RURAL DEVELOPMENT: LATIN AMERICA IN THE NEXT DECADE

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Rural Development Issues

Rural development projects are aimed at reducing: (1) the large differences in income between urban and rural areas; and (2) the income inequality that persists within rural areas because of the large differences in access to agricultural assets (particularly land), to social services (such as health, education, and housing), and to productive services (such as credit, marketing, and processing facilities). The lack of these facilities and services and the disparities in income and wealth have led some Latin American governments to promote projects which supply the deficient facilities and services to poor rural areas. This emphasis on integrated rural development has also been promoted by the international lending agencies--the World Bank and the Inter-American Development Bank in particular. While rural and agricultural development projects have been initiated in a number of countries, this paper emphasizes examples in Latin America in which the Inter-American Development Bank has been involved. Specific references to these projects do not represent an official viewpoint, however, and opinions expressed herein are exclusively mine.

In executing agricultural and rural development projects in Latin America, most problems have arisen because of inattention to: (1) beneficiary participation in designing and implementing the projects; (2) dealing with changes in the existing institutional structure and public organization; (3) finding criteria for the selection of beneficiary persons, groups, and regions; and (4) resolving the debate among those espousing a product oriented development strategy and those supporting a social development oriented strategy. Two major project categories may be differentiated--the agricultural development project and the rural development project. Mosher has suggested a practical classification scheme for these projects. The former emphasizes supplying missing production services (marketing, credit, extension, and research) while the latter emphasizes public social services (education, health, and sanitation).

Rural development projects should increase the participation of the rural poor in the planning stage of the projects. This is emphasized in the rural development programmes of Mexico and Colombia, but is absent from many other agricultural investment programmes in Latin American countries. For example, it has been common for governments to design and execute agricultural projects (such as irrigation) without a careful consideration of the receptiveness and the social characteristics of the beneficiary groups. This has given rise to serious problems such as frequent dissatisfaction of beneficiaries, underutilized investment works, high project unit costs, production failures, low rates of return, and heavy government subsidization of the beneficiaries. See, for example, the survey of Colombian agrarian reform projects by Howard.

The candidate beneficiaries of rural development projects are the inhabitants who historically have been excluded--the small subsistence farmer, the landless worker, and the population in the small urban centre in predominantly rural regions. To the extent that the rural poor are concentrated in well defined regions, rural development projects may benefit this group, but if the rural poor are spread out through all rural and small urban areas, there is a reduced prospect that specific regional rural development projects will have the desired effects. It is clear that middle income rural inhabitants may benefit from traditional public programs because of the access they have to the programs. For example, school nutrition programs often do not reach the lowest income groups because the children of the poor attend school with much less frequency than other income classes (Offedal and Levinson).

The separate components of rural and agricultural development projects have been integrated in only a haphazard way. See especially McInerney for an excellent statement on the need for looking at the direct and indirect linkages among all project components. Thus, in the past, marketing facilities have been created for agricultural projects without considering, for example, the need for local credit facilities or a new farm to market road. Penetration roads have been built which have not been accompanied by an effective organization for land settlement, titling, agricultural credit, or extension. Thus, the promotion of rural development projects is a response to past failures to include key project elements which have limited the success of past projects. On the other hand, designers now seem to be trying to include every possible missing project element, even ones which a project may not absolutely require to be feasible and cost effective. Thus, there is a tradeoff between the degree of "completeness" of the individual rural development project and its cost effectiveness and manageability, which has not always been recognized in Latin America.

Rural development projects contain new institutional arrangements. Social services are usually separately provided by government entities--for example, health services by the Ministry of Health, and rural education by the Ministry of Education--with little coordination among the ministry budgets. Thus, traditional budgetary procedures have to be substantially altered to fit the demands of rural regional project allocations. These budgetary changes are being made by some Latin American governments because the functional ministry budgetary procedures have done little to reach the most needy groups. Hence, traditional budgetary systems are most likely to reinforce, or at least may be neutral toward, the traditional inequity in the allocation of public resources to groups or regions.

Rural Development Experience in Latin America

Major national rural development programmes are underway in Mexico and Colombia, and while these national programmes are called "projects" by external lending agencies, in practice they are sectorial and regional development programmes.

Mexico. The Investment Program for Rural Development (PIDER) evolved since the late 1960s under two government administrations and began operating in the 1972-74 period. The programme, as originally designed, projects an eventual expenditure well in excess of US$1 billion in about 50 microregions. Eventually, the programme should benefit several million rural inhabitants and extend to roughly 100 microregions.

A unique feature of the PIDER programme is a new institutional structure to consolidate central government budgetary control over the programme. A mix of productive support and social service investments is chosen for each microregion after formal consultations with local and state government leaders. State authorities participate by refining political and economic decisions leading to regional expenditure programming. There are more than a dozen public agencies that participate in PIDER, and each of the separate ministries is assigned funds which must be employed directly in it. Hence, the traditional separate planning of these entities is now coordinated through a unified budgeting and planning process.

PIDER appears to have achieved initial success, especially by altering the budgetary process in favour of the rural poor, by achieving production gains in certain microregions, and by obtaining greater participation of local political leaders and farmers. It is too early to judge whether the programme will give rise to a significant increase in rural incomes and employment, but the political commitment is high and this should ensure that federal and state officials continue to promote the programme.

Colombia. In the early 1970s, Colombia initiated a rural development strategy. It is intimately related to a national food programme (PAN), the purpose of which has been to increase the supply of food especially by increasing the output on small farms where the bulk of the national food supply is produced. In order to further the objectives of the food programme, a national, integrated rural development programme (DRI) was designed to increase the productivity of small farmers in priority regions. DRI is based on the central notion of improving the technological package of the small farmer in order to expand agricultural productivity, and, therefore, 60 percent of the expenditures will be to expand agricultural production through agricultural research, extension, credit, and marketing services.

An effort has been made in the DRI programme to operate a new institutional system, coordinating the separate programmes of the individual public sector agencies. But the lines of institutional authority are confusing. The DRI institutional structure is headed by a national coordinating committee which brings together the directors and chiefs of all the 13 participating public agencies. While the National Planning Department plays an essential role in programming the budget activities, the Agricultural Bank is responsible for executing and administering the funds and a quasi-independent coordinating body composed of national, district, and municipal coordinating committees is responsible for reviewing the programmes, policies, and activities. DRI gives the impression of separate planning and budgetary activities, with the national government having limited authority to enforce compliance with the goals set out by the national coordinating committee.

Other countries. Rural development projects have also been undertaken in several other Latin American countries, but not on the scale and complexity as those in Colombia and Mexico. The Inter-American Development Bank has supported several rural and agricultural development projects and colonization projects in the Dominican Republic, Venezuela, Peru, Bolivia, Brazil, and Paraguay designed to supply rural infrastructure, such as irrigation or production credit to medium and small holders. Major irrigation investments have been financed in Mexico.

Conclusions. While there has been considerable political rhetoric in support of rural development in Latin America, the practical consequences have fallen well short of these high expectations. Each country is slowly developing its own practical rural development programme--some countries emphasizing production infrastructure and social services (PIDER) and others production technology and extension services (DRI). A few countries have rejected, at least implicitly, a strategy of increasing direct aid to the rural poor, emphasizing instead commercial agricultural production and an urban industrial development policy. Many Latin American countries are still only supporting local rural development projects which have relatively high per beneficiary investment costs. They have not taken steps toward comprehensive national programmes with all of the public expenditure and institutional reallocations which follow.

Prospects for Latin American Rural Development

The "triage" approach (see the searching commentary by Myrdal) to allocating external assistance by the advanced countries emphasizes that middle income countries in Latin America should receive a declining share of total foreign assistance--with a greater share going to lower per capita income countries in Asia and Africa. Likewise, there is rising political pressure to increase the proportion of the remaining assistance received by Latin America that is channeled to low income countries and beneficiaries. While this approach appears consistent with the desire that funds be received by the neediest groups, Latin America still has a large segment of rural poor, and it has reached a stage in which it can now absorb more funding than in the past. The World Bank, the United States, and the Inter-American Development Bank together loaned Latin America the equivalent of about US$1 billion for narrowly defined rural development, integrated agricultural development, colonization, and agrarian reform projects during the period 1970-78. However, a current manifestation of the weakness of public support for agriculture is the scarcity of agricultural investment projects suitable for external financing. The region's overall investment coefficient is rising, but the domestic revenue structures are still strained to generate sufficient resources to meet expenditure goals. Thus, the total net financial requirements to undertake massive rural development programmes are still beyond available domestic and external savings.

New rural development efforts, over the short term, would compete with investments for industrial and basic energy programmes, and this would require unacceptable political sacrifices as the urban population rapidly increases. Hence, large amounts of external resources are needed for both a concerted urban industrial and rural agricultural development effort in Latin America over the coming decade. Even if national savings grow, external assistance will still be required. Lacking "soft" funds, governments will have to utilize private commercial sources. If international public financial resources are limited, the region will increase its external debt burden over the period, which should not surprise financial observers.

Latin America cannot avoid supporting agricultural and rural development. The shape of this development may not accord with preconceived views of all outsiders, but an effort will have to be made, for several reasons. Latin America has experienced one of the largest population growth rates of any region of the world and this has direct implications for rural development investment strategies in years to come. The labour force has expanded at unprecedented rates, placing a strain on the ability of the industrial and urban centres to supply productive employment. A declining share of employment is in agriculture--falling from 53 percent of the active labour force in 1950 to 41 percent in 1970--while the industrial sector has barely increased its share of employment--from 19 to 22 percent of the labour force.

There is a serious need to increase rural development activities because they are highly beneficial to both agricultural and industrial development. Industrial development, which will become increasingly export oriented, would be stimulated because of an increased demand for agricultural inputs and services. This in itself will contribute to an increase in urban industrial employment. Simultaneously, the introduction of modern agricultural technology will increase productivity and income in rural areas. It will be easier to transfer labour out of agriculture and to absorb it into higher paying employment in urban centres.

Before Latin America can initiate this strategy, a number of fundamental policy changes will have to be made, breaking with traditional economic policies toward agriculture. The most important changes concern: (1) agricultural pricing policies; (2) government budgetary allocations for agricultural research and extension; and (3) administrative institutional biases against agriculture. These needed changes go against fundamental historical trends which have accompanied the rise in the political dominance of the urban centres and the continuing weakness of the public agricultural bureaucracy.

Unless Latin American governments make major improvements in the policy elements just noted, then one can expect continuing social, economic, and political problems in rural areas, which further increase the costs of rectifying the gap between the rural poor and the urban beneficiaries of government economic policies. Unforeseeable political instability should be anticipated if rural and urban poverty continue to grow. Such fundamental problems will not be resolved by occasional investment in a rural or agricultural development project, but rather by the transformation of public priorities to give rural development an equal political status with urban and industrial development. This has yet to occur in most Latin American countries. Lessons have been learned by some countries which have undertaken agrarian reform programs (the Andean region), but they have failed to produce the income and production benefits in rural areas or to avoid large food imports for the growing urban population.

References

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RAPPORTEUR'S REPORT--Anthony E. Ikpi

The rule of thumb that was used in deciding whether the investment projects in Latin America were profitable and beneficial to the rural poor was the value of the output resulting from these projects plus the degree of local involvement and participation in the project. Local involvement and participation may sometimes turn out to be expensive in terms of both time and money. Political implications of nonlocal involvement and participation often dictated the need for involving local participation. Empirical evidence of this is obtainable only in the form of consequences that follow in event of nonlocal participation.

Contributing to the discussion was Earl D. Kellogg.