already have a buoyant market, such as organic products or health-care items. For example, the rural population needs to remain well informed about prices and markets. Rural and urban markets should be encouraged to seize the advantages of communication technologies and adopt negotiating practices based on contracts put up for public auction even in the absence of actual physical products. Today's markets are defined by information, communication and access to marketing services, not by gatherings of buyers, sellers and products in a specific place.

Strategies such as these become necessary as the market grows more competitive. They are indispensable for micro-enterprises or small- and medium-sized businesses seeking market ties with large companies, which tend to squelch their

smaller partners. They are also essential for agrarian systems that face the prospect of market liberalization and will soon need to compete at the world level. If agrarian systems cannot learn to compete, they will either disappear altogether or remain locked into specific traditional market sectors.

3.4 Rural industrialization and territorial clusters

Rural areas need to industrialize if they are to accumulate capital, offer employment, add greater value to primary products (agroindustry) and non-primary goods (intermediate) and enter the local economic structure. Such changes will lead the sector to adopt the kind of structural change that brings development.

Traditional rural producers need to understand, however, that if they wish to start working with other sectors, they will need to contend with certain adverse effects when their new partners enjoy rates of accumulation, capital-labor ratios, degrees of innovation and technical change, and rates of competitiveness that are different from their own. Significantly, rural territories hold major comparative advantages far beyond the mere presence of natural resources yielding primary goods; these advantages are associated with knowledge of the environment, ability to organize, and common roots that facilitate the construction of social networks. This is just what they need to create groups of producers, organized around industrialization processes, to strengthen spatially defined clusters of companies where the most important externality is the presence of cultural affinities and traditions of collective work, such as knowledge passed down from generation to generation. A typical example would be the type of clusters that build up around an agri-food-agroindustrial chain, consisting of agroindustrial enterprises, input suppliers, service companies, and many organizations whose activities may have a decisive impact on the competitiveness of agriculture and local rural industry.

It is no coincidence that governments and planners

have been pursuing rural industrialization in the region, as this alternative promises to bring a truer balance between rural and urban areas. Invariably, these projects have failed both because of the type of strategy adopted, and because too little thought was given to the surrounding context. As an example of the former, projects to develop “technology poles” or industrial districts have typically encountered infrastructure deficiencies and have broadcast very few local benefits. As an example of the latter, industrialization projects may not match actual production potential, acquired experience or the local level of development.

Therefore, a strategy designed to foster rural industrialization and develop territorial clusters should take into account the degree of modernization in the territory and the performance of international markets so that nontraditional activities can be planned accordingly. A rural industrialization project should begin by considering the true potential of the territory so that competitiveness can be developed on a realistic basis, going after promising niches in the local, regional, national and international markets. If the concept of systemic competitiveness (defined above) is fully understood, it becomes easier to maximize the use of local potential and make long-term projections. The following factors are also worth considering: a) production technology may need improvement; b) the environment needs to be considered, and c) regulatory controls and supervision may be required, whether by self-control networks and entities, or by external certification and monitoring bodies.

Mobilizing the production capacities of the rural population is essential if rural industrialization projects are to flourish, if territorial linkages are to grow stronger, and if production is to feature a sustainable approach and a true concern for the environment.

Box 3

Industrialization and development strategy for competitive clusters: segments of opportunity

- a) larger scale production of personal care items and processes for producing medications
- b) alternative products reflecting social awareness such as quality considerations and fair trade
- c) ethnic products beyond traditional handicrafts (subject to quality improvement and greater promotion)
- d) certifications of origin
- e) industrialization of forest byproducts
- f) agroecology and environmental tourism
- g) assembly of toys and items for the home that initially require only manual skills
- h) implementing agroindustrial production systems that will allow for gradual restoration of production linkages

CHAPTER

A New Institutional Framework: Mechanisms to Promote Inclusive Rural Development

4

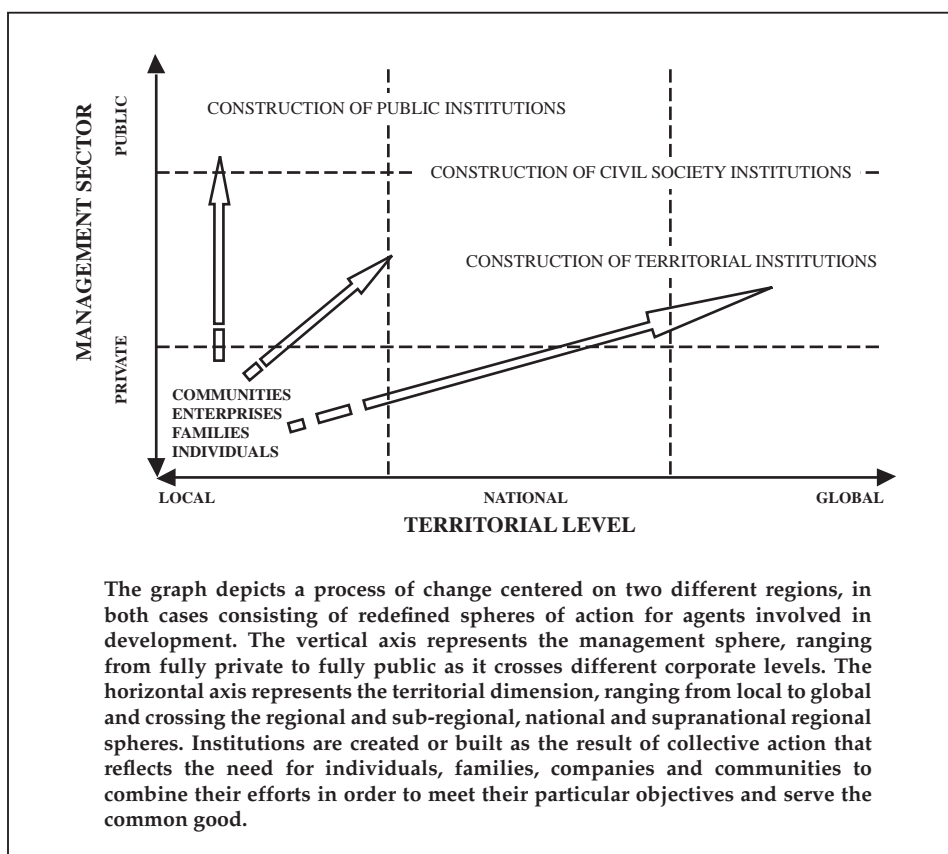
In most countries of Latin America, governments devoted nearly half of the last century to building institutions for agricultural production and rural life. To a large extent, these institutions provided support to shore up acceptable production rates, guarantee domestic supply and even generate an exportable surplus. They also helped strengthen regional economies. Today's development model has changed, however. The States find themselves gradually dismantling a whole institutional fabric that supported producers by granting everything from farm credit to marketing support, even though today it is more necessary than ever as the countries face new global challenges and international competition.

The decision to create a new institutional framework entails far more than merely setting up formal public institutions. It must address the full network of rules that govern the public arena, that is, the places where individual interests intersect with collective interests. How a society is regulated, the agreements, norms, jurisdictions, commitment, roles, formal and informal organization, public and private organizations – all comprise an integral part of the institutional framework. Together they reflect something akin to a social compact that serves as a referent for individual action. Thus the institutional framework stands as a guarantor of the rights of members of society and sets parameters for the exercise and fulfillment of duties, both in the collective sphere and in the private arena.

Institutional change has been occurring in the general political framework; it alters the rules of the game and has a clear impact on institutions of the rural sector. These trends need to be understood because they will give rise to new conditions and options with the potential to make rural society more manageable and more governable (Echeverri 2003).

The major challenge is to reconstruct public-sector agricultural and rural development institutions and incorporate them into a regional institutional structure, so as to seize the opportunities derived from globalization.

Figure 1.
Territorial dimension of institutional development



Source: Echeverri (2003)

4.1 Institutional modernization

As globalization gathers speed, it triggers substantial changes in the exercise of public processes and in national regulations. These transformations have repercussions on all sectors, including rural life, agriculture and ways of doing business, both at home and abroad.

A new territory-based model therefore calls for a reassessment of many things—land potential as well as training of the population—to determine whether they are equipped to grapple with the new dynamics of world trade.

Agriculture has ceased to be merely the “primary sector” of the economy, and is now understood as an agricultural-agroindustrial “complex” or “system.” It consists of “agri-food chains,” units of analysis that bring together the full array of stakeholders involved in primary activities, along with processes that transform products and put them into the hands of end consumers (Trejos et al., 2004). At the same time, nonfarm activities now link into agricultural systems to generate a broad variety of options for rural life. From this perspective, the new institutional framework redefines the essential rules of the game in relationships between the rural sector and the rest of the economy.

Box 4

Changes in the institutional setting

Changes in the institutional setting are visible in four main areas:

Ashrinking public sector. This contraction has various dimensions: a smaller number of government institutions, owing to privatization processes; fewer functions and responsibilities handled by official entities, as a consequence of deregulation; shrinking budgetary allocations for fiscal reasons, and tightening or freezing of public employment. In the specific case of ministries of agriculture, the provision of resources to drive policies and develop projects has gradually waned in recent years. The combined effect of smaller budgets and fewer personnel is particularly visible in three areas: fragile research programs, a weaker presence in rural areas (extension programs) and fewer analytical skills due to the lack of qualified professionals.

Administrative reforms to make the public sector more efficient. These reforms have taken diverse approaches and have had uneven results. In some countries they have been frankly counterproductive, worsening the performance of the official sector. In general, administrative reforms have entailed institutional restructuring and regrouping, redefined functions, simplified bureaucratic procedures, and above all, decentralization. In other words, jurisdictions and resources have been transferred from the central government toward local or municipal governments, moving decision-making closer to citizens.

Source: Trejos et al. 2004.

The new relationships in the sector have created the need to build incentives, develop mechanisms for transaction and redefine the role of the State, organizations, civil society, individuals and the community. The whole fabric of rural institutions should evolve naturally from institutions that rural dwellers themselves have already developed over time, with all their diversity and heterogeneity. These native institutions, woven into the culture and social structure, have tremendous potential to lend greater cohesion in rural areas and should be understood as offering much more than short-term economic efficiency.

When shaping a new institutional framework, it is important to remember that development in rural areas calls for a coordinated body of public policies and a mesh of infrastructure suitable for implementing these policies. One of the problems traditionally plaguing rural development has been the inability of the public sector to produce a coherent plan for State intervention and an investment program that truly matches the needs of the rural milieu. Reappraising the land market, making credit and marketing institutions more efficient, rebuilding educational and training programs—all this is a fundamental part of the process that should lead to a new institutional framework.

Equally important is to adopt a decentralized territorial planning process, as opposed to the sectoral and centralized focus that prevailed in the past. The first necessary step is to recognize that society is currently in a process of transition and change that revolves around two pillars: decentralization and international action through globalization. These trends are at the top of the agenda for institutional renewal, they far outreach the earlier trend of institutional reengineering, and they inject greater emphasis and realism into policy making. The objective is to adopt a fully comprehensive concept of institutional economics. By building bridges to a broad, diversified market of public policies, it moves away from today's common perspective of public-sector supply, toward a strategy based on demand.

4.2 Shared management of rural territories

What types of management mechanisms should be promoted for development of rural territories? Unquestionably, the ministries of agriculture will continue to serve a significant role as catalysts for new rural activities, but they are not alone in this responsibility. Instead, shared responsibility is becoming more the norm every day.

Any future program of complementarity and reciprocity must respect a number of critical factors:

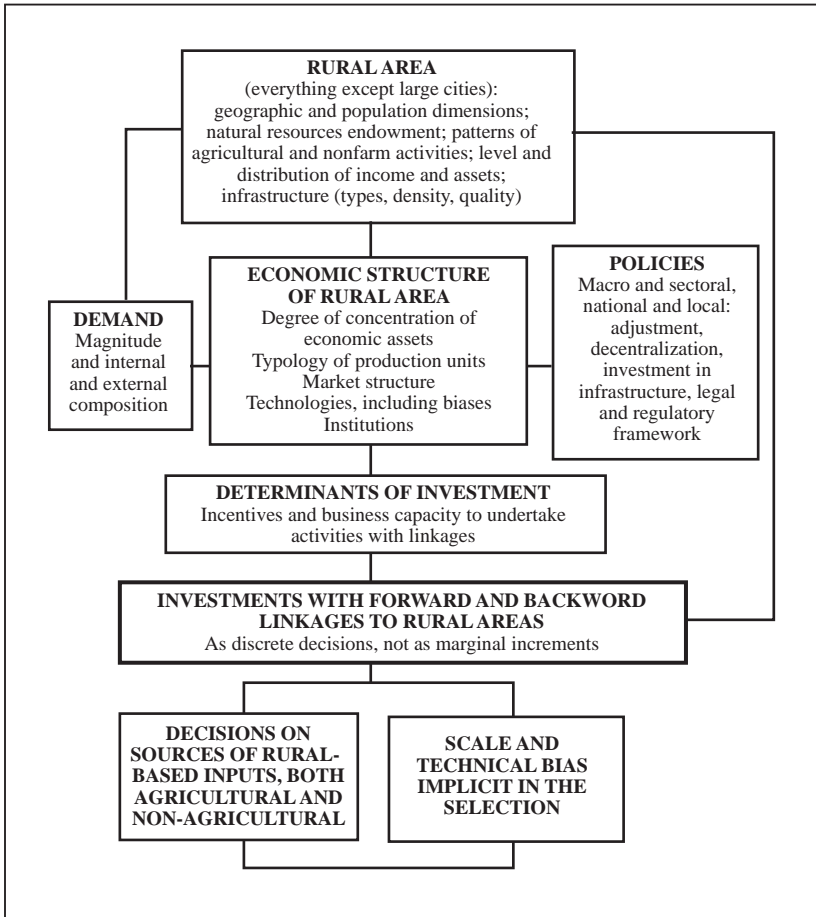
- Public-private linkages should be “honest.” Interactions between ministries and trade associations should not serve the exclusive purpose of making newspaper headlines, cooling tempers or countering one position to elevate the other. It is important to set goals, procedures, responsibilities and actions that can be pursued through cooperation. Such a working relationship cannot be successful if parties are willing to accept only those proposals that meet their own needs, disregarding all others. Interacting means negotiating, compromising, receiving but also giving. Participants in the process must respect all agreements and commitments made.
- Mechanisms of dialogue, analysis, planning, negotiation, programming and implementation must be institutionalized. Ministries involved in rural development cannot simply call on certain trade groups or farmer organizations of their preference in order to “build consensus,” “look to the future,” or “solve thorny problems.” Rules of the game need to be settled beforehand—representation, procedures, agendas and responsibilities. The rules of the partnership need to be clearly understood.
- Valid spokespersons are needed. In recent years, trade groups and organizations have proliferated – by level, product, region and so on. Which ones will actually sit down at the table with the ministries to hammer out an agreement, negotiate and look to the future? How are they recognized and selected? How can they be encouraged to participate and assume responsibility? These are critical

questions whose answers will determine the credibility, sustainability and strength of relationships between organizations and official entities.

- Finally, the relationship requires short-term, medium-term and long-term agendas. Short-term agendas typically arouse conflict. They are cluttered with problems that remained unsolved in the past, pressing emergencies that affect specific interests, and overblown expectations of what can be accomplished. If attention focuses only on short-term agendas, interaction among trade groups or between these groups and public authorities may be difficult and tense. Stakeholders can smooth their relationships significantly by working out medium-term and long-term agendas, where the problems of the day can be analyzed with a vision of the future and where there is more room for negotiation.

Under current conditions, managing economic projects geared to consolidate rural territories is complex. It requires a clear awareness of the endogenous characteristics and capacities of rural units. It also demands an accurate understanding of the characteristics of labor markets, capital markets and product and input markets. Indeed, these local and regional markets are the very mechanisms to be targeted by interventions, as they are the place where interactions take place between territories, between stakeholders, between differentiated public policies and between sectors. In this regard, Reardon (1998) proposes a territorial development management model to recognize stakeholders, processes and markets as segments that drive rural and territorial integration and operations (see Figure 2).

Figure 2.
Model of functional integration in rural areas.
Stakeholders and management processes.



Source: Reardon (1998).

In the sphere of policy management and participatory interaction among rural agents, the new institutional framework must also be based on a principle of institution rebuilding (Gordillo et al., 2000). This means renewing the social compact in rural areas and establishing a means to reorganize social relations so as to offset and limit natural conflicts between the community, trade groups, markets and the State. It is also necessary to rehabilitate the contributions that trade groups or producer associations and other social networks have traditionally made to good

governance and social cohesion, especially in view of the enormous negative balance left in the wake of cronyism and exclusion. In this process of institutional reconstruction, Gordillo et al. (2000) stress two fundamental requirements for interaction between the State and rural organizations: the role of social mechanisms for market regulation, and the role of nongovernmental public entities.

With respect to the first requirement, social mechanisms for market regulation, Gordillo et al. (2000) emphasize the fact that the market can be shaped and organized better if it recognizes the complexity of social factors, which have displayed an enormous capacity for self-regulation. More effective policies to reduce the need for State regulation of the economy will emerge from a strategy that unveils the interplay between social and economic factors and reveals the social foundation underlying the market. This debate has been characterized by a dynamic flow of ideas that, while still vague and disperse, suggests both the need for more direct and efficient channeling of public resources, and the incorporation of new forms of regulation. Nevertheless, its most innovative contribution is the heightened role of public policies intended to provide opportunities for action by social organizations, encouraging them to interact with the market. Such policies can prove to be effective even as they push for social demands and objectives involving employment, working conditions, access to goods and services, self-management and the environment. Two especially important issues stand out. The first is so-called social investment using capital allocations whose use is based on economic and social criteria; such funds are channeled through social and private organizations, state and local governments, and even low-income communities. The second critical issue is cooperation. Market globalization has had catastrophic consequences in some countries that opted for negligible regulation. What commonly happened in such cases was the invisible, almost automatic emergence of conditions ripe for self-destructive processes in some segments of the productive structure, creating a need for new government regulation.

The second requirement is the role of public nongovernmental organizations (PNGOs). As the State builds new kinds

of relationships with communities and organizations, it needs to develop a style of institution that, while not a structural element of the edifice of State, can work with it on a permanent, regulated basis. The idea is for these organizations to become forums open to society, whose ability to settle conflicts, process agreements and translate demands into feasible alternatives and projects is matched by the quality of the ties they forge with government entities responsible for developing policies, programs and formulas for resource allocation. The basic feature of the PNGOs is that they are public-sector organizations not attached to any political regime. They are governed by rules for selection and membership different from those that apply to government offices subject to regular elections. Examples of such entities include human rights commissions or the organizations responsible for holding elections. Other examples could be autonomous central banks if they are subject to mechanisms for social oversight and accountability. Their overriding purpose is to guarantee that public policies are consistent and continuous, remaining in effect long enough to be tested and grow mature. These are State institutions more than government entities. Normally they are created through consensus-building among major stakeholders who feel the need for a relatively neutral third party to serve in arbitration and in designing and implementing long-term policies. For rural areas, these entities have three obvious functions. a) They oversee public expenditures and, from this standpoint, serve as ombudsmen defending the rights of the rural population. b) They evaluate the implementation of programs and projects and measure their relevance to national priorities for the rural sector as established in some form of national development plan submitted to or approved by the executive or legislative branch. c) They monitor agreements, programs and projects resulting from international cooperation.

4.3 Stimulating know-how, information and technology

Society as a whole is rushing headlong toward a new economy, with knowledge poised to become the key asset

for development. Those involved in agriculture and rural life cannot ignore this reality and must adapt to it if they hope to survive. Today knowledge is more complex and costly than ever before. At the same time, it is less accessible as it becomes increasingly privatized. Not everyone has access to information, especially on markets and pricing. The same is true for technological developments, even though they are imperative when competitiveness is at risk. Competition now depends on such considerations as quality, product diversification, packaging, labeling and certification processes.

Productivity gains are associated with modern innovations including biotechnology and bioenergy that definitely are not accessible to poor rural producers. The world is already witnessing a tendency to privatize natural resources, which had always been free, to be sold later by companies able to manipulate plant characteristics, and although this is not exclusive to the rural milieu, it is an example of the way business strategies are now applied. Nevertheless, experience shows that there is no single kind of knowledge, nor a single means of incorporating it into productive processes. Indeed, newly emerging alternatives, more powerfully associated with sustainable production, are well suited to nonconventional structures. The best example is organic farming that, with its emphasis on recovering traditional knowledge, can be practiced in rural communities at low cost and effectively raises the value of social and environmental assets. Other examples include environmental tourism, handicraft production and socio-cultural development, all of which are taking shape as significant assets for rural areas.

The first step for moving in this direction is to step up investments in rural education and training so that rural dwellers will be better prepared to seize opportunities and face challenges without fear. This includes raising awareness on the advantages of adopting an ecological perspective and the importance of participatory decision-making at all levels of society.

Management of development is another critical factor. ECLAC and FAO have proposed useful guidelines (see Escobal and Ponce, 2000) for developing more effective

programs to fight rural poverty. Some of the most important points include:

The relationship between “agent” and “principal:” because small-scale farming continues to be synonymous with poverty, small resource endowments will force the rural poor to establish some kind of institutional arrangement that will allow them to combine efforts or resources and obtain greater productivity and higher income. This proposal for directed participation is based on the fact that those who make decisions (the agent) have different objectives from those who are affected by their decisions (the principal). A very necessary field for research and action is the search for programs in which incentives of the two groups are compatible.

The household economy and intra-family decisions: it is instructive to begin by asking whether production decisions can be isolated from consumption decisions in rural households. If so, it would mean that the size and composition of the household has no effect on production decisions because labor shortages (or surplus) can be filled (or sold) on the labor market. If this assumption is not true, any exogenous program (such as an anti-poverty campaign) would have less impact than expected. Another significant variation on the same theme is the presence of rural households headed by women. Evidence shows that production factors are not allocated efficiently in households that have plots controlled by men and other plots controlled by women. Another interesting factor in rural household models is to evaluate not only the impact of public goods on income levels, and therefore on poverty, but their impact on the profitability of private assets. Methodologies can be designed to study this phenomenon, such as those proposed by de Janvry and Sadolet (1996) for the ejido sector in Mexico or by Escobal et al. (1999) for the Peruvian rural sector. The idea is to evaluate the increase in marginal profitability of private goods as a direct result of access to public assets so that, given a shortage of public resources, more effective priorities can be set for allocating public assets.

The labor market economy: labor and job creation continue to be one of the top objectives of rural development. Better

tools are available today for evaluating causes and effects, such as the impact of education on productivity and rural income. Other critical issues include selection (not everyone works for wages), presence of non-observable individual characteristics (such as individual skills), adverse selection and moral hazard (both common in rural labor markets). Asymmetry in access to information could explain many of the sharecropping contracts and other institutional innovations.

Health, nutrition and income: better health and good nutrition are often taken as central goals of the development process. For example, if income elasticity of demand for calories is high, well-distributed growth would quickly relieve hunger. However, if elasticity is low, deep conflicts could arise between the objective of rapid growth and that of ensuring better levels of nutrition. This means the value of elasticity needs to be evaluated empirically. Recent evidence suggests that these elasticities are much lower than previously believed.

Learning new technologies: recent studies on adoption of agricultural technologies in poor countries yield a better understanding of the effect of externalities on learning, as well as local and sectoral repercussions over the medium and long term.

4.4 Coordinating agricultural and environmental policies

Although agriculture is an important activity, its economic and productive capacity is insufficient to cover all the needs in the rural milieu. This varies from one territory to the next, depending on intrinsic characteristics and economic diversification. Although the local economy in many rural areas continues to be driven by agriculture, other regions are looking for nonfarm activities to solve their development problems. This is why governments need to take a new look at development strategies and allow initiatives to emerge from the communities themselves.

It is obvious that today's rural economy is highly diverse, even though the countries of this hemisphere continue holding onto rural policies in which the strictly agrarian emphasis is pervasive. Development policies embraced by too many ministries of agriculture are coming under fire as they prove themselves unable to respond to diversified and integrated labor markets. It is increasingly evident that agriculture needs to engage in a dialogue with other areas of public management, creating new institutions more suited to the multifunctional nature of the rural sector. Development strategies will be more effective if they incorporate the spatial dimension of "rural," conceiving this sector as a sphere populated by activities that transcend agricultural production and placing their bets on efficient, sustainable use of natural resources as a cornerstone for a modern, productive rural economy.

The rural dimension needs to be included explicitly in the countries' long-term strategies. This repositioning must begin with a holistic view and a comprehensive understanding of productive, commercial, environmental, socio-cultural, human and political-institutional concerns.

Given current political and institutional trends, it is increasingly necessary to make adjustments in the institutional framework for agriculture and rural development and equip it to respond more quickly and efficiently to today's challenges. This means promoting participation, dialogue and consensus-building at every level—community, region and even Inter-American—modernizing agriculture to make it more competitive, emphasizing rational management of natural resources and achieving greater equity in distribution of benefits. Ultimately, all these issues will help make the model more governable and more sustainable.

In short, a simple agrarian economy is no longer an option. Any discussion of growth needs to address such considerations as environmental and ecological economics, environmental service markets, sustainability of production services, genetic resources, networks of social solidarity, knowledge, culture, gender equity and ethnic inclusion.

4.5 Importance of food security

Food security is a problem that mostly affects countries dependent on agricultural imports. The poorest sectors of the population are especially vulnerable, the rural poor because they lack productive capacity, and the urban poor because of difficulties associated with poverty and income distribution. Food security is no longer strictly a matter of geographic location because it can easily occur anywhere. Instead it is a problem of intractable poverty. It is true that rural poverty seems to have declined, but this is due largely to migration and the monetary income from remittances. Clearly, rural development programs have had little impact on the poorest of the rural population, even as recent modernization processes have worsened living conditions for middle level rural producers. Likewise, rapid urban growth has prematurely depopulated rural areas, transforming their demographic structure and educational levels (erosion of human capital) and triggering serious problems of production. This is particularly critical in the case of production for on-farm family consumption, which serves as a shield against food insecurity.

The food supply is no longer sufficient to guarantee universal access to food, and among the rural population, outright malnutrition is on the upswing. With the decline in home production for on-farm consumption, these people have become highly vulnerable and must seek other sources of income to purchase food.

The agricultural export model has undermined basic grain production, which is the pivot of food security. The resulting agricultural trends have led to significant imbalances in the region, with serious repercussions for rural development and food security policies. Any food security strategy must first tackle the problem of basic grain production and foster regional markets that bring farmers into contact with processors of raw materials, as they both share common problems. It is also important to provide families with options to optimize the household budget by purchasing foods available in the region, offer nutritional education campaigns and create regional food reserves to buffer the impact on the poorest families if incomes continue to

decline. Finally, food aid programs should remain in effect for the vulnerable population, but beneficiaries should be expected to pay for what they receive through rural activities consistent with real conditions, underscoring the concept of “community,” instead of mere handouts.

In short, food insecurity is clearly associated with poverty and is most visible in the rural areas of Latin America and the Caribbean. Moreover, this region is home to the majority of the poor. This means that growth in the agricultural sector is the key to achieving food security for the population. Programs to fight hunger must therefore induce more investment in agriculture so as to boost productivity and income for the poor.

4.6 Support instruments to reduce rural poverty

International organizations recognize that the problem of poverty, especially rural poverty, is a top priority for society. They point out that, in the market competitiveness model, fighting poverty may be a mechanism for economic reactivation. A 2002 report from FAO notes that while poverty is one of the causes of hunger, at the same time, hunger may be a cause of poverty as it not only shortens life expectancy, but also undermines the peace and prosperity of peoples.

It is our belief that government interventions and actions are not enough to provide a sustainable solution to rural poverty; the private sector needs to be actively involved as well. The critical basis for reactivation is vigorously incorporating rural producers and businesses into value chains, drawing on the strength of established competitive businesses and seeing poor people as partners and clients. As an example, family remittance money is used mostly for consumption, with very little going into productive investment. However, part of this money could provide a valuable basis for building capital. Such a strategy would fit into a newly emerging trend known as social competitiveness, a concept that redraws the terms of trade and bargaining power for

rural markets and highlights the competitive advantages of rural territories. The central purpose is to provide the rural population and least developed countries of the hemisphere with tools they can use to seize opportunities available through the market economy model currently prevailing in global capitalism.

These instruments demand that the existing institutional framework be put to use and rebuilt; it currently consists of a tangle of associations, producer organizations, cooperatives, chambers and federations. At the local level, cooperatives have achieved significant participation in their campaign to improve conditions for production, marketing, development, financing, credit and adoption of technological innovation. A useful development strategy is to set up alliances within which various sectors can share their resources and skills more effectively. A still unfinished task is to identify spheres of common interest and propose partnerships that favor both parties.

The effectiveness of social capital in rural development processes is directly related to the consolidation of reliable social networks in which subjects have the opportunity to develop fully. A number of conditions must be in place for this to work, including the presence of reciprocity (a common characteristic in the social fabric of network structures), achievement of a certain degree of human development, and other elements for building and strengthening social capital oriented toward sustainable development. In other words, certain individual and collective opportunities derive from the way individuals and communities fit into interrelated structures. Moreover, the ability of the population to contribute to a network, organization or institution is often conditioned by investment in education and training and by individual willingness to seize these opportunities. Equally important are standards that promote trust and solidarity, expressed as consistent practices and mechanisms for regulating social relationships.

4.7 Activating rural labor markets

According to an IDB study (2001) of trends observed in Latin America over the past decade, unemployment cannot be ascribed to a change in the structure of the labor force. Nor does it appear to stem from a relative increase in the demand for skilled workers. Instead, it appears that unemployment could be reflecting the inability of markets to adjust simultaneously to a significant increase in rates of labor-market participation and a declining demand for labor. Available information suggests that labor-market growth is occurring asymmetrically in the region. The sub-Andean area is emphasizing policies to address unemployment, while wage levels in Mexico and Central America appear to be responding to gradual changes in the type of employment.

Rising rates of labor-market participation are associated with a number of factors. First, more and more women are entering the labor market, partly to help offset contractions in family income, and partly because today's marketplace offers better opportunities for women, at least by comparison with men. The declining demand for labor, especially for men, cannot be easily associated with any clear cause. The following two factors seem to be at work: a) recurring macro economic crises in most of the countries of the region, especially since 1995, and b) the effect of structural reforms such as the liberalization of global product and financial markets.

In any case, current conditions in rural areas call for the opening of new labor markets. This has many implications, such as encouraging women to work in nonfarm activities and finding employment alternatives in culture, leisure, services and the environment. Traditional knowledge needs to be restored as a valuable factor of production, more opportunities should be provided for volunteer work, mechanisms are needed to mobilize savings, and new rural-based trades can be designed.

On the investment side, the value of endogenous potential can be reassessed from a participatory perspective, and the remittance money sent by emigrants can be used to foster

investments and promote joint ventures and collective work in the community.

Box 5

Proposals to activate rural labor markets

- a) increase the value of agri-food products through local processing and direct marketing
- b) raise the profile of local agents in diversifying the rural economy
- c) raise the profile of multi-level activity
- d) change from intensive agriculture to sustainable agriculture
- e) reintroduce local traditional crops
- f) create network economies
- g) seek new comparative advantages by reconsidering the value of new rural functions
- h) rescale new relationships between the rural and urban sectors

Source: Carpio (2002).

4.7.1 Rural financing and the territorial dimension

Many countries of the region have eliminated public sources of financing for the agricultural sector, and the job of financing agricultural producers has been relegated to private commercial banks. As a result, medium- and small-scale producers have very limited access to farm credit. First, they have no backup capital, and second, the banks lack information to assess the economic feasibility of their credit applications. Faced with this lack of financing, together with the high cost of production inputs, most small-scale farmers are reluctant to acquire new technologies or apply technological packages

to improve yields. As their income declines, they lose their edge and cannot compete with producers in other countries. The same resource constraints deter them from developing the kind of on-farm storage and post harvest infrastructure that could shield them from price declines on the market, especially at times of high supply.

All this notwithstanding, agricultural output has grown surprisingly well. It would appear that farmers have discovered alternative sources and means of financing to solve these problems. The resulting capital market gives them access to lower-cost, more streamlined financing on a timely basis, leveraging resources based on crops in the field and livestock on the hoof, as well as inventories, cash flows and low-liquidity assets.

Territorial development programs call for financing models that are flexible and diversified in terms of their functions and activities, the population they serve, the operating mechanism they adopt, their linkage with other sectors, and their technologies and tools. According to a 2002 IDB study, *“Competitividad: el motor del crecimiento,”* many private commercial organizations such as commodity exchanges, clearing houses and trusts have come up with new financial instruments that are now serving more than 1.5 million small-scale businesses in the southern tier of Latin America. Some of these successful instruments include agricultural certificates and bonds, certificates of deposit (pledge bonds), guarantee funds, common investment funds, factoring, trust funds, and more.

Financing as a means for local development depends heavily on the real taxpaying potential of the rural territorial system, especially at the municipal level. It is a fact that local governments in the countries of this region are impoverished, with little potential to raise tax revenue, and they tend to enter into relationships of dependency with other, larger scale political and administrative entities or external sources of funding. From the perspective of planning local development, investments intended to promote sustainable development need to originate from some particular “growth engine,” that is, a production activity that offers some type of “comparative advantage”

and therefore serve as a “binding factor.” It is worth remembering that production activities provide not only a source of economic profit, but also have social value. Investment criteria for sustainable development processes are not based only on the territory’s economic potential or comparative advantages. Imbalances and asymmetries are also determining factors for investments that may help narrow social gaps and foster greater territorial cohesion.

Given the profound social and economic inequalities currently plaguing the countries of Latin America, adequate tax collection and appropriate management of municipal finances – especially as investments for development – hold the highest priority. Municipal finances must be invested in factors that will bring greater institutional development. Examples could include:

- Equip communities with public services not provided by the State or private sector, but that are fundamental for reinvigorating the local economy and increasing income generation based on the particular needs of the municipality;
- Foster local savings capacity by providing instruments and institutions that respond to the characteristics of each sector of the population and by promoting group savings-and-loan programs;
- Establish mechanisms that can efficiently translate local savings into a richer source of opportunities for the community and more autonomy for local government, and
- Promote collection of more external resources (public outlays by the State, development aid from international organizations).

This approach calls for policies, strategies and territorial development plans that will guarantee greater generation and better use of financial resources for rural areas and effectively guide the process of raising additional resources.

4.7.2 Microfinance and local investment as potential tools for rural development

One of the underlying problems for development of rural territories is insufficient access to production assets. This shortage needs to be addressed with formulas designed to foster territorial autonomy rather than dependence on external sources. Certainly, high poverty rates demand structural solutions and a narrowing of the public investment gap, and these responses are beyond the scope of municipal management. Nonetheless, poor and medium-scale producers have far more savings capacity than generally assumed and a widely underestimated ability to generate income. Municipal governments can greatly strengthen their sources of finance, understood as a whole, by introducing more robust incentives, diversification and regulation in financial markets and in business and micro-business development services, and thus complete a virtuous circle of building local social capital. In this context, building social capital means laying bridges between associations and institutions, giving them access to broader economic and social linkages that will be valuable for their members and for territorial development as a whole.

Rural financial markets in Latin America and the Caribbean have historically proven to be weak. They face such structural problems as the risky nature of agricultural activities, high transaction costs and insufficient collateral. As a result, many financial systems set up microfinance programs whose mission was to reach those sectors that had the greatest difficulty gaining access to credit offerings on commercial markets. Starting in the 1980s, subsidized microcredit programs went into crisis. Vast sums of money were being invested to channel resources and operate local finance institutions, but no empirical data showed whether it was having a positive impact. The pressure for market liberalization sparked a greatly heightened awareness of the pernicious effects that subsidies could have on the development of financial markets and rural economies. A string of bitter experiences with bankruptcy and indebtedness among small- and medium-scale producers demonstrated that access to production assets needs to go hand in hand with other processes such as capacity building,

appropriate institutional mechanisms and specific micro-finance technologies.

The crisis of the subsidized agricultural credit model led to the development of new models, mechanisms and tools for managing micro-finance. It triggered a flood of new micro-finance technologies targeting different segments of the population, including micro-finance for populations and producers based on innovative criteria: types of production activity, gender, age, ethnic and economic status, and group or individual credit. Significantly, the supply of funds from private financial markets is not necessarily consistent with the capacity or material conditions of the populations they target. At the same time, micro-finance in and of itself has agglutinating potential as a development tool. Such potential comes from local participation and from the consistency and cohesiveness of institutions promoting it.

4.7.3 Innovative financing mechanisms

While unequal health and education services stand as an obstacle to building markets that serve the needs of the poor, other factors also leave these populations ill equipped to seize market opportunities, including their lack of access to land, marketing infrastructure and financial resources. The latter is one of the main barriers to redesigning a development strategy. Evidence of cumulative capital loss by the rural sector suggests that new capital injections should be based on innovative mechanisms and should draw lessons from failed experiments that linked these producers to formal credit institutions and left various segments of producers carrying overdue loans.

In most countries of the region, public sources of financing have been inadequate, and in some cases nonexistent. As a result, the task of financing has fallen to private banks and, because of higher interest rates, “anti-financing” has often ensued.

New finance mechanisms are now needed. This requires, first of all, a public/private partnership that combines

different forms of capital investment and obliges the government and the private sector to share responsibilities and risks. Second, it calls for new partnerships between rural producers and agents engaged in marketing phases, especially supermarkets and self-service stores, which would commit to purchasing some of their supplies by offering soft credit through futures contracts. In the third place, the international solidarity system can cooperate by making advance purchases and extending credit based on the price premium, as in the case of organic products. Fourth, industrial and agroindustrial firms located in rural areas and requiring raw materials can extend credit in the form of advance purchases or local, direct futures contracts. Fifth and last, families that receive remittances can put the money to productive use by channeling it into producer associations through contracts backed by soft credits from public institutions.

CHAPTER

Territoriality and competitive specificity

5

The notion of territoriality covers many social categories that can then be matched with processes of competitiveness in specific locales. The combination of social category and location gives the production process a specific imprint that reflects capacities proper to the environment where territoriality is being constructed. Elements of territoriality can be found in all societies, but they are much more evident in traditional societies because of attachment to the land and because of the geographic-social unity typical of such societies.

5.1 Territorial dynamics

5.1.1 *Building links between small cities and the countryside*

Contentious relationships in the terms of trade between territories are becoming a serious hindrance to rural development. Smoother value transfer processes need to be encouraged in order to build true rural-urban partnerships. Cooperating territories can together form a single unit of integration where the different parties have specific places and functions that are always complementary and free of subordination or hegemony. Otherwise it will be difficult to lift the primary sector and rural society as a whole out of their current wells of frustration and marginalization.

Rural populations have traditionally related to the cities by supplying them with a flow of primary goods, intense migratory movements and tourism and landscape services. Cities, in turn, add value to these primary goods and natural resources and then ship them back to rural areas in the form of more expensive manufactured goods. They provide industrial inputs for agriculture and for other types of primary production and receive rural migrants who generally settle in marginalized urban neighborhoods or makeshift centers offering only bare subsistence. Thus the countryside becomes a place of subjection, little more than a source of cheap, functional labor.

This dynamic has kept the countryside in a role of subordination, domination by the city and territorial

polarization, reflected in highly differential degrees of concentration and growth between the two. It has also accentuated social gaps, especially in terms of income and access to public services, and has perpetuated the kinds of economic and production differences that are seen in sectoral structures of production. Any discussion of new approaches to rural problems needs to address these relationships.

5.1.2 Urban development vs. rural development

Despite the growing trend toward urban growth, rural populations are still a significant presence in Latin American societies. Even though definitions of “rural” vary by country, these areas still hold 25 percent of the region’s total population, or 126 million people. Nevertheless, it would be overly simplistic to assume that the rest of the population is urban. Figures from 2000 indicate that nearly 52 percent of the population lives in centers made up of fewer than 100,000 inhabitants, and although an estimated 75 percent of the total population qualifies as urban, only 30 percent live in cities of more than one million people.

National economies that devolve into a small number of large cities experience highly polarized territorial growth and spark a parallel cycle of backwardness in rural areas and in other primary economic sectors. The result is an economy that is not integrated and where yields and productivity are clearly segmented.

Strategies to change the territorial dynamics in favor of national development need to stop separating rural development from urban development. National development has traditionally been understood as economic growth measured in terms of per capita GDP indicators, without considering which economic sectors, which geographic areas and which sub-national regions have posted this growth, or who benefits from it. So long as this perspective remains, national development will always be confused with the development of rural and primary areas and certain sectors of the economy. This makes it difficult to see clearly the adversarial relationships that now exist between rural and urban sectors.

This is why rural development approaches should be placed in a framework of functional integration between sectors. Only then will it be possible to identify the direction in which territorial mobility is going and decide what type of measures should be taken.

5.1.3 Residential function of rural areas

Agricultural communities are suffering the impact of intense migration, the long hours required for farm work, and the constant displacement of rural workers taken far from home due to migrant farming, crop rotation and regular crop cycles. These communities begin to resemble ghost towns, lacking urban infrastructure and taking on the look of depressed, lifeless shells.

Rural areas need basic infrastructure and services if they hope to become more pleasant places to live. The population cannot continue traveling great distances just to obtain basic public services. Rural populations have a right to healthcare, education, housing and infrastructure, and the State must make every effort to fulfill its own obligations. One way to do this is to consolidate mechanisms and institutions favorable to rural restructuring.

5.2 Historical and cultural assets

Historical and cultural assets are perhaps the most valuable heritage that rural territories can claim for stimulating reactivation and development. It is not a matter of occasional public acknowledgements or ceremonies; it is something that should be uppermost at all times, as this heritage is the key defining element of a society's very roots. These assets give life and color to a market that seeks beauty and anthropological appeal, increasingly attractive to consumers of art, tradition and natural beauty. Historical and cultural assets are not only the bulwark of a community's life in a particular place; they are also a source of income for development.

5.3 The environmental dimension and attaching economic worth to natural resources

In rural areas, the environment and natural resources are not simply a means of subsistence. They are the very heart of a people's world view and esthetic vision. This is why they are treated with respect. The natural elements allow a population to survive and define daily life. Territorial development policy needs to strike a balance between the social function and the economic role of the environment whenever it considers new options for land management.

5.4 Social factors favorable for rural life

Historical and cultural factors lend cohesiveness to a community and equip its people to stand together in the face of adversity. They are the reason why so many rural peoples and communities have survived, and they are the source of strength visible in places that, despite utter neglect by society, refuse to disappear.

Community participation in rural areas will be possible if the elements of rootedness are strengthened, so long as it is not seen as aid, favoritism or public assistance. This type of participation is part of daily life and is a prerequisite for harmonious coexistence and survival of a people, a community or a place. Such communities have great potential for pursuing activities to rebuild ancestral processes and combine them with modern mechanisms of production and marketing, yielding new, yet-unknown alternatives.

5.5 Emerging economic processes

5.5.1 Agriculture: beyond production

Unquestionably, agriculture is the activity most closely identified with rural places and, in most countries of LAC, agriculture-related activities have served as a factor of social cohesion and spatial integration. Nevertheless, rural

areas today are far from being the multifunctional settings so often expected.

Rural life is much more than mere production activity and food security. Many other services also derive from agriculture. Economic services, including agricultural marketing itself, engage a large share of the rural population, mostly women. Agri-tourism is taking shape in some parts of Latin America as an alternative source of income. Environmental services have economic value, including caretaking and extension of green areas, production of oxygen and absorption of CO₂.

5.5.2 The complementary rural economy: agricultural and non-agricultural

Although agriculture continues to be an important activity, and often the main activity, in rural economies throughout the region, new non-agricultural forms of production are starting to appear that are also based on natural resources. These include tourism (ecotourism, agri-tourism, beach tourism, etc., as well as recreational activities based on landscape and natural resources), the environmental services market, handicrafts and others. They intermingle in a single territory where the separation between rural and urban often becomes somewhat artificial. The territorial approach to development accommodates the multisectoral dimension of rural economies and promotes a structural change whereby agriculture is neither more nor less than any other economic sector and a social practice just as important as the newly emerging activities. With this approach, rural society can participate on a truly multidimensional footing in order to meet the challenges of competitiveness.

5.5.3 Territorial competitiveness vs. business or sectoral competitiveness

The experience of industrial districts evolved significantly from the time of Alfred Marshall until the experiments in northeastern Italy and later developments in the United States. It has demonstrated that the key to productivity does not lie exclusively in individual workers or particular

companies, but in environmental factors. These are the local assets that sustain territorial productivity and can be targeted by rural development initiatives in the broad multisectoral sense.

Admittedly, the primary agricultural sector has lost productivity in recent decades and has become an unattractive target for investment. Nonetheless, the territorial approach to development believes that the foundations of agricultural competitiveness can be rediscovered, this time taking a structured perspective that understands heterogeneity as a critical factor for productivity. With this approach, other considerations such as location become just as valuable as operational advantages in many other companies. This is also a good time to leverage the fact that “the agro” is once again being recognized as a critical factor for the countries and governments of LAC—a lifestyle that sustains the political cohesion of nations. Our countries recognize the potential of the expanded approach to agriculture (chains and territories), an approach that reveals its continued buoyancy and its linkages with other economic sectors. They see its importance as a platform for synchronizing growth processes that serve objectives of social and territorial cohesion.

It would be a mistake to forget that a territory is much more than a single company or a single sector; it is the setting where human action occurs. Policies and institutional frameworks need to see the rural milieu as a critical target of national development.

CHAPTER

Recommendations

6

Public policies are needed to help reinforce the institutional framework and propel organization in less dynamic territories. These territories need assistance to improve their technical and administrative abilities and their social organization and production skills.

Public policies can no longer be based only on spatial distribution of aggregate economic indicators. Instead, they need to recognize local capacities and territorial differences and thus help internal economies become more dynamic. This is why public policy needs to fit in with economic development strategies that are tailored to each territory and that, by working within a new institutional framework, accept local stakeholders as active partners capable of planning their own destiny. Citizen participation, from this perspective, stands as a key element in the process of transformation.

The best way to guarantee the inter-operability of territories is by building or consolidating **networks** (social, productive, business, political, etc.). Such networks provide a means of linking the different levels of government (local, regional, provincial and national) to local agents of development. The idea is to absorb the largest possible number of communities and build competitiveness on territorial economies of scale.

Certain factors in the framing of public policy need to undergo substantial change in order to tackle the poverty, fragmentation and neglect that are all too common in rural areas.

- Development approaches need a change of emphasis. They must move away from their narrow focus on growth, with no thought about where it occurs, toward a true concern for building social welfare based on local dynamics as a guarantee of future redistribution in society. Social equity then takes its place as a source of strength in the new territorial institutional framework.
- Past policies pushed for growth in a particular economic sector or a few cities and territories. These centralized policies, and especially the centralized rural policies, should be reformulated in favor of sectoral and territorial integration under conditions of complementarity, together with the application of policies that are socially and territorially differentiated.

- Policies should guarantee complementarity among sectors, promoting considerations of comparative strengths and systemic assets, both natural and socio-cultural or productive.
- The resulting new approaches to policy formulation will be characterized by decentralization, transfer of responsibilities to local and rural stakeholders, and creation of partnerships with the local community.

Public policies should be developed from a multisectoral and territorial perspective that, by recognizing spatial differences and strengths, will guarantee greater coverage. This is why social policies can play a fundamental role in promoting development. No longer will growth be based on direct handouts, but instead on the generation of positive externalities, both in services and in production support infrastructure, in territories that are currently lagging behind.

One of the greatest challenges facing public policy is to protect nature while fostering growth and development in rural zones. It is time to recognize that poor farming practices, intensive livestock production and indiscriminate use of agrochemicals have environmental consequences. Salinization and erosion (water and wind) are a reality, and slash and burn agriculture and other agricultural activities have had a devastating impact on biodiversity and tropical forests. All this degradation is occurring in a devastated socioeconomic setting where the implementation of solutions is highly complex. This is important to understand when developing proposals for conserving ecosystems, biodiversity, natural processes and landscapes with significant aesthetic and biological value (to support economic alternatives such as rural tourism and ecotourism). Suitable programs are needed for producing high-quality water resources for domestic and industrial use or performing other environmental services such as improving carbon sinks and oxygen emission, flood prevention, purifying polluted water and air and improving the territorial balance.

Again, rural development must be approached from a nontraditional perspective where the expanded view of the rural world takes in a great variety of economic activities

(agricultural, forest, livestock, agroindustry and agri-food, mining, energy, agri-tourism and others), as well as services including education and healthcare, infrastructure, transportation and financial operations. It cannot be limited to mere investment promotion, but must also find ways to consolidate the unifying character of primary and secondary agricultural and non-agricultural activities. Their strengths lie in their interconnectedness and their tendency to encompass trade and services generated by the dynamics of the local market. Strategies for agri-food competitiveness can be perfectly compatible with sustainable management of renewable natural resources for social development in rural areas. They can also include institutional modernization and regional and municipal development, strengthening of physical infrastructure and sub regional and regional economic integration.

Policies to promote and conserve cultural heritage are a fundamental part of sustainable rural development. The historical and cultural capital of a territory is not merely an accident of geographic location, but a source of income and competitiveness.

Governments should also recognize the economic and production difficulties that traditional rural areas must face if they hope to escape from the cycle of poverty. If current inter-territorial relationships continue, forcing rural areas into a subordinate position, these difficulties will only grow worse. The same will occur if the State continues to tackle development with short-term actions and short-sighted approaches. Instead the State needs to become more involved in proposing and pushing for modern strategies that will propel reconversion of traditional rural development.

Finally, it cannot be overstated that a necessary condition for poverty reduction in rural areas is social cohesion. Conflicts and social breakdown that produce human displacement and stubborn marginalization make it very difficult to design actions that will bring prosperity to rural places. Public management must insist on shared responsibility and deploy development strategies that build on local assets and traditional economic activities. It must restore the unifying role of agriculture, agribusiness and agroindustry. It must take

a positive view of the nonfarm rural economy and strengthen processes to consolidate inter-territorial production chains that will bring development to the territories where they are located. It must design development programs that draw on the plurality of sectors and strengthen the vision of the community as the focal point of rural integration.

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