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# Options for rural *poverty reduction in* Latin America and *the Caribbean*

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Although most of the total population and the majority of the people living in poverty in Latin America and the Caribbean are in urban centres, poverty is, in relative terms, still a rural phenomenon in the region. The incidence of poverty and of extreme poverty is much larger in rural areas than in urban settings. As recently as 1997, more than half of all rural households were living in poverty, and close to a third of them were in extreme poverty conditions. Moreover, the fragile economic situation of most countries in the region during the past two years may well have worsened those figures. The rural poor in the region face at least three basic challenges: (i) inadequate nutrition and poor health and educational services; (ii) few opportunities for productive employment in agricultural and/or non-farm activities; and (iii) lack of sufficient levels of organization to lobby effectively for rural interests. The number and diversity of circumstances that cause rural poverty, as well as the heterogeneity of rural poverty conditions across and within countries and regions, constitutes a challenge to develop cost-effective solutions to improve the well-being of rural inhabitants. The objective of this article is to highlight several options for the reduction of rural poverty in the region. It therefore focuses on three important and complementary options for generating and raising income levels among the rural poor: those based on growth in the agricultural sector, those targeting the sustainable use and conservation of natural resources; and those based on the growing significance of rural off-farm economic activities. There are at least two other options for reducing rural poverty: the traditional migration to urban areas, and targeted assistance to those who need income transfers to either rise above the poverty line and/or have minimum access to safety nets.

# I

## Introduction

Although 74% of the population and 62% of the people living in poverty in Latin America and the Caribbean are in urban centres, poverty is, in relative terms, still a rural phenomenon in the region. The incidence of poverty and extreme poverty is larger in rural areas than in urban settings. Moreover, rural average incomes are significantly below urban incomes. In 1997, approximately 75% or more of the rural inhabitants of Bolivia, Ecuador, Guatemala, Haiti, Honduras, and Nicaragua were below the pov-

erty line. In Brazil, Mexico and Colombia (the countries with the largest rural poor populations, with approximately 20, 15 and 6.5 million respectively) between 56% and 62% of the rural population was below the poverty line (ECLAC, 1999). The number and diversity of circumstances that cause rural poverty make it difficult to develop cost-effective solutions to improve the well-being of rural inhabitants, but this article aims to highlight several options for the reduction of rural poverty in the region.

# II

## The magnitude and heterogeneity of rural poverty

More than a quarter of the population of Latin America live on less than one dollar per day. The largest concentrations of poverty are in Central America, the Andean region and northeastern Brazil, where close to 60% of the inhabitants live below the poverty line. The percentage of the region's rural households living in poverty dropped by only two percentage points between 1994 and 1997, from 56% to 54%, while the share of rural inhabitants living in extreme poverty decreased from 34% to 31% during the same period (table 1). In spite of this modest progress, the 1997 figure for rural poverty (54% for the region in relative terms) was still similar to that of 1980, while the figure for extreme poverty was even higher than before (31% vs. 28%).

Since the beginning of the 1990s, the urban poor (primarily female heads of household, fathers with little or no formal education, and unemployed young people) have for the first time become more numer-

ous than those in rural areas, with the former currently estimated at slightly over 126 million and the latter group at 78 million individuals (table 2). However, more rural than urban people live in extreme poverty (47 million vs. 42.7 million), in spite of the fact that a high percentage of the poor living in urban areas are new or recent arrivals from rural areas. The modest decrease in the percentage of households living beneath the poverty and extreme poverty lines in rural areas in the 1990s (from 58% and 34% to 54% and 31%, respectively) has not prevented an increase

TABLE 1  
**Latin America: Percentage of households living in poverty and extreme poverty, 1980-1997**  
(Percentages)

|      | Poverty |       |       | Extreme Poverty |       |       |
|------|---------|-------|-------|-----------------|-------|-------|
|      | Total   | Urban | Rural | Total           | Urban | Rural |
| 1980 | 35      | 25    | 54    | 15              | 9     | 28    |
| 1990 | 41      | 35    | 58    | 18              | 12    | 34    |
| 1994 | 38      | 32    | 56    | 16              | 11    | 34    |
| 1997 | 36      | 30    | 54    | 15              | 10    | 31    |

Source: ECLAC (1999).

□ The author gratefully acknowledges the suggestions made by an anonymous referee of *CEPAL Review* and the comments of Martine Dirven. The views expressed in this paper do not necessarily reflect those of the organizations mentioned.

TABLE 2

**Latin America: Number of persons living in poverty and extreme poverty, 1980-1997**  
(Millions)

|      | Poverty |       |       | Extreme poverty |       |       |
|------|---------|-------|-------|-----------------|-------|-------|
|      | Total   | Urban | Rural | Total           | Urban | Rural |
| 1980 | 135.9   | 62.9  | 73.0  | 62.4            | 22.5  | 39.9  |
| 1990 | 200.2   | 121.7 | 78.5  | 93.4            | 45.0  | 48.4  |
| 1994 | 201.5   | 125.9 | 75.6  | 91.6            | 44.3  | 47.4  |
| 1997 | 204.0   | 125.8 | 78.2  | 89.8            | 42.7  | 47.0  |

Source: ECLAC (1999)

in the absolute number of individuals affected (compared with the 1980s). Furthermore, the fragile economic situation in most of the region during the last two years (1998 and 1999) may have worsened rather than improved the already severe figures.

Rural poverty is more extreme than urban poverty, and it seems harder to overcome. In many countries of the region, the rural poor have yet to benefit from recent economic growth. Unequal distribution of land and distortions in the market for agricultural inputs and services have contributed to persistent rural poverty. Although there is great variation in the incidence of rural poverty across and within countries, the magnitude and incidence of the problem is such that there is a great need for effective programmes to reduce such poverty. Among the more urbanized countries, migration to the cities is beginning to decline, but in countries where rural inhabitants account for over 25% of the total population, high rates of urban migration continue to prevail. It is crucial to create suitable conditions for enabling the rural population to achieve living standards (economic, political, social and cultural opportunities) comparable to those enjoyed by urban dwellers.

Paradoxically, even though the agricultural sectors of most countries have experienced significant

growth in the 1990s, marginalization and rural poverty are not declining. However, it is also clear that economic growth has played a role in at least reducing the increase of rural poverty, through an increased demand for labour and the resultant migrations, which show that part of the solution lies outside the agricultural sector itself. As a result, non-farm income has become more significant in total rural income, reaching levels of 68% in Haiti, 59% in Costa Rica and 51% in Argentina and standing close to 50% in a 13-country average (Reardon and Berdegue, 1999). Yet, economic growth has not been sufficient in all cases, which indicates that extreme poverty conditions in rural areas can only be improved through targeted programmes.

Who are the rural poor? Although there is no recent information, at the end of the 1980s small-scale farmers represented the largest share of the rural poor (over 60%), while the landless population and indigenous groups and others accounted for 30% and 4%, respectively (FAO, 1988). By various counts, at least one-third of those small producers were subsistence farmers with limited opportunities for overcoming poverty via agriculture. This indicates that between 40% and 50% of the rural poor may have very limited access to productive resources with which to generate sufficient earnings from agricultural production itself. Furthermore, the number of rural poor with less access to agricultural resources is growing faster than that of those with more access.

The rural poor in the region face at least three basic challenges: (i) inadequate nutrition and poor health and educational services; (ii) few opportunities for productive employment in agricultural and/or non-farm activities; and (iii) lack of sufficient levels of organization to lobby effectively for rural interests. The options to reduce rural poverty discussed in this article are based on these challenges, as well as on the heterogeneity of rural poverty conditions across and within countries and regions. Before analyzing those options it is worth reviewing the new regional context for rural development and some lessons learned from past experience.

### III

## The new regional context for rural development

Several major trends affect the changes taking place within the region's rural areas: growing economic integration and trade liberalization; the perceived new role of the State; and the increased awareness of environmental, gender and ethnic matters (Echeverría, 1998).

#### 1. Increasing liberalization, integration and openness to trade

Bilateral treaties, NAFTA and MERCOSUR, the agreements with the European Community and the APEC countries, and the deliberations for the creation of the FTAA have all contributed to the further opening of markets and closer integration of the region's agro-food and agro-industrial sector. New market opportunities are causing producers to become increasingly export-oriented, while allowing the importation of agricultural products from outside the region. The desire to become more competitive is leading to greater efforts to increase productivity and quality, resulting in greater concentration or diversification in trade and agro-industry. Developments in this area have been accompanied in many cases (Brazil, Argentina, Mexico and Chile) by the formation of joint ventures with local investors in agricultural and non-agricultural sectors, as well as mergers and greater concentration among national enterprises. The expanding scales of production (particularly in grains, meat, oilseeds and sugar, and also in certain fruits and industrial crops), along with the mechanization, computerization and internationalization of agricultural activities, affect rural employment and land markets alike. In facing the challenges of open competition, the large numbers of small-scale farmers (*minifundistas*) working marginal land and with only limited access to education, technical advances, communications and information, are at a considerable disadvantage. Their position *vis-à-vis* markets leaves little room for this group to be able to compete in an effective and sustainable manner in this new context.

#### 2. A new role of the State

Liberalization through privatization, and structural adjustment to reduce fiscal deficits, have meant not only less intervention by the State in rural matters, but also the dismantling of the organizations traditionally responsible for the agricultural sector, making rural development more difficult until these can be replaced by civil society and the private sector, especially at the local level (Piñeiro, Martínez Nogueira, Trigo, Torres, Manciana and Echeverría, 1999). The reduction or withdrawal of public sector services has been particularly noticeable in some areas of rural life such as social spending (education, health), the financial system, infrastructure and key agricultural services such as technology. Within these areas, the higher the demand for investment in the human capital, credit, communications and research needed to meet the challenge of improving rural competitiveness, the fewer the opportunities available to the rural population to access these services.<sup>1</sup>

Those countries that are trying to correct this shortcoming and investing in growth with social equity often face difficulties in developing effective programmes capable of reversing the traditional statism and excessive bureaucracy of their administrations, promoting instead active participation by local communities and the private sector, and enlisting market mechanisms in the effort to reduce poverty. Despite the difficulties, greater reliance on market economics, incorporation of new actors such as NGOs, and the search for a new balance between the

<sup>1</sup> On the other hand, market liberalization and the adjustment programmes have somewhat reduced the urban bias created as a result of the State-led industrialization process, which penalized agriculture as a productive sector while compensating landowners via subsidies linked to land ownership (Binswanger and Deininger, 1997).

roles of the public and private sectors and civil society in development are now a part of the region's new landscape. Yet progress in the transition from centralized States to situations where the State primarily plays a policy-setting role, together with more active participation by non-State groups in the interests of the poorest segments of society, is still weak at best and needs to be fostered more strongly.

### **3. Growing awareness of environmental, gender and ethnic matters**

The great majority of the rural poor live in areas of low agricultural potential, including degraded or semi-arid zones, tracts subject to erosion, or areas of fragile soils and sloping hillsides, in the foothills of the Andes, the coastal ranges of Mexico and Central America, or the arid zones of northern Brazil. This population depends on natural resources for subsistence (water, food, energy and income), yet because of their limited quality and quantity, many have no alternative but to cross the threshold of sustainability and deplete these resources. Despite the region's ample natural resources, the challenges of desertification, destruction of natural resources, climate change and loss of biodiversity add growing pressure to the search for effective means of ensuring sustainable development. For this reason, breaking the vicious circle of deforestation, degradation of water and soil resources and growth of rural poverty is one of the key factors shaping new rural strategies.

The people and governments of the region are increasingly concerned with the quality of the environment. While there is still an urban bias in the allocation of environmental spending, the number of conservation programmes and projects aimed at protecting soil, water resources and forests is growing. The insistence on sustainable management of natural resources not only relates to citizens' demands for a higher quality of life but also represents an opportunity for development of the rural communities themselves. Similarly, the use of environmentally-friendly technology and systems that ensure sustainable development of natural resources also represents an op-

portunity, limited until now, for generating new (organic or green) products, as well as for creating and adopting new technologies which are more accessible to small-scale farmers.

Although there are variations across countries, and in spite of the fact that female labour is sometimes invisible in national statistics, rural women may be responsible for the production of up to 50% of the food consumed in the region. In many countries, it is women who manage farms, gather firewood and water, and look after livestock while their husbands and older children work in commercial farming or urban centres. The proportion of women in the rural work force increased from 21% to 25% of the total between 1980 and 1995 and it is projected to increase to 28% of the total rural economically active population by 2010 (Dirven, 1997). The drop in the relative importance of agricultural activities (and of production for on-farm consumption in particular), expansion of the trade and services sectors, and the spread of paid labour into rural zones have combined to facilitate the entry of women into labour markets, and at the same time to make their participation more visible.

Historically, women and indigenous people have lacked equitable access to land, credit, capital and extension services, even though it is these groups that make the heaviest use of water, soil and forest resources, both to provide the basics for their families and to generate additional income. Recent legislative reforms to correct these problems have resulted in much progress, yet some residual discrimination persists. In many cases, indigenous communities live in the most fragile areas (mainly in isolated zones with low agricultural potential and few options for non-agricultural employment), often adjacent to or within the boundaries of nature reserves. Consequently, the conservation approaches for protected areas (as in the case of any other lands occupied by indigenous groups) would profit greatly by including these communities in their environmental management programmes, guaranteeing the integrity of their territories and improving their access to social services. In addition, rural development programmes specifically targeted to reduce poverty among indigenous groups are needed.

## IV

### Some lessons learned

As yet, no regional approach has been developed to tackle the full magnitude and persistence of rural poverty in the region, nor have sufficient resources been made available on a consistent basis at the national level for dealing with this issue. Furthermore, the majority of rural projects to date have been discontinuous and unconnected efforts. In some cases, rural policies have co-existed with or attempted to compensate for contradictory policies such as imports of highly subsidized agricultural products, overvalued exchange rates, price controls on basic commodities, and high interest rates. Of the various experiences in measures to reduce rural poverty, the following four important lessons may be learned.

#### 1. Promote a favourable policy and institutional framework

Given the vital role that economic and sectoral growth play in the reduction of rural poverty, the promotion of a favourable macroeconomic and sectoral framework is an essential requirement for rural development to succeed. A framework based on the maintenance of stable policies and the establishment of an enabling environment is key to the effective and decentralized execution of projects. This context should include social programmes (safety nets) for those who cannot meet their basic needs. For instance, the targeting of poverty-stricken areas via social investment funds should be extended to many rural areas. Latin America's experience confirms that economic growth alone is not sufficient for reducing poverty. The type of growth and the strategies for maximizing the benefits accruing to the poor are likewise key factors. Economic growth has reduced rural poverty primarily through migration. In addition, agricultural development has also been effective in reducing poverty in rural areas. This suggests that while vigorous growth in agriculture is a central component in rural development, programmes explicitly favouring such development are still necessary (IDB, 2000). The formulation of macroeconomic and sectoral policies aimed at overcoming rural poverty is an essential requirement, but will not in itself

suffice to achieve this purpose. In addition to these conditions, specific approaches such as those listed below will be required.

#### 2. Increase investments in health, education and infrastructure

Progress in terms of the coverage, level and quality of rural health and education programmes has been very uneven. For many countries, achieving the conditions necessary to provide all children in rural areas with the opportunity to complete six years of primary schooling remains a distant goal. For a few other countries, the current goal is to provide full access to a four-year secondary school education for young people in rural areas.<sup>2</sup> In general, the quality of rural education is lower than for the equivalent urban courses and programmes, owing to the distribution of the population, low enrollment rates and lack of educational incentives in the rural environment. In addition, curricula tend not to take into account the specific needs of students living in rural settings, and they also tend to discriminate against women, indigenous groups and people of African descent, both in the provision of infrastructure and materials, and in the focus of programmes and opportunities for advanced studies. It is important to ensure that such groups not only contribute their labour but also themselves benefit from the income-generating components of social investment programmes.

In view of the growing marginalization of certain regions, their lack of employment options, and the fact that a declining population base often makes it harder to provide basic services for the remaining

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<sup>2</sup> Despite the generally acknowledged importance of education, López and Valdés (1997) show that the returns to investments in rural education in Latin America have been surprisingly low. They report that, on average, an increase in one year of schooling for rural family members increases family income by less than US\$ 20 per person. Apparently the main contribution of rural education is to prepare rural inhabitants for migration to urban areas. These results mask the real need for more education in rural areas in order to make them more competitive, for example by investing more in areas such as vocational training for rural youth.

inhabitants, some trade-off between social spending and local sources of income becomes necessary. The relationship between transport infrastructure and education and health services provides a good example: in many cases, building a road and providing bus transportation is the best solution for isolated rural areas, or setting up a boarding school in a nearby town may be preferable to having a number of schools and teachers scattered about the rural countryside. Investments in health, education and infrastructure aimed at the most disadvantaged sectors can be used to correct some of the income disparities in rural areas.

### **3. Take rural heterogeneity and participation of beneficiaries into account**

The diversity of the rural population, changes in the economic environment and differences in learning abilities among the parties involved in development projects also come into conflict with the rigidities inherent in the formulation and execution of most development initiatives. In addition, the lack of participation by beneficiaries has resulted in the inclusion of components for which there is no demand, failure to adjust projects according to the rate of absorption by communities, and general lack of rural development programme sustainability. The rural poor generally lack negotiating skills and have little influence with governments or international agencies. There are also few professional staff prepared to carry out these programmes and a general lack of understanding of the economic, social and cultural context in which rural development programmes take place.

Most evaluations of rural development programmes note the importance of involving the local population more directly and continuously, from the design through the execution of the activities. Yet in reality there are few cases in which the communities are consulted and participate fully in such programmes. In many small projects, experience has shown that a good level of success and compliance with objectives can be attained in cases where the communities involved have already attained a certain degree of organization and/or where the project strategy allocates a relatively high proportion of resources to training and institutional strengthening. Training activities could be promoted (covering aspects of the country's existing legal framework, or-

ganizational structure and democratic decision-making, and management and administration of organizations and projects) for the purpose of strengthening basic organizational capabilities to participate in rural activities. The training should also include staff of the government agencies responsible for the supervision of rural programmes, in order to facilitate participation by their beneficiaries.

Although there are hundreds of civic and/or non-governmental groups (farmers' associations, indigenous groups, foundations, environmental and civil rights groups, etc.), the great majority of them are only loosely organized and lack technical capacity, thus limiting their potential for participating in rural development activities. Consultations with NGOs, foundations, private companies, cooperatives, trade associations, indigenous federations or communities, national and local government agencies, religious bodies and other similar groups to identify priorities among several competing demands of rural communities and to induce groups with some technical capacity to become involved in the preparation and supervision of projects have proved to be very useful.

### **4. Improve the implementation of rural programmes**

The multiplicity of components, the centralization of decision-making and the weakness of intermediary institutions (regional and municipal) have all hindered execution of development programmes in rural areas. In many cases, clientage-based politics and lack of administrative control have undermined decentralization efforts. Rural projects have encountered problems with the sequential execution of their different components which have adversely affected the ability to achieve their overall objectives. For example, in several cases construction of rural access roads was completed before technical assistance efforts to regularize land tenure began, resulting in uncontrolled land use and reliance on unsustainable agricultural practices.

In general, the rural development programmes carried out in the 1970s and early 1980s have been below average in meeting their physical targets and even less effective in benefiting low-income groups (IDB, 1989). The problems most often cited include lack of institutional capacity, inadequate coordination between executing agencies, and overly ambi-



tious goals. The lack of reliable information has led to inaccurate projections and errors in both cost/benefit analyses and in the selection of objectives and goals, resulting in delays and cost overruns. Nevertheless, many projects have achieved positive results, particularly those that gave access to productive resources and essential services not

previously available to the rural poor, and those that set a positive example in the areas of decentralization and community participation in the design and execution of activities. The need to create the political and institutional setting for the effective and decentralized execution of projects is also an important lesson of past projects.

## V

### Options to reduce rural poverty

While rural poverty is concentrated mainly in the small-scale farmers with less agricultural potential and the landless group, some of the farmers with agricultural potential are poor as well, primarily because of: restricted access to technology and credit, which prevents them from realizing potential productivity gains; lack of water; uncertainty over land ownership; or weak access to markets for products. The fundamental difference between the rural poor with more agricultural potential and those with less is that the former can find a path out of poverty by overcoming these marketing restrictions, obtaining the necessary financial resources and investing for instance in small-scale irrigation works and new technologies.<sup>3</sup>

Some of the most important means for generating or raising income among the rural poor are: developing commercial agriculture; providing greater access to land; projects based on available natural resources; promotion of micro-enterprises, and both private and public investment in infrastructure. For simplicity, these options will be grouped into three categories in the rest of this article: those that are based on growth in the agriculture sector, those targeting the sustainable use and conservation of natural resources, and alternatives for the rural non-farm economy.

<sup>3</sup> Agricultural potential is defined as access to the resources (including land of suitable quality and in sufficient quantity) needed to generate the earnings (or products) that will ensure survival of the farmer's family and development of the production unit. Where this condition is not met, the individuals involved fall into the category of farmers with less potential. This situation can be altered by improving access to land or by encouraging irrigation projects in dry farming areas. Both groups may very well coexist within a single region or micro-region.

#### 1. Agriculture-based options

A rural poverty-reduction approach based on agricultural production will require both opening up new opportunities for obtaining scarce resources and overcoming the obstacles that prevent small farmers from realizing the full productive potential of the resources they control. Although the instruments proposed might seem traditional, the methods used to implement them differ from those of the past in that they will operate where possible through the market and the private sector.

##### a) *Effective land markets*

The region still contains vast tracts of State-owned lands, some of which hold great potential for both agriculture and forestry, with little danger of depleting their natural resources. In addition, there are large private holdings which are not being worked productively. Many small-scale farmers and landless workers would have an opportunity to increase their incomes if they were given access to these resources. After the negative experiences of the 1960s and 1970s, however, the straightforward distribution of land among the landless is not a viable political alternative. The current emphasis on more intensive use of land, based on new technologies, should improve possibilities for subsistence farmers and certain landless peasants (sharecroppers) and result in better opportunities to obtain employment with those farmers that do have land, since intensive farming requires additional labour. Thus, longer-term leasehold contracts, share-tenancy or sharecropping agreements and the distribution of public land to permit access by the poor should be promoted and complemented by programmes to help

farmers register ownership of the land they occupy. Other methods may also be used in conjunction with this effort, such as land purchase programmes or the offering of incentives for owners of large holdings to sell inefficiently utilized property, accompanied by programmes to help small farmers purchase it. Similarly, progressive property tax systems that assess the value of land on the basis of its agricultural potential can be used to discourage land speculation and avoid huge concentrations of property.

A recent review of land markets in the region (Echeverría (ed.), 1998) shows that their effectiveness can be increased by avoiding distortions of land use through such measures as ensuring a neutral macroeconomic, fiscal and sectoral context; strengthening property rights and decreasing transaction costs by reforming public lands allocation policies; and eliminating regulations that limit the selling and/or leasing of land. Of the many instruments that can promote land markets (land reform and colonization programmes, land taxes, and title registration projects) those that can do most to facilitate access to land for small farmers in particular are market-assisted land reform and title registration programmes. By placing the decision on land selection and price negotiation in the hands of the beneficiaries the first group of instruments could eliminate several inefficiencies, although their cost could be extremely high. Current land title registration programmes seek to create rural property registers with continuous updating, and to establish systems for evaluating the impact of title registration programmes. These activities promote innovations such as the participation of private offices in the title regularization process via publicly-funded regional bidding competitions; inclusion of new regulations and financial incentives (or penalties) to prevent further subdivision of properties or informal land sales; and the linking of land title registration projects to other agricultural support programmes (transfer of technology, investment and credit programmes).

#### *b) Financial markets*

Rural financial markets allow rural residents greater access to financial resources (credit). These markets could be developed by promoting and strengthening viable financial institutions, encouraging the use of non-traditional credit methods, estab-

lishing an efficient regulatory framework and well-defined property rights, creating new guarantee mechanisms, and establishing the means for cooperation between formal and informal lending institutions. Rural areas are largely devoid of financial services, particularly formal credit institutions. This calls for efforts to build a new institutional base that will enable a larger number of rural inhabitants to obtain loans and to become generally "bankable". Specifically, rural financial market programmes could include support for regulatory legislation and its active enforcement and the reduction of production and marketing risks. Reduction of risks can be fostered by promoting insurance, futures markets, and hedging, as well as through the adequate disclosure of information. There are several issues of key importance in the development of financial markets, such as the design of non-traditional credit services tailored to the rural context (group loans in which members are jointly and severally liable, village bank intermediaries, and revolving-fund programmes); innovative means of attracting savings, which are of crucial importance for ensuring the financial sustainability of institutions; and the design of means of cooperation between formal organizations that possess the resources and non-formal ones with the necessary information for the selection and monitoring of clients and recovery of loans. There are various mechanisms available for providing alternative financial services, such as through second-tier banks with revolving funds to support the rural sector, and the option of linking micro-enterprise support projects with local credit services.

#### *c) Development and transfer of new technologies*

With a few exceptions, agricultural and natural resource management research and the transfer of technology for improving the productivity of small-farmer agricultural systems have not been high priorities for national agricultural technology systems. More emphasis on applied research is needed, particularly on the adaptation of available technologies to the specific conditions of small producers (lack of machinery, limited access to financing, risk aversion). Most of the financing and in some cases the implementation of these activities, which are necessarily local and public-good type in nature, will continue to be the responsibility of public organizations. Increasingly, technology transfer projects are being carried out by private firms, NGOs and the

technical departments of trade associations, paid for with public funds under contracts awarded on the basis of competitive bids. Along with technology development and transfer, there is a need for the provision of training for small farmers in such matters as methods of financial administration and farm management, recording of costs and financial accounting, statutory requirements and taxes, as well as sustainable management of natural resources.

*d) Investment in small-scale irrigation works*

Only in a limited number of cases have the large-scale irrigation projects of the past benefited small farmers. By contrast, investments in small-scale irrigation (micro-irrigation) and the introduction of improved technology (drip, mini-spray irrigation) in small farming operations could have very positive results. Converting dryland to irrigated operations has effects on productivity and farm income equivalent to a substantial increase in acreage. In addition, irrigation projects have a significant effect on rural employment.

*e) Promotion of new cooperative methods of marketing*

Rural economies face high transaction costs when trading on various commodity markets, which explains why those areas with the best market connections are the most developed. Accordingly, more emphasis should be placed on developing rural markets. The weak position of small-scale farmers in their commercial negotiations is a recurring problem, especially when markets are becoming increasingly competitive and require more sophisticated management of information systems. There are several ways in which small producers can gain access to markets: through the creation of price information centres and the provision of negotiation services (including technical advice), the formation of associations to participate in commercial ventures, and the expanded use of contracts with agroindustries.

## 2. Natural resource-based efforts

It is estimated that the population of Latin America will rise to 670 million by 2020, while the number of rural inhabitants will remain unchanged in absolute terms at about 125 million. The pressure which rural and urban dwellers put on the region's natural re-

sources will go up proportionately. Poor farmers generally do not have the equipment, inputs and technology needed to carry out conservation works or replenish natural resources. Many lack secure access to the land and resources they work, cannot count on reaping the benefits of conservation practices, and therefore have no incentive to protect water, soil and plant resources. Allowing access to natural resources on public or unregistered land without social controls on their use invites deterioration.

Breaking the circle of poverty and deterioration of natural resources can result in a virtuous circle where restoration of natural resources aids in the reduction of poverty, if support programmes are designed with this specific aim in mind. These programmes could include a long-term incentive plan for rural families in the form of a bonus per unit of land taken out of production and included in the programme to restore depleted resources (continuing until such time as the resources are restored), and special loans for investment in and conversion of areas set aside for forestation, combined livestock and forestry operations, introduction of ground cover, or other soil restoration practices. These are medium-term programmes rather than emergency projects for job creation.

Since agriculture cannot provide sustenance for small farmers whose lands are depleted, the corresponding areas and remaining natural resources could be put to other uses such as the conservation of ecosystems and biodiversity and the preservation of natural landscapes which, through their esthetic qualities and wildlife resources, could support recreational activities and income-producing alternatives such as ecotourism linked to the presence of lakes, rivers, parks and nature reserves. In this way, urban society's demand for increased environmental restoration and conservation efforts could be turned into productive activities to increase the incomes of the rural poor.

Some of the elements of sustainable management of natural resources which could be used in rural programmes include: using multiple cropping and conservationist methods that increase yields without depleting soil or water resources, while maintaining or creating employment; legal reforms that promote the rational use and decentralized management of water resources, ensuring equitable access and enforcement of the applicable regulations; watershed

management which strikes a balance between the need for development based on sustainable use of resources and the participation of the rural population; changes in strategies and laws to preserve the natural forests and their biodiversity, together with their potential for use in the production of environmental services, and the promotion of reforestation through medium-scale commercial plantations; incorporation of fresh water fisheries in plans and regulatory frameworks for the management of water resources, accompanied by training and specialization in services to support aquaculture; and greater emphasis on the role of protected natural areas as a key factor in rural development and the sustainable use of resources, with particular attention to the consolidation of national systems of nature reserves, participation by rural communities in the management and rational use of resources, and promotion of sustainable uses of biological resources, as for example in alternative natural products.

### 3. Rural non-farm activities

All too often in the region, agricultural development instruments have been used with the aim of reducing poverty among rural inhabitants who lack agricultural potential. Because small-scale farmers with less agricultural potential and landless peasants represent a large proportion of the rural poor, rural non-farm economic alternatives are of key importance for reducing poverty in the region. Since an increasing proportion of the rural population works outside agriculture (and a growing number of members of the agricultural labour force live in urban settings) it is especially relevant to focus more attention on rural non-farm issues and on rural-urban linkages. A recent study (Reardon and Berdegúe, 1999) shows that on an average in 13 countries, 47% of rural income was originated off the farm. This contradicts the conventional wisdom that tends to equate rural incomes with farm sector incomes (either from wage-employment or from own-account farming). Moreover, rural non-farm employment, which represents 30% of the total (Dirven, 1997), appears to be increasing faster than farm employment.<sup>4</sup>

The fact that migration contributes to the alleviation of rural poverty is a signal that part of the solution lies outside agriculture. It is thus essential to improve the ability of rural inhabitants to enter the labour markets, generate non-agricultural sources of

employment and income, and provide better conditions for those choosing to move to an urban setting. Although agricultural activities will continue to provide the primary means of sustenance for a large proportion of the rural population, efforts should be made to diversify sources of employment in rural areas and upgrade the job skills of rural inhabitants so that they can better compete in urban labour markets which will continue to attract sufficiently qualified members of the rural population. The expansion of employment opportunities should include self-employment in agriculture, fisheries and forestry, small business and handicrafts and must also seek to create wage-paying job opportunities by attracting private-sector employers to rural areas. Also, more attention should be given to support, in the case of farmers who have little land, for on-farm productive activities that are agricultural but do not require much land (small animal husbandry), as well as non-agricultural on-farm activities. Of the various alternative non-farm options, the following section concentrates on micro- and small enterprises, job training, and investment in rural infrastructure.

#### a) *Development of rural micro-enterprises*

More than half of the jobs in the region are provided by enterprises with less than 10 workers, and 50% of these are family-run businesses. Particularly fast-growing are small businesses owned by women. In order to foster the development of such micro-enterprises, it is essential to create conditions that will enable them to become competitive and independent of outside support, by providing a favourable regulatory framework and policies and by improving the access of low-income groups to financial and commercial services. The development of small and micro-businesses in rural areas can also be aided by efforts to decentralize and improve rural financial services, especially if access to small loans can be increased.

<sup>4</sup> The main difference between the shares of rural non-farm employment and income therefrom (30% vs. 47%) could be explained (in addition to the different sources and lack of comparability of data) to pluriactivity, in the sense that incomes are earned from various sectoral sources across the year for a given individual and across individuals in a given family. The share of rural households that do not sectorally specialize, and thus are 'pluriactive', can be high (40% in Nicaragua, according to Reardon and Berdegúe (1999)), and this is not usually reported in censuses that only ask about the 'primary occupation'.

Certain micro-enterprise activities are particularly well suited to the rural economy: agro-industries, workshops for the repair of machinery, handicraft industries and craft shops, commercial and sport fishing, furniture-making and woodworking industries, and those related to tourism (small restaurants and hotels, thermal spa facilities, cultural sites). The rural sector offers great potential for the processing of natural materials into diverse articles and handicrafts, including wooden products, medicinal plants, fibres, fruits and nuts, flowers, and semi-precious stones, all of which can encourage the sustainable use of these resources.

*b) Job training to improve employment opportunities and incomes*

Since primary and secondary education are seen as determinants of both job placement and income levels, the demand for access to these services is very high among the rural population. Again, this is a key area on which governments should concentrate to ensure a basic level of formal education in rural zones. In many of the region's countries, however, the vocational training available has not taken account of the specialization and skills demanded by markets. For example, in many cases the number of agricultural training programmes provided for young people far outstrips the potential number of future jobs in the sector. The objective here should be to improve opportunities for both men and women among the rural poor, providing them with technical skills that match labour requirements in urban and rural areas alike, including training to equip them for

self-employment. Vocational training programmes such as combined work and study programmes operated in cooperation with private companies are very efficient in doing this.

*c) Attracting public and private investment in infrastructure*

Public and private investment enjoying tax and other financial incentives (such as the creation of industrial parks with public incentives for private industry to locate in rural areas), land distribution, reforestation and irrigation projects, rural electrification, tourism and other schemes put in place to channel investment to rural zones can have a powerful job creation effect benefiting the rural poor.

It is particularly important to correct regional imbalances (between urban and rural areas and also within rural areas themselves) and promote regions that have, for instance, good natural resource potential. In this respect, investment in roads is a powerful means of attracting outside investment for marginalized rural areas, while at the same time enabling services to reach the lowest-income groups and reducing the transaction costs involved in the marketing of rural production. The lack of all-weather roads is a severe drawback in efforts to attract private sector investment to rural industry, mining and tourism. Investment in rural road infrastructure, in addition to its positive impact on local employment in the construction industry, improves access to social services, reduces commercial transaction costs, opens new labour markets, and generates externalities that benefit the rural poor.

## VI

### Conclusions

In spite of the substantial period of economic growth in most countries of Latin America and the Caribbean registered during the past decade, rural poverty has not decreased significantly. Indeed, the number of rural people living in poverty actually increased between 1994 and 1997. In addition, urban poverty is also fueled by the migration of the rural poor to the cities. The rural setting in Latin America and the Caribbean is very diverse, increasingly linked with urban settings and with a

relatively sparse population. There are also great variations in the nature and magnitude of poverty conditions in rural areas. Although agriculture is still the main source of employment, rural non-farm activities are increasingly significant and quite interdependent with urban centres. Given the broader, interconnected and multisectoral elements involved, rural economic and social issues should be viewed from a territorial rather than an exclusively sectoral standpoint.

On top of the many differences in culture, rural geography and natural resource endowment, and institutional and political context that distinguish the various countries of the region, there are also myriad regional and micro-regional differences within each country. This great diversity in rural conditions has several implications for choosing among rural development approaches: for multilateral agencies, it points to the need for continuous and open dialogue with each country to define and shape projects for specific issues; for individual countries, it means a strong commitment to decentralization to accommodate diversity and encourage the various actors to express their opinions; for the region or micro-region in which the activities will be implemented, it calls for great flexibility, to ensure that this implementation is consistent with the possibilities and interests of the inhabitants; and at the community level, it means that the approach chosen must encourage the participation of all beneficiaries and cooperating organizations (NGOs, community groups, government agencies, municipalities) in the design, execution and evaluation phases of rural initiatives.

A special focus on rural development (to reduce the urban bias) can help to make up for the cumulative shortfall built up in the past in social expenditure and spending on rural infrastructure. This will require making good the gap in training programmes, establishing basic rural infrastructure to provide an incentive for private investment, and providing the rural poor with access to the services and markets available to the urban population. It is important that these measures be transparent and targeted on the poorest segments, avoiding an indiscriminate general transfer of resources. In addition, linking economic growth to poverty reduction in rural areas requires mechanisms to ensure that the benefits of growth reach those who lack the leverage necessary to obtain access to them: particularly the most vulnerable groups such as young people, women and indigenous communities.

There is evidence that rural non-farm activities are an increasingly important source of income for farm and other rural households, including landless peasants and rural town residents. In spite of this trend, most rural poverty alleviation efforts have not

taken full advantage of employment opportunities generated by wage-earning or self-employed activities such as commerce, manufacturing and other services. The rural non-farm economy's links with input and output markets as well as services are key variables for defining rural policies in the region, particularly in small and micro-rural enterprise development, such as small craft industries, small agro-industries (of increasing importance in the rural economy) and services related to the agricultural sector or to other activities (tourism, for example).

Equally useful in terms of providing employment for the rural poor, as well as for environmental purposes, are other investment initiatives based on natural resources, such as reforestation, soil conservation, watershed management, and the creation and management of national parks and reserves. Agriculture-based options constitute a third key alternative for reducing rural poverty in the region; they include the development of land, water and financial markets, investments in new technologies and irrigation, and the promotion of new methods of marketing.

Of the several possible options for reducing rural poverty in the region, five are of crucial importance: (i) migration to urban areas where there is a greater demand for labour, which has been the traditional option but could be improved by providing training to prepare migrants to secure urban-based jobs; (ii) social safety nets (welfare) for the population who do not have rural or agricultural production potential but cannot migrate for reasons of health, age, etc.; (iii) rural non-farm activities; (iv) natural resource-based efforts (recovery and conservation of natural resources); and (v) agriculture-based activities for small-scale farmers who do possess agricultural potential. In reality, two or more of these options can be combined, so that, for instance, a small-scale farmer with limited agricultural potential may have several off-farm economic activities to diversify his income, while rural inhabitants with no access to land can diversify their income by working on farms. Given the critical poverty situation in rural areas, migration and social welfare will probably continue to be among the most important alternatives. Significant investments in sustainable agriculture development and rural non-farm economic activities are required in order to achieve the necessary economic growth and rural poverty reduction.

(Original: English)

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