

Toward a Territorial Approach to Rural Development

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Outline of presentation:

- II. Evidence of failure of past approaches to rural development: quantitative analysis.
- III. Changes in the qualitative nature of poverty and new opportunities for RD.
- IV. Congruence of a territorial approach with the qualitative changes in rural incomes and emerging new opportunities
- V. Evidence from successful experiences with territorial approaches
- VI. Lessons from territorial approaches to RD and avoiding bottlenecks
- VII. Recommendations for implementation.

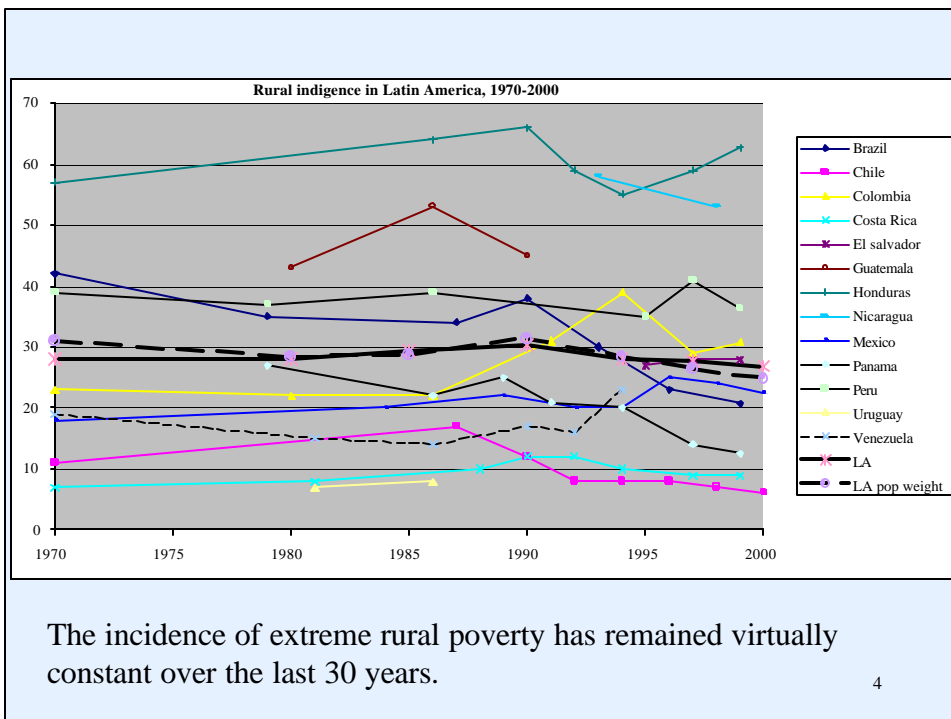
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II. Evidence of failure of past approaches to RD: Insufficient progress in rural poverty and inequality reduction

Four observed continental regularities:

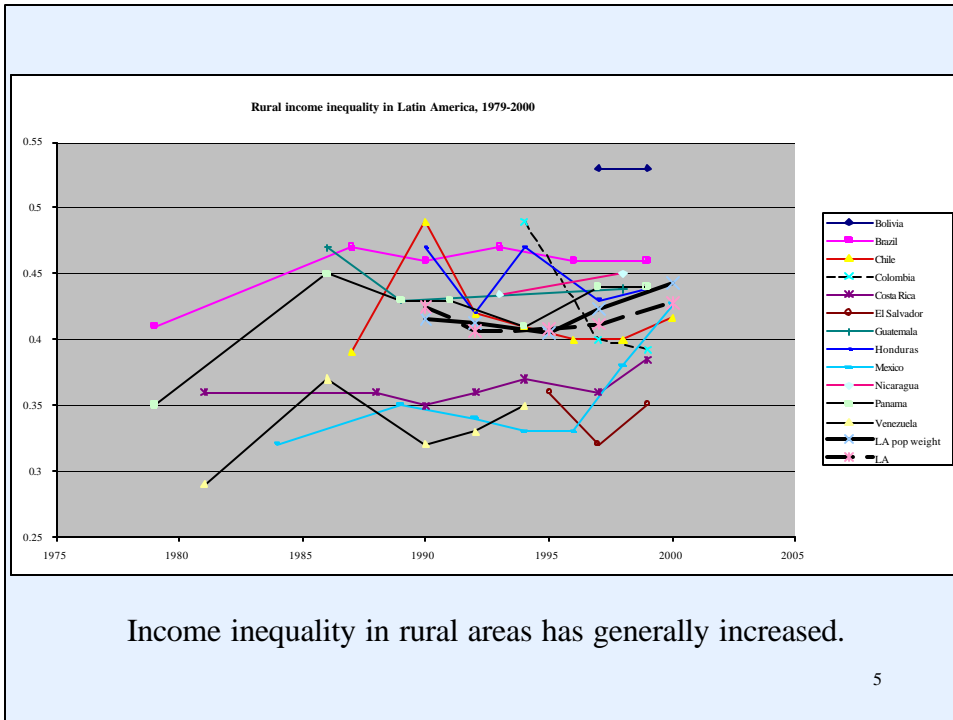
1. The incidence of rural poverty has generally not declined and the number of rural poor has increased.
2. Rural inequality is exceptionally high and increasing.
3. Social development has improved, even though gaps between rural and urban social development remain large.
4. Urban migration has been the great escape valve in preventing a larger increase in rural poverty. Poverty has been displaced toward the urban environment.

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The incidence of extreme rural poverty has remained virtually constant over the last 30 years.

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III. Changes in the nature of poverty and in opportunities

3.1. Qualitative changes in rural poverty: three changes

1. *There is increasing differentiation between two types of geographical areas for rural poverty: MRA (marginal rural areas) and FRA (favorable rural areas)*

MRA = areas with poor agro-ecological endowments and/or isolated from access to markets and employment centers

- Geographical pockets of poverty, frontiers
- Indigenous territories

FRA = good agro-ecologies and good connections to dynamic product and/or labor markets. Poor are:

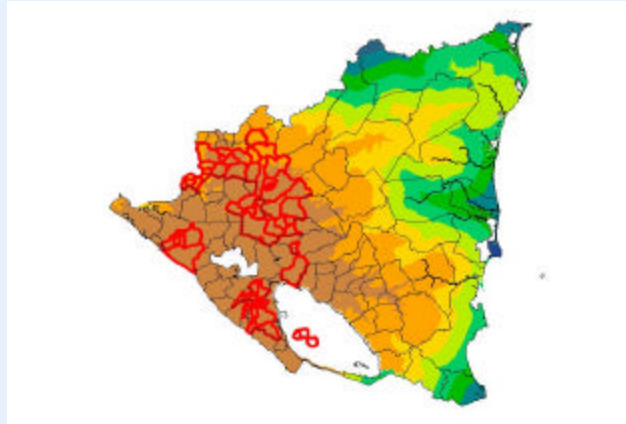
- Individuals with low asset endowments (land, education, and social capital).
- Individuals with asset endowments, but lacking opportunities to valorize these assets in the territories where they are located
- Rural youth and elderly people for whom social assistance programs are needed.

Half of the extreme rural poor are in Favorable Rural Areas (high economic potential and within 4 hrs-drive from Managua). Half in Marginal Rural Areas.

Municipios with extreme rural poverty density >13 poor/ha are outlined in red

Access time to Managua is shown by shading, close in brown ranging to

remote in blue



Source: Raine et al., 2004, World Bank

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2. *There are major changes in the structure of employment and sources of income for rural populations*

2.1. *Changes in employment patterns*

% of rural labor force employed in non-farm activities:

Chile: 19% (1990) → 26% (1998).

Costa Rica: 48% (1990) → 57% (1997).

Honduras: 19% (1990) → 22% (1998).

Mexico: 35% (1989) → 45% (1996).

Brazil Northeast: increase by 95% 1981 → 1997

2.2. *Changes in sources of income*

Mexico changes in sources of income rural population 1992 → 2002:

Independent farming: 39% → 13%.

Agriculture wage labor: 12% → 11%.

Non-agricultural employment: 29% → 42%.

Public and private transfers, including remittances: 7% → 17%.

Other sources: 13% → 17%.

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3. *Inequalities are high and rising due to pervasive mechanisms of local reproduction of social inequalities in spite of growth*

Local inequalities are nearly as high as national inequalities: Ecuador inequality, 86% within-community, 14% between community.

Mechanisms through which local inequalities are reproduced:

1. Under-investment by the poor in the education and health of their children due to market failures (inheritance of poverty).
2. Use of child labor detrimental to child human capital due to lack of other risk coping instruments (short run gain at long run cost).
3. Land distribution has remained largely unchanged due to land and credit market failures.
4. Land rental markets are atrophied and socially segmented due to weakness of property rights.
5. Social networks in information and referral for non-agricultural employment are structured by social status.
6. Local political economy and clientelism make public projects regressive.

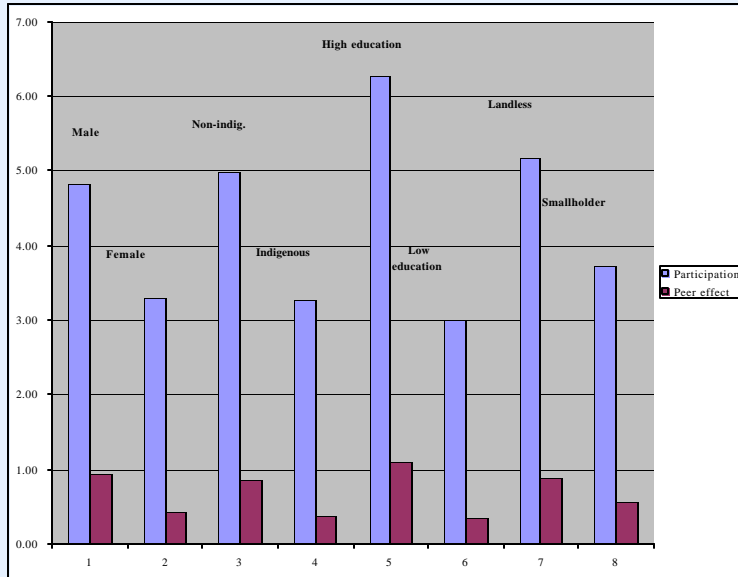
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1) Distribution of land rental transactions by living standard of tenant and landlord in communities with and without recent land occupations, Dominican Republic (Macours et al., 2004): Weak property rights segment land transactions within social classes.

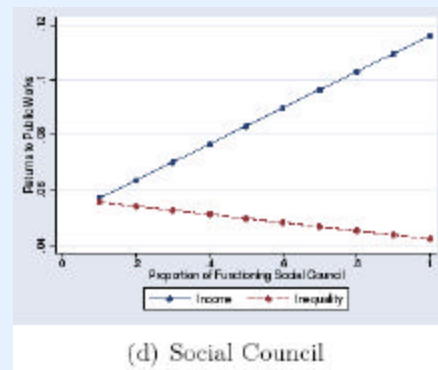
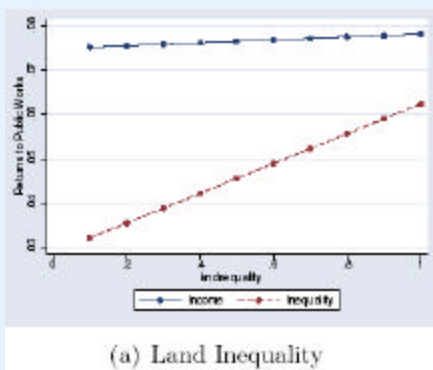
Living standard of landlord	Living standard of tenant		
	Low	Regular	High
Communities with recent land occupations			
Low	52%	41%	7%
Regular	21%	52%	27%
High	7%	33%	60%
Communities without recent land occupations			
Low	33%	48%	19%
Regular	25%	45%	30%
High	41%	36%	23%

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2) Role of peer effects (social networks) in accessing off-farm non-agricultural employment for rural households in poor communities, Mexico: Peer effects reinforce local inequalities (Araujo et al., 2004)



3) Municipal public works projects funded by Federal deputies are inequalizing, especially where land inequality is high, but less so when there is more effective local participation through functioning social councils



Return to public works projects in Brazilian municipalities
(Source: Finan, 2004)

3.2. Emergence of new opportunities: Six new opportunities

1. Opportunities offered by the “new agriculture”

High value crops such as vegetables, fruits, and animal products; quality foods required by urban distribution channels and exports (health standards, organic foods), standardized delivery in contracts with supermarkets, demands of agro-industry for non-traditional exports, labeling and certification of origin, post-harvest value added in commodity chains, etc.

2. The industrialization of many rural areas

39% of the rural labor force is currently employed in non-agricultural activities, of which 2% are in mining, 21% in manufacturing, and 77% in services (25% in trade, hotels, and restaurants; 11% in construction).

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3. Rural areas are increasingly integrated economically with urban areas.

Convergence between rural and urban wages (Mexico): rural/urban wage ratio: 28% (1992) --> 40% (2002).

Role of proximity to employment centers for rural employment growth in manufacturing and services:

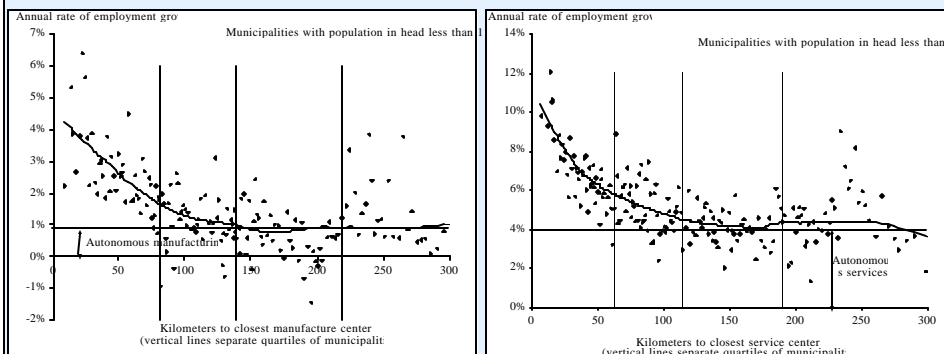


Figure 1. Annual rate of employment growth in manufacturing and services in rural and semi-urban municipalities by distance to an employment center in Mexico, 1990-2000

Role of employment in non-agricultural activities for poverty reduction

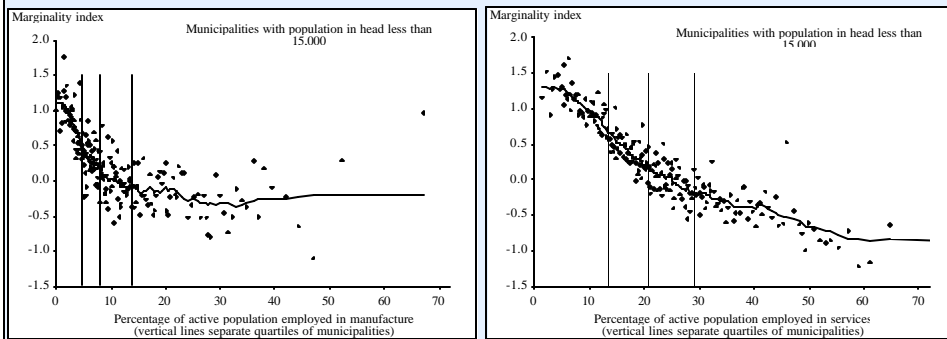


Figure 2. Rural non-farm employment and poverty levels in rural and semi-urban municipalities, Mexico 2000

Conclude: Bring rural areas “closer” to urban employment centers for rural poverty reduction.

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4. *There has been much progress toward decentralization of governance at the municipal level*

- Decentralization has been extensive, but incomplete for fiscal and financial capacity.
- Bolivia, Colombia: decentralization induces changes in municipal budget allocation toward urban development, education, health, water management, communications, transport, water and sanitation (same as with CDD).
- But decline in income generation expenditures: energy, industry, tourism, agriculture.

--> **Conclude:** decentralization for income generation needs larger economic units: regional development, the missing dimension.

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5. *There has been much progress with local social capital formation, particularly the expansion civil society organizations*

Rapid expansion of CSO especially where:

- Descaling of the role of the state: Mexico, Brazil.
- Rising strength of indigenous movements: Ecuador, Bolivia.
- Decentralization of governance calling on local participation: Bolivia, Peru.
- Introduction of local development councils (Brazil, Mexico, Uruguay, Peru) and open town meetings (El Salvador, Honduras).

Challenge: How to transform this “organizational revolution” into an instrument for economic gains for the rural poor?

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6. *There are increasing demands for the provision of environmental services*

Market failures for environmental services compensated by payment schemes (PES):

Watershed management, water quality, biodiversity conservation, carbon capture, landscape management.

Examples:

- Costa Rica: payments to forest owners.
- Mexico: pilot scheme for forests in watersheds (80% of forests in ejido communities).

--> Important new resource flows for RD.

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IV. Territorial approaches to RD help accommodate the observed changes in poverty and in opportunities

Qualitative changes:

- Geographical heterogeneity: MRA and FRA
- Diversification of sources of employment and income
- Rising inequalities

New opportunities:

- New agriculture
- Rural-urban integration
- Decentralization of governance
- Social capital in rural areas
- Demand for environmental services

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V. Evidence from experiences with territorial rural development

Sectoral/technological approaches have worked where pre-conditions (assets, context) were in place (Green Revolution, titling, irrigation).

Territorial approaches are needed when many pre-conditions are missing that need be put into place jointly:

- LEADER program in European Union.
- Community Empowerment Program of the USDA.
- Petrolina-Juazeiro in the San Francisco Valley (Brazil).
- Cajamarca (Peru): mesas de concertación & local ag. system.
- Central Valley of Chile: Agro-exports.
- Central Highlands of Guatemala: Non-traditional exports.
- SEDESOL's Micro-regions strategy in Mexico.

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VI. Lessons from territorial approaches: Dimensions of the approach

MRAs: High poverty rate, low population density, low share of the rural poor. Poverty is geographically concentrated.

Options for MRAs:

1. Migration toward FRA and cities: need prepare migrants by investing in social development (Progresa, Bolsa Escola).
2. Concentrate populations locally (purely voluntarily) in CECs for the delivery of social services: Mexico's Micro-regions strategy.
3. Link MRA to FRA and urban centers through the construction of integrated regions and economic corridors.
4. Deliver environmental services (forestry, watershed management, in-situ conservation, eco-tourism).

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FRAs: Low poverty rate, high population density, most of the rural poor. Poverty is socially diffused.

Five dimensions of a territorial approach to rural development for FRAs:

Dimension 1: Define regions

- Municipality for local governance and public goods.
- Ad-hoc association of municipalities in pursuit of particular projects.
- Regions as larger administrative units for economic projects.
- Regions as functional economic units: natural resource (localized agricultural system), diversified employment basin, or social capital unit.

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Dimension 2: Institutional transformation of the region

Element 1: Strengthen and modernize the capacity of local governments

- Greater economic capacity: Fiscal and financial decentralization.
- Improved administrative capacity and accountability.

Element 2: Strengthen the capacity of local organizations

Strengthen local civil society and private sector organizations.

Element 3: Build institutions to plan and formulate projects for regional and local development

- Institutions for consultation, coordination, and cooperation among public, private, and civil society.
- Capacity for regional strategic planning and definition of projects.
- Role of local universities for innovations, training, and technical assistance.
- Regional institutions for promotion of the region.
- Coordination with national programs.

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Dimension 3: Productive transformation of the region

Element 1: Regional projects for infrastructure and financial development (State-region contracts)

- Public investments in infrastructure, link the region to dynamic national and international markets. Industrial parks and other public investments in support of private investment.
- Development of local and regional financial institutions.

Element 2: Promote the competitiveness of the region and local entrepreneurs (Region-driven development projects: RDD)

- Investments in entrepreneurship training, technical assistance, and public business incubators.
- Subsidies to investments that generate local positive externalities (decentralization, clustering).
- Support to investments in the region's comparative advantages:
 - Promote the “new agriculture”.
 - Promote the non-agricultural rural economy.
 - Capitalize on transfers and remittances.

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Dimension 4: Social transformation of the region

Rural development programs (social and productive expenditures) in support of the social incorporation of the poor

- Improve the asset position of the rural poor:
 - Access to land: redistributive land reform and subsidies to land purchase.
 - Human capital formation: conditional cash transfer programs for education and health.
 - Social capital formation: promote membership to organizations.
- Combat the reproduction and deepening of social inequalities to insure broad sharing of the benefits of local/regional development.
- Safety net programs to support risk-taking by the poor.

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Dimension 5: Implementation of territorial rural development as a national strategy requires:

- Auditing and impact analysis for accountability.
- Results-based management for participatory learning and improvement, based on monitoring and just-in-time impact analysis.
- Continuity beyond the political cycle and initial leadership (fails in Cajamarca, Cuatro Pinos Guatemala): importance of broad social participation in the region and national/international visibility beyond the regional level (Progresa).
- Scale through coordination to shift to new territorial equilibrium: Big Push approach to territorial development.

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Avoiding bottlenecks

1. Lack of sufficient local managerial capacity.
2. Lack of local financial capability and sustainability.
3. Lack of funds to implement projects.
4. Lack of a meso-level administrative structure.
5. Excessive decentralization has led to atomization.
6. Complementarity with sectoral approaches.
7. Deep local inequalities lead to capture of benefits by local elites.
8. Lack of interest by urban areas into coordinating investments with rural areas.
9. Lack of local producers' organizations.
10. Need to sustain regional activities beyond local political time.
11. Need for a coordinated "big push" approach.

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VI. Recommendations for implementation

- Past approaches to RD have been insufficient to reduce rural poverty and stabilize rural populations.
- The qualitative nature of poverty has changed and new opportunities have emerged that both require and allow to redesign RD.
- Sectoral/technological approaches have been effective where pre-conditions (assets, context) were in place.
- Territorial (regional-local) approaches can be effective where more comprehensive interventions are needed.
- Localized success stories exist, but they need to be scaled up for impact on poverty/retention.

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Lessons learned with territorial approaches to rural poverty reduction suggest the following approach:

- Distinguish between MRAs and FRAs.
- Define regions (integrate secondary cities, link MRAs to FRAs).
- Promote regional development through the institutional and productive transformation of the region (state-region projects, RDD).
- Promote rural development to assist the rural poor to participate to the benefits of regional development (assets, link poor to non-poor).
- Successful implementation requires: Accountability, Learning, Continuity, Coordination for scale.