RURAL DEVELOPMENT IN LATIN AMERICA:

TRENDS AND POLICIES

Martín Piñeiro*

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Martín Piñeiro, Director Grupo CEO. Paper prepared as a background document for the EC.IDB Rural Development Dialogue, Brussels, 24. February 2005

Rural Development in Latin America: trends and policies.

I. Introduction

The rural sector has an enormous economic and social importance in Latin America and represents, in most countries of the region, the main source of economic activity employment and exports. On the other hand agricultural trade has been the basis for the prosperous economic relations that developed between Latin America and Europe and agricultural products represent the main export from Latin America to the UE. These trade relationships where built around the natural comparative advantages and economic complementarities between the two regions and the liberal trade policies that existed since the early twentieth century in a number of European countries, especially England. However it is important to emphasize that still now, under a different economic and trade environment, agricultural production still has the potential for an expansion of trade and economic relations between both regions.

The successful implementation of the Common Agricultural Policy (CAP) after world war two dramatically affected agricultural trade. The EU increased production and became not only self sufficient in a number of products but also an important agricultural exporter. The beginning of the XXII century brings new perspectives and opportunities. The EU is significantly transforming its CAP making it more responsive to market signals and less protective of internal production. The multilateral negotiations in the OMC and the numerous regional and bilateral trade agreements provide a new world trade environment, still unfavorable for agricultural exporting countries, but more promising in the future. On the other hand, most Latin American countries have adopted new macroeconomic and trade liberalization policies that are profoundly transforming the rural sector and the views that the non-rural society has on the importance and relevance of agricultural production and rural life.

Within this context this paper attempts to provide analytical information on the rural sector of Latin America that may be useful for the analysis and evaluation of the relationships between the two regions and the identification of potential areas of collaboration.

The paper is organized in four chapters in addition to this introduction. The second chapter presents information that shows the special and fundamental importance that agricultural production and rural life has on overall economic growth in most of Latin American countries. Chapter III analyses the recent evolution of the rural sector, describes some trends that characterize the present situation and presents some of the problems that need to be addressed. Chapter IV presents a brief reconstruction on the evolution of the theory and practice of Rural Development in Latin America and synthesizes some of the major lessons that derive form this experience. The Chapter ends with a brief presentation of the present thinking and new proposals that are emerging in the region, which show a growing convergence of ideas within the profession. Finally Chapter V includes some reflections on Rural Development policies and on potential areas for cooperation between the EC and Latin America on Rural Development.

II. The Rural Sector in Latin America

1. Economic and Social Importance

1. Introduction

The economic and social development of Latin America is closely associated to the rural sector and strongly determined by its impressive endowment of natural resources. Latin America has, as a percentage of worlds total, 23 % of agricultural land, 31 % of water, 23 % of all forests and 46 % of tropical forests. Although the distribution of natural resources is quite heterogeneous between countries the region has considerable resources and the ecological conditions makes possible the production of a wide variety of agricultural products. This extremely favorable endowment in natural resources made possible, in most of the countries, the development of a very competitive agriculture that very rapidly in history transformed the region in a net exporter of agricultural products. The economic and political histories of many countries of the region like Argentina, Uruguay, Costa Rica, Brazil and others was determined by the way land was appropriated, social classes developed and commodities fared in the world market.

Even today after several decades of import substitution economic strategies that favored the development of the industrial sector and penalized agriculture, agricultural production and exports are, in many countries, the main economic activity.

2. Agricultural exports and trade

1) Contributions to trade

Agricultural exports represent a large percentage of total exports in a majority of countries in Latin America. The average for the region is around 20 %, a figure that is heavily affected by the large oil exports of countries like Mexico and Venezuela, but in a number of countries, especially in the southern cone and in Central America, agriculture contributes with close to 50% of total exports.(See Table 1 column 4).

Table 1: Contributions of the Agricultural Sector to GDP and exports

Latin America countries	Agricultural GDP as % of total A (1)	Total exports Billion U$S (2)	Agricultural exports Billion U$S (2)	Agricultural exports as % of total B	Economic Importance Index (A+B)/2
Argentina	11,0%	29.23	14.87	51%	31%
Bolivia	14,6%	1.64	53	32%	23%
Brasil	5,8%	71.85	23.16	32%	19%
Chile	8,8%	19.54	6.89	35%	22%
Colombia	14,0%	13.09	2.98	23%	18%
Costa Rica	8,3%	(3) 6.02	(3) 1.41	23%	16%
Ecuador	7,7%	6.03	2.84	47%	27%
El Salvador	9,4%	(4) 2.90	(4) 268	9%	9%
Guatemala	22,3%	(4) 2.97	(4) 1.48	50%	36%
Haiti	27,1%	(4) .29	(4) .23	8%	17%
Honduras	13,5%	(4) 1.99	(4) 69	35%	24%
Mexico	4,0%	165.33	7.72	5%	4%
Nicaragua	17,8%	(4) .67	(4) .41	61%	40%
Panama	5,6%	(4) .81	(4) .54	67%	36%
Paraguay	21,0%	1.17	.77	66%	43%
Peru	9,3%	8.73	1.99	23%	16%
Republica Dominicana	10,6%	(4) 5.33	(4) .40	8%	9%
Uruguay	9,5%	2.19	1.42	65%	37%
Venezuela	2,6%	24.97	.24	1%	2%
Latin America		364.75	68.62	11%	

Prepared by the author based on data provided by: (1) Bco. Mundial, 2003; (2) ALADI, 2003; (3) Bco. Central de Costa Rica, 2003; (4) CEPAL, 2001

It is important to note however that a number of countries in the region are also important importers of agricultural products. Table 2 shows the net balance between imports and exports. It can be seen that 5 countries, Peru, Venezuela, El Salvador, Mexico and Panama are net importers. Many of the other countries, specially in the southern cone, have big export surpluses.

These figures show that in a majority of countries the rural sector makes a significant contribution to overall economic development through its export participation. To understand the full importance of this contribution it is necessary to recall the historical importance that the balance of payments situation has had in the economic performance of Latin American countries.

Table 2: Net trade position in agricultural products, averages 2000-2002, in millions of U.S. dollars

Agricultural exports and imports		
Exports	*Imports*	**Net Balance** *EX-IM*
10.900	872.9	10,027.1
403.3	232.0	171.3
16,000.0	3,768.2	12,231.8
3,351.4	1,228.4	2,123.0
2,925.6	1,577.5	1,348.1
1,592.1	475.2	1,116.9
519.3	310.1	209.3
739.4	1,052.8	-313.3
998.0	387.3	610.6
329.6	1,813.5	-1,483.9
38,000.0	11,900.0	26,100.0
1,698.2	518.5	1,179.6
593.3	822.0	-282.7
1,434.7	793.0	641.7
630.8	491.1	139.7
8,191.1	11,200.0	-3,008.9
404.4	294.2	110.2
313.0	417.3	-104.3
13,300.0	14,700.0	-1,400.0

de Ferranti et.al, 2004

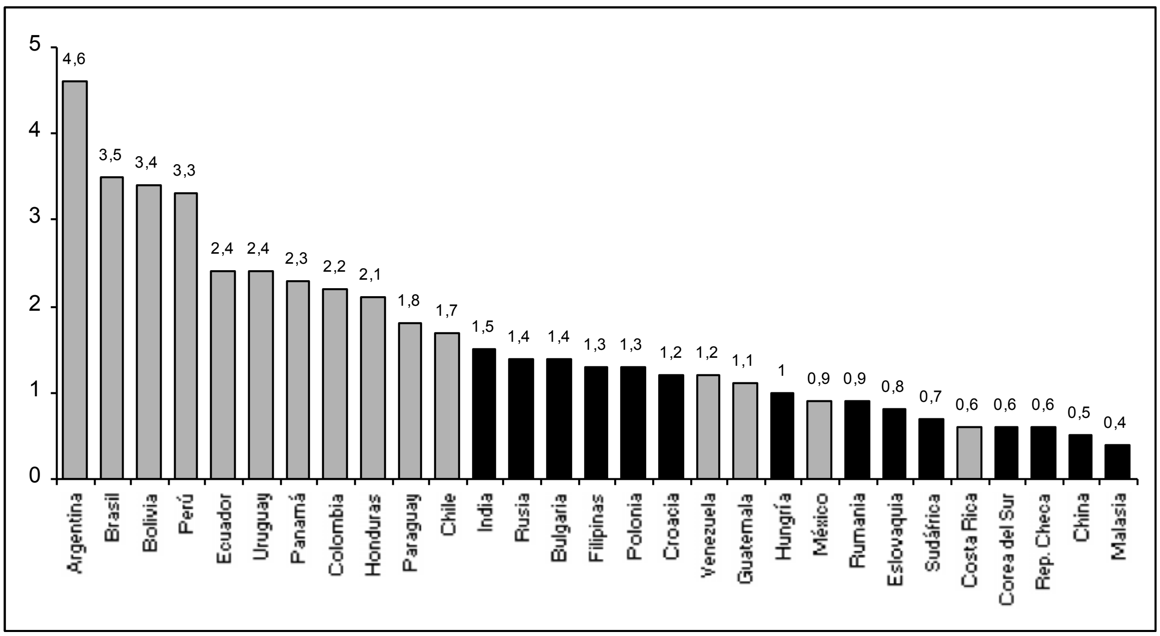
2) The crucial importance of trade for the development of Latin America

The economic literature has shown that one of the major problems of the import substitution strategy and its focus in the internal markets was the periodic balance of payment crisis that appeared during periods of rapid economic growth. Most countries in the region had a structural export constraint

Although the liberalization process of the 90s appears to have partly resolved this problem the high level of external debt that accumulated during the same period has created a new type of dependence on the level of exports. In addition the liberalization process of the 90s has not resulted in a rapid expansion of exports of non agricultural goods and services reaffirming the importance of agricultural exports for the balance of payment situation.

Graph 1 shows that the 11 countries in the world with the largest external debt, as a percentage of exports, are from Latin America. Only the large oil producers, Mexico and Venezuela and two countries from Central America, Guatemala and Costa Rica, do not respond to the norm.

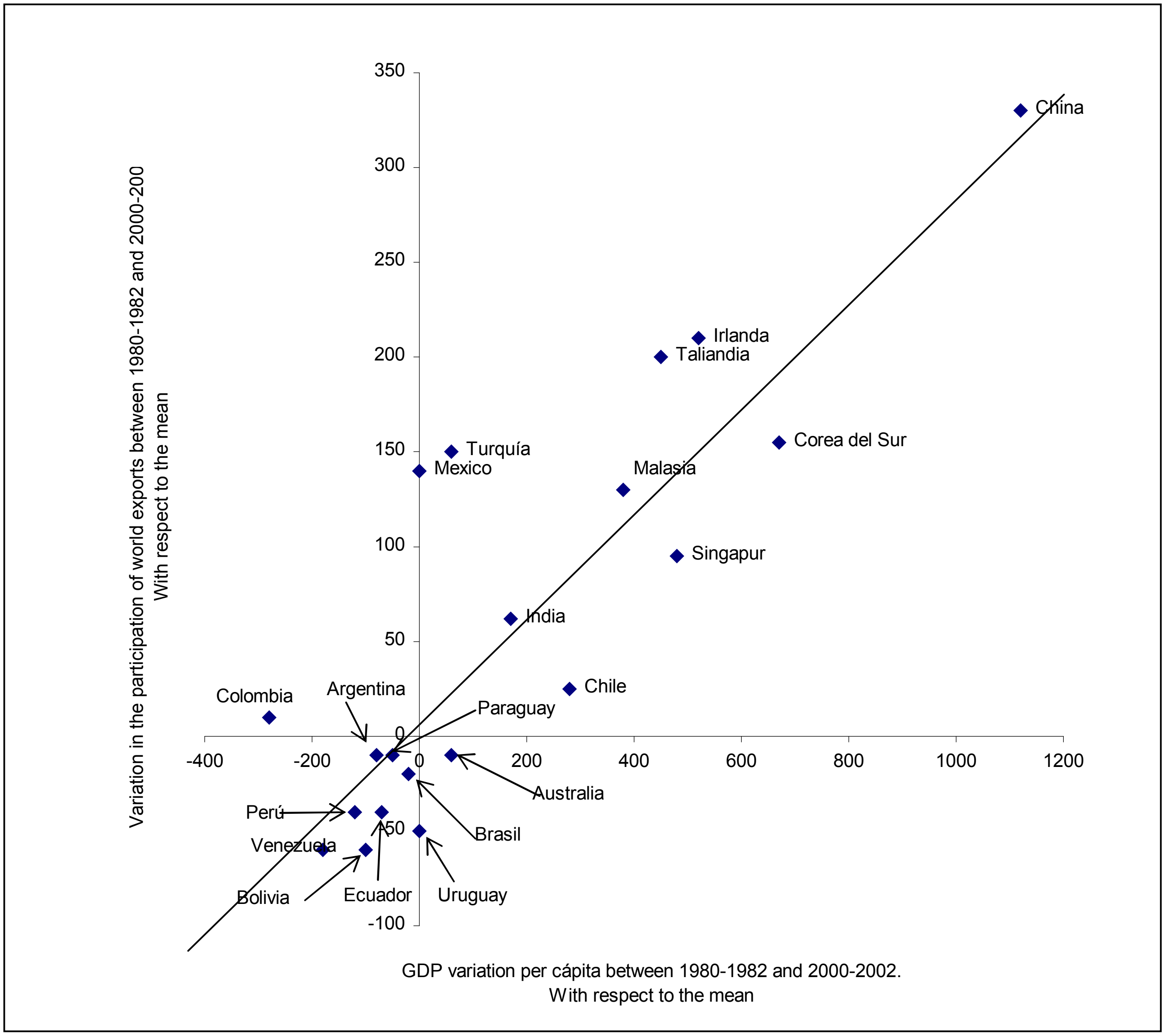
Graph 1: External Debt
Years needed to pay the debt using all export revenues



M. Redrado and H. Lacunza. (2004).

Graph 2 presents the high correlation between trade and economic growth. This correlation shows the tremendous importance that the contributions to total exports made by the rural sector may have in the welfare of Latin America. The graph also shows the low growth performance and the low participation in trade of the Latin American countries included in the analysis in relation to other countries of the world.

Graph 2: Economic growth and trade participation
(percentages)



M. Redrado and H. Lacunza. (2004).

It is important to note however that unilateral trade liberalization is not the solution for Latin America. Recent studies by UNCTAD show that economic performance in developing countries was best when trade liberalization was cautious and balanced and export growth was accompanied by public policies and institutional development that made possible certain degree of expansion of import substitution activities (UNCTAD, 2004) As Bhagwatti has pointed out a strategy of trade liberalization and export promotion does not imply a policy of laissez fair.

3. Contributions of the rural sector to economic activity and regional development

Table 1 column 1 shows the contributions of agricultural production to total GDP. These figures, which are commonly used and refer only to primary production, grossly underestimate the real significance of the agricultural sector to overall economic growth. Calculations made by IICA in 2003 for eight Latin American countries indicate that if agricultural production is taken including all the manufactured products derived from agriculture it represents around 30% of GDP. (Table 3). These calculations are consistent with estimates by the World Bank that indicate that if Chile, Argentina, Mexico and Brazil, countries that represent 70% of agricultural GDP in Latin America, are taken as a group the agro industrial complex represents around 40% of total GDP. This figure indicates the real significance of the rural sector in the overall process of capital accumulation and economic growth in the region.

In addition recent estimates[1] suggest that the multiplier effect of an increase in the production of the agroindustrial sector on the rest of the economy is high in Latin America and higher than in other regions of the world (Graph 3)

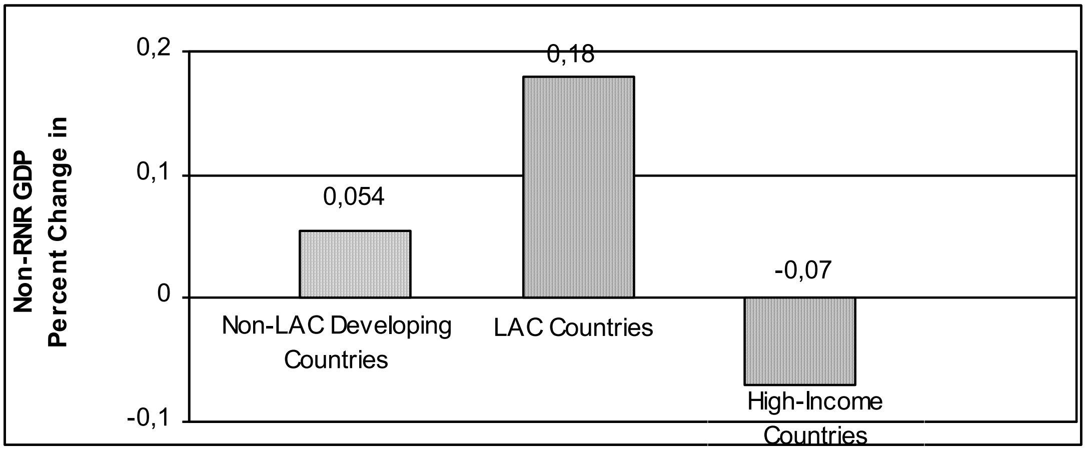
Table 3. Contribution to GDP by the agro industrial complex in eight Latin American countries

	Agroindustrial complex* (%)
Argentina	32.2
Brasil	26.2
Chile	32.0
Colombia	32.1
México	24.5
Perú	31.8
Uruguay	34.8
Venezuela	20.5
Canadá	15.3
Estados Unidos	8.1

IICA (2003) taken from Dirven, M. (2004)
* Includes the agro industrial products derived from primary production (Chapters 21 to 25 of the CPC and 17 to 22 of the CIIU)

[1] Taken from de Ferranti et al (2004)

Graph 3: Impact of a one percent increase in RNR + food industries GDP on the rest of the national economy the following year



De Ferranti et.al, 2004, based on Granger-causality tests from Bravo-Ortega and Lederman 2004

In addition to this overall significance it is important to recognize that agricultural activities have an additional and differential impact on a regional basis. In general rural districts are relatively disadvantaged and concentrate a high proportion of the poor. (Table 4) Any development strategy that includes the dual objectives of promoting a regionally balanced growth and a more equitable distribution of income has to take the rural sector as a major building block.

4. Rural Population, employment and poverty

Table 4 shows the percentage of rural population in Latin America. It can be seen that, in a number of countries, the proportion of rural population is quite high. These figures however underestimate the real situation because, in most countries, population is classified as urban when they live in cities relatively small. For example the size of the cities classified as urban are those that have more than 2,000 in Argentina and 2,500 in Mexico. Hertford and Echeverri (2003) among others have convincingly argued that the size of the cities to be considered urban should be much larger. More recently Chomitz, Buys and Thomas (2004) have suggested the use of population density based on the distance to cities over 100,000 as a methodology to define rural population. This methodology gives totally different, and considerably larger figures for the population that should be regarded as rural.

Table 4: Rural population and poverty

Latin America countries	Rural population as % of total C (1)	Rural poor as % of rural population D (5)	Social importance index (C+D)/2
Argentina	10%	(8) 32%	21,0%
Bolivia	37%	76%	56,5%
Brasil	17%	45%	31,0%
Chile	13%	26%	19,5%
Colombia	24%	56%	40,0%
Costa Rica	39%	21%	30,0%
Ecuador	38%	(2) 47%	42,5%
El Salvador	41%	59%	50,0%
Guatemala	54%	65%	59,5%
Haiti	62%	(3) 66%	64,0%
Honduras	54%	82%	68,0%
Mexico	25%	49%	37,0%
Nicaragua	43%	73%	58,0%
Panama	43%	33%	38,0%
Paraguay	43%	65%	54,0%
Peru	26%	(4) 64%	45,0%
Republica Dominicana	41%	(6) 42%	41,5%
Uruguay	7%	(7) 19%	13,0%
Venezuela	12%	(6) 48%	30,0%

Prepared by the author based on data provided by: (1) Bco. Mundial, 2003, (2) 1994, (3) 1995, (4) 1997, (4) 1998; (5) CEPAL, 1998, (6) 1996; (7) Ministerio de Ganadería de Uruguay, 2001 y (8) SAGPyA based on Home Census 2001

Rural poverty is very significant in most countries of the region both in absolute terms and as a proportion of total poverty. During the 90s rural poor people increased from 73 to 78 million representing 60 % and 63 % of total rural population. (Berdegue et al, 2003) In addition the evolution of rural poverty suggests that the very bad income distribution in Latin America has not been corrected neither by the development process nor by the programs designed for that purpose. Table 5 shows the evolution of rural poverty during the last decade. It can be seen that only Brazil, Chile and Panama show a significant improvement.

Table 5: Evolution of rural poverty in rural households (%)

Country	1989/1991	1993/1995	1998/1999
Bolivia	--	--	76
Brasil	64	53	45
Chile	34	26	23
Colombia	55	57	56
Costa Rica	25	23	21
El Salvador	--	58	59
Guatemala	72	--	65
Honduras	84	76	82
México	49	47	49
Nicaragua	--	79	73
Panamá	43	41	33
Paraguay	--	--	65
Perú (1,2)	64	56	61
República Dominicana(2)			34
Venezuela	38	48	--

CEPAL, 2003.

(1) The initial value corresponds to 1986, the rest were provided by the Instituto Nacional de Estadística e Informática (INEI).
(2) The value correspond to 1997

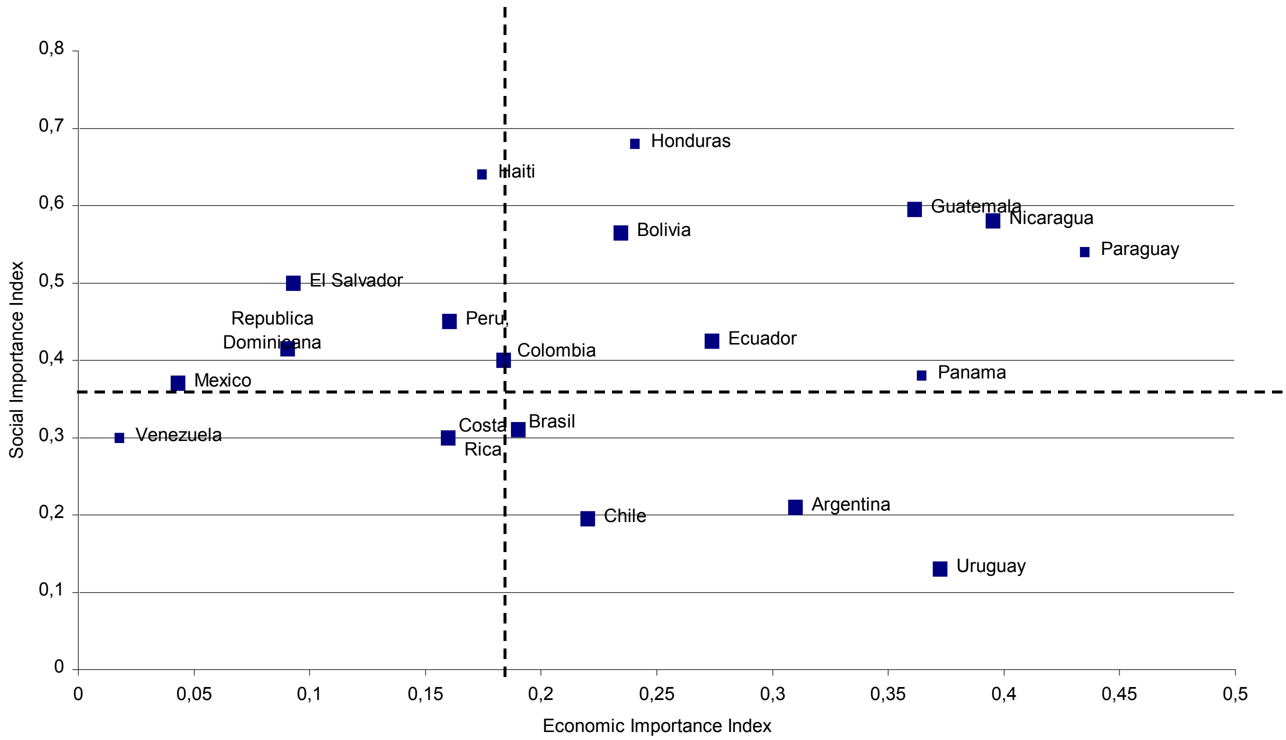
2. The importance of the agricultural sector: Heterogeneity and policy implication

The information presented in previous sections shows the importance of the agricultural sector in the context of the overall economy. This importance may be expressed in a summarized form by developing what we have called the economic and social importance indexes.[2]

Tables 1 and 4 present these indexes while Graph 4 presents the relative position of Latin American countries according to these indexes.

[2] The economic importance index is calculated as the average of the percentage participation of agriculture in total GDP and total exports. The social importance index is the average between rural population as a percentage of total population and rural poor as a percentage of rural population.

Graph 4: Latin America countries according to the economic and social importance of the rural sector (0.1 = 10%)



Prepared by the author based on data provided by: Bco. Mundial, ALADI, Bco. Central de Costa Rica, CEPAL, Ministerio de Ganadería de Uruguay, Secretaría de Agricultura, Ganadería Pesca y Alimentos (SAGPyA) Argentina.

The Graph shows an interesting distribution of the countries and these relative positions may be useful to understand the certain structural limits and political incentives that governments may have in the implementation of rural policies.

1) Countries that fall in the South East quadrant have, according to the value of the indexes, economically important rural sectors but with low social importance. In this case policy makers will have a considerable temptation to implement policies that extract the significant economic surpluses generated in the rural sector and to apply them in other sectors socially and or politically more important. Most of the countries that fall in this quadrant applied these types of policies during some period of their history. Argentina and Uruguay are clear examples of these cases.

2) In those countries that fall in the Northeast quadrant the rural sector is both economically and socially important. The logical behavior for policy makers is to have favorable policies for the rural sector that may benefit the rural sector and the whole country. However these policies will be neutral from a fiscal point of view, because they are not able to penalize agriculture but neither have the resources to subsidize it. Honduras may be a good example of this situation.

3) Countries falling in the Northwest quadrant have rural sectors that are not very important from a macroeconomic point of view but rural population is a large percentage of the total population and in most cases a large percentage of this population is poor. In these cases the political momentum will lead to rural policies that protect agricultural production and rural population. Subsidies will also be a part of these policies but the shear size of the problem will limit the impact of the subsidies that the rest of the economy is able and willing to contribute. Mexico is a good example of these policies.

4) Finally countries on the South -West quadrant represent those cases where the agricultural sector is neither economically no socially important. The small significance of the rural sector will make it possible to have an agricultural policy based on subsidies that maintain the level of income of rural population in politically acceptable levels. Venezuela exemplifies this situation.

It is also interesting to note that Brazil and Colombia that fall in the dividing line are good examples of countries with a complex agricultural strategy that includes a broad array of policies that vary for different crops and regions. This brief and schematic analysis attempts to show two things. First, the rural sector in the different countries of Latin America have many similarities and common problems but are, at the same time quite different specially in regards to the relationship and relative importance for the whole economy. Consequently, generalizations must be made with care. Second, the nature of this relationship with the rest of the economy is a major element in determining the political economy relationships that influence the nature of the economic and social policies that are implemented

III. Major trends in Latin Americas Agriculture

1. Introduction

During the 90s most countries in the region experienced very profound social and economic transformations. These transformations were mobilized by changes in the international context and by new macroeconomic policies widely adopted throughout the continent. In relation to the agricultural sector these policies where dominated by four major trends:

a) Market liberalization, which implied significant changes in relative prices that affected in different ways production costs of different agricultural products. In general the most competitive productions benefited and the less competitive suffered from increased external competition.
b) Development of private sector activities across the economy including a significant expansion of commercial agriculture. This implied a growing importance of new types and forms of agricultural production, the consolidation of the agro industrial sector, and a significant process of modernization and technical change.
c) A significant flow of external direct investments in a number of economic activities including the agro industry, specially in some of the larger and better endowed countries in natural resources.
d) In a number of countries, but not all, an explicit policy of reducing the size and the cost of the public sector in general and the rural sector in particular. This included the privatization of services and indirectly, in many cases, the weakening of the public sector institutions and a deterioration of their ability to provide necessary public goods like research, extension, and sanitary and quality control.

The impact of these trends on the production, productivity and agrarian structure was quite significant. There where a number of productions like soy beans in Argentina and Brazil, wines in Chile and Argentina, horticulture in Mexico an Guatemala, fruits and flowers in Costa Rica and Colombia that had intensive processes of technological innovation and modernization of the productive structure. Unfortunately these important processes where not homogeneous in their impacts and did not extend widely to all products and regions.

2. Modernization, growth and labor productivity.

The annual growth of agricultural production in Latin America during the 90s (2,6 %) was significant but no very different from what it was during the previous 20 years. A little bit higher than in the 80s (2,1%) and somehow lower than in the 70s. (3,5%).See Table 6. The variability between countries is relatively high, however only Haiti, country, that had very special circumstances, had negative growth.

Table 6 Latin America: Annual growth of agricultural production

	1970-1980	1980-1990	1990-2000
Argentina	2.1	1.6	2.6
Bolivia	4.1	1.9	3.0
Brasil	4.7	2.5	3.0
Chile	2.2	5.7	4.5
Colombia	4.4	3.0	1.5
Costa Rica	2.6	3.1	4.1
Ecuador	3.0	4.2	1.4
El Salvador	2.4	-1.4	1.4
Guatemala	4.7	1.3	2.8
Haití	1.5	-0.2	-2.9
Honduras	2.7	2.7	2.3
Mexico	3.4	1.1	1.9
Nicaragua	-0.1	-0.7	5.1
Panamá	1.3	2.5	1.9
Paraguay	6.7	4.0	1.7
Perú	-0.6	2.2	6.0
República Dominicana	3.4	0.4	0.4
Uruguay	0.6	0.2	2.2
Venezuela	2.9	2.0	1.1
América Latina	3.5	2.1	2.6

CEPAL (2003)

On the other hand, not all subsectors had an equally dynamic productive performance. Although some growth occurred in all mayor subsectors two of them clearly lead the group: Oilseeds, and livestock products while fruits and horticulture had significant but lower annual growth rates (Table 7)

Table 7. Latin America: Annual production growth rates of major agricultural sub sectors.

	1970 - 1975	1975 – 1980	1980 – 1985	1985 - 1990	1990 - 1995	1995 - 1999
Cereals	100	114	137	143	152	176
Livestock	100	127	149	163	196	242
Oilseeds	100	189	262	336	398	501
Roots and tubers	100	96	93	98	99	105
Vegetables	100	120	140	164	182	211
Fruits	100	116	135	156	181	202
Coffee	100	102	129	136	133	129
Sugar cane	100	120	149	174	178	197

CEPAL (2003).

It is interesting to note that the sectors that grew more rapidly are those closely associated with a high-income elasticity which, in turn, generates an expanding world demand. So it is possible to conclude that production in the region was responsive to world demand and markets

Modernization also implied a significant increase in productivity. Table 8 shows the average anual productivity increase in agricultural production during the period 1960-2000 for individual countries. The average figure for the region (1.20%) compares favorably with that of the high income countries (1.36%) and with the rest of the world (0.76%). Productivity increases in Brazil and Argentina are superseded only in two other countries, Australia (2.12%) and USA (2.11%).

Table 8: Total-factor productivity growth in RNR activities in LAC
(average rate of RNR TFP derived from empirical translog production function)

	Average TFP Growth (%)
Argentina	1.84
Bolivia	1.18
Brazil	1.93
Chile	1.20
Colombia	1.43
Cuba	1.17
Ecuador	1.28
El Salvador	0.53
Guatemala	0.79
Haití	0.97
Honduras	0.78
México	1.85
Nicaragua	0.79
Paraguay	0.74
Peru	1.36
Venezuela, BR	1.35

Taken from de Ferrantis, et al (2004)

Table 9 shows the changes in labor productivity, by country, between 1990 and 2000. Half of the countries had an increase of over 2% per year. The rest of the countries fall below that figure and in a two cases, Paraguay and Haiti, the figure is negative. These increases in labor productivity are the result not only of technological innovations but also of labor migration out of agriculture. Thus it would seem that the modernization process during the 90s had a favorable effect on labor productivity in the rural sector in, at least, some countries of the region.

Table 9. Labor productivity in agriculture

	Annual growth %	Production value per PEA dollars of 1995
Argentina	2.9	9461
Uruguay	2.3	7807
Chile	4.2	5084
Costa Rica	3.2	5254
Venezuela	2.0	4856
Brasil	4.4	4594
Colombia	1.4	3641
R. Dominicana	5.3	3361
Paraguay	-0.1	3062
Panamá	2.2	2741
Nicaragua	5.4	2302
México	1.2	2265
Perú	4.0	1914
Guatemala	0.8	1881
El Salvador	0.2	1701
Ecuador	0.7	1659
Honduras	1.5	1550
Bolivia	0.9	755
Haití	-2.4	339

CEPAL (2004) Desarrollo Productivo en Economías Abiertas

3. Impact of market liberalization and policy reforms: Some structural vulnerabilities

Market liberalization and policy reform led to an important process of modernization, investment and technological innovation which, as it has been shown above, led to a significant increase in production specially in certain products. Market forces where sufficient to mobilize the energy and production capacity of the commercial agriculture.

However in the absence of strong agricultural policies and a weak provision of public goods the modernization process did not have the capacity to generalize to all regions and products .As a consequence the agricultural development path was unequal and generated a number of vulnerabilities and social and regional inequalities that represent potential problems in the future. Some of them are described in the following section.

1. Agricultural production and export specialization

Agricultural exports represent, in most countries of Latin America, a very large proportion of total exports. Table 10 shows the contribution of major sub sectors to total agricultural exports. Ten sub sectors represent over 80% of total agricultural exports.

Table 10: Latin America Agricultural exports by Sub sector

	FOB Value (thousand USD)	%	% Accumulated
Cereals and Oilseeds	7.768.356	13%	13%
Flour, Pellets, Residues	6.709.385	11%	24%
Wood, Coal, Manuf.	5.800.277	10%	34%
Fruits	5.410.556	9%	43%
Meat and other	4.934.274	8%	51%
Fish	4.746.556	8%	59%
Sugar and sweets	3.766.941	6%	66%
Edible oils	3.400.296	6%	71%
Prepared Food	3.279.566	6%	77%
Coffee, Tee, Yerba Mate	3.095.363	5%	82%
Vegetables, tubers	2.737.690	5%	87%
Leather	2.327.309	4%	91%
Tobacco	1.636.859	3%	93%
Wool, Cotton and textile fibers	1.266.731	2%	96%
Plants and flours	1.169.697	2%	98%
Cacao	562.488	1%	99%
Milk products, Eggs, Honey	495.704	1%	99%
Malta, Starch, Gluten	202.409	0%	100%
Vegetable extracts	187.433	0%	100%
TOTAL	**59.497.889**		

ALADI

This specialization dramatically increases at a country level. Tables 11 to 15 present the figures corresponding to a sample of 5 countries. (Argentina, Chile, Ecuador, Colombia and Costa Rica). It can be seen that in all cases four sub sectors represent close to 80 % of total agricultural exports. Only Brazil and Venezuela (not shown) show a significant less degree of export concentration.

Table 11: Argentina: Agricultural Exports by Subsector

	FOB value (Thousand USD)	%
Cereals and oilseeds	3.415.264	28%
Flour, Pellets, residues	2.789.952	23%
Edible oils	2.086.653	17%
Fish	710.628	6%
Leather	685.361	6%
Meat and other	607.365	5%
Subtotal	**10.295.223**	**83%**
Total	**12.372.018**	**100%**

ALADI, 2002

Table 12: Chile: Agricultural Exports by Sub sector

	FOB value (Thousand USD)	%
Wood, Coal, Manuf.	1.948.594	31%
Fish	1.554.524	24%
Fruits	1.377.167	22%
Prepared Food	408.941	6%
Flour, Pellets, residues	340.306	5%
Subtotal	**5.629.532**	**88%**
Total	**6.381.519**	**100%**

ALADI, 2002

Table 13: Colombia: Agricultural Exports by Sub sector

	FOB value (Thousand USD)	%
Coffee, Tee, Yerba Mate	786.214	26%
Plants and flours	674.371	23%
Fruits	454.948	15%
Sugar, and sweets	340.585	11%
Prepared Food	171.308	6%
Fish	166.337	6%
Subtotal	**2.593.763**	**87%**
Total	**2.973.654**	**100%**

ALADI, 2002

Table 14: Ecuador: Agricultural Exports by Sub sector

	FOB value (Thousand USD)	%
Fruits	1.008.411	40%
Fish	692.685	27%
Plants and flours	292.654	12%
Cacao	128.588	5%
Prepared Food	121.330	5%
Subtotal	**2.243.668**	**88%**
Total	**2.533.882**	**100%**

ALADI, 2002

Table 15: Costa Rica: Agricultural Exports by Sub sector

	1999 % Agrifood	
Fruits	802.530	51%
Coffee	409.400	26%
Fish	123.900	8%
Subtotal	**1.335.830**	**85%**
Total	**1.569.213**	**100%**

Total exports	**4.950.200**	

PROCOMER, 1999

This significant concentration of exports in relatively few products has a number of problems: a) represents an important vulnerability to international price variations; b) imposes a limitation to the possible expansion of exports, c) restricts the favorable impact of exports in the generation of economic activity and employment to those regions in each country where the export products are produced.

2. Low value added of Agricultural exports.

Agricultural exports from Latin America have been dominated by commodities like soybeans, wheat and corn and products with relatively low price per ton like sugar, coffee and bananas. Although in recent years some diversification has occurred towards products with a higher value per hectare and per ton like fruits, horticulture and flowers and products with considerable value added like wines and beverages there is still a long way to go in this direction.

Although there are no figures for Latin America regarding the value of agricultural exports the problem may be illustrated by comparing the value per ton exported by Argentina and by other countries which are important agricultural exporters. (Table 16)

Table 16: Value in dollars per ton exported

Argentina	265
Canada	329
Australia	540
New Zealand	1285
Holland	1227
Denmark	1548

Cap y González (2002)

Although Argentina represents one of the worst situations in this respect it is probably representative of a wider situation in the region. This is a consequence of the specialization in the production of commodities, the low level of production of specialty crops and the low level of agro industrialization .The latter one has been strongly determined by the structure of tariff protection in the industrialized countries that protect the industrialized goods more heavily than the raw materials.

The low value added of agricultural production imposes a great limitation to the capacity of agricultural production to generate employment and economic activities that go beyond primary production

3. Concentration of production, assets and income.

Market liberalization policies had a positive effect in pushing the modernization of agriculture. However, as this process was accompanied by a progressive weakening of public sector institutions responsible for the implementation of agricultural policies and the provision of public goods, the benefits of this process where mainly captured by commercial agriculture and specially by larger firms. These firms, which in many cases, are multi product and multi region where able to develop significant economies of scale based on four elements :a) the distribution of climatic risks b) the distribution of price variations c) access to available technology, specially those technologies that are available internationally and d) better bargaining power in the markets of products and inputs that not always are transparent and competitive.

These production and marketing conditions have determined that in, at least some countries, the average size of agricultural firms has grown in a very significant way. This growth does not necessarily mean an increase in the land owned by the firms. In most cases growth is made possible by renting land, under a number of different contractual forms, and other types of associations with input suppliers and or other producers. In Argentina some estimates suggest that over 30% of cultivated land is done under different types of leasing.

These changes in agrarian structure have been accompanied by the emergence of new types of entrepreneurs highly mobile, impressive innovators that are able to attract urban capital into agricultural production. This process also implies the disappearance of many small producers that rent their land and live in small towns.

4. Limited impact of modernization on income distribution and rural poverty

Rural poverty did not diminish significantly during the last 20 years and probably has increased during the last three or four years due to the crisis in Argentina and Venezuela (FIDA, 2003).

It has been already shown in Table 5 above that the percentage of rural population that are poor diminished during the 90s only in Brazil, Chile and Panama. The overall figures for the region are heavily influenced by the good performance and large size of Brazil. In Central America, with the exception of Costa Rica, around 70% of rural population are poor.

Similarly Table 17 shows that modernization did not improve the distribution of rural income. Consequently income and land distribution in Latin America remain as one of the worst in the world.

Table 17 Income and land inequality in selected countries of Latin America

Countries	*Income Inequality: Gini coefficient 1986*	*Income Inequality: Gini coefficient 1996*	*Asset Inequality: Gini index for land distribution 1980-90s*
Argentina	0.50	0.53	0.85
Brazil	0.59	0.61	0.85
Colombia	0.57	0.56	0.77
Honduras	0.59	0.55	0.78
México	0.47	0.52	0.62
Venezuela	0.50	0.50	0.90

The World Bank. 2003

These figures and a number of studies suggest that:

a) The political and economic reforms applied in Latin America since the eighties where ineffective in reducing rural poverty. Rural poverty has slightly increased in the region and in most of the countries of the region (FIDA 2003)

b) The macro reforms of the 90s where necessary but insufficient to remove the structural impediments constraining the rural poor. Second generation reforms are needed to improve the competitive functioning of markets (World Bank, 2003).

c) Neither the modernization of agriculture with the qualitative characteristics it had, nor the social programs that have been implemented by the governments have been capable of effectively improving the situation in regards to rural poverty. The principal element that explains some improvement of rural poverty during the seventies and eighties is rural urban migration (de Janvry and Sadoulet,2000).

d) The frequent economic and financial crisis in the region have erased the small improvements that materialize during the periods of economic growth (FIDA 2003)

5. Public spending and the provision of public goods.

The economic and institutional policies implemented during the late 80s and early nineties in Latin America included an explicit objective of reducing public spending in order to improve the chronic fiscal deficit that most countries had carried for long periods of time.

Consistently with this objective a number of public institutions where dissolved and some of their functions transferred to the private sector. Most of the remaining institution faced financial difficulties and had to rely for some of their funding from private sources and / or selling some of their services.

Figures on public spending in the rural sector are hard to find ,not very reliable and difficult to interpret. A recent study by FAO provides some of the best estimates available for a sample of countries. Table 18 presents the percentage of total public spending allocated to the rural sector.

Table 18: Share of Spending on Agriculture in Total Spending of the Country (Percentage of Total Spending)

Country	Years										
	1980	**1985**	**1990**	**1992**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Brazil	7.90	3.50	1.90		2.70	2.20	2.20	1.30	2.50	1.00	
Mexico	11.60	5.30	3.10		5.80	7.20	7.90	8.30	8.70	8.60	
Bolivia					3.10	2.67	4.24	9.51	6.87		
Colombia		3.14	10.70		2.12	1.57	0.99	0.89	0.25	0.38	0.63
Peru							1.21	1.04	2.00		
Argentina		1.48	0.80		0.34	0.33	0.34	0.35	0.31		
Chile	1.80	1.70				2.22	2.32	2.52	2.54	2.32	
Costa Rica	3.40	3.70	4.10		3.20	1.17	1.73	1.56	1.61		
El Salvador	5.80	3.30	5.40		1.70	1.10	1.30	0.97	0.83	0.91	
Guatemala	7.90	3.20	4.20		1.38	1.11	1.61	1.84	1.35		
Nicaragua				4.00	8.00	5.00	8.42	7.41	9.14	5.69	
Dominican Republic	14.30	7.61	14.50		4.70	4.29	4.83	5.40	5.31	4.62	

Kerrigan, George R. 2001.

Figures indicate that the level of public expenditures in agriculture decreased between the late eighties and early 90s in all countries except Chile. After 1995 expenditures increased in a few countries. However it is important to note that overall expenditures, in general, decreased during that period.
Public expenditures in agriculture taken as a percentage of AGDP varies greatly among countries.(Table 19)

Table 19: Latin America and the Caribbean: Public Spending in Agriculture in Relation to Agricultural GDP (In Percentage)

Country	**Years**					
	1995	**1996**	**1997**	**1998**	**1999**	**2000**
Brazil		3.95	5.60	3.69	2.79	3.32
Mexico	12.14	12.93	13.63	12.76	13.28	15.15
Bolivia	1.62	1.46	2.09	4.52	3.33	4.32
Colombia	2.97	2.86	2.00	1.28	0.49	0.63
Peru	3.93	3.74	3.61	3.00	3.83	
Argentina	1.41	1.45	1.55	1.55	1.43	
Chile		6.68	7.96	8.30	8.38	7.61
Costa Rica		3.11	4.59	4.11	4.45	
El Salvador		1.35	1.67	1.44	1.15	1.49
Guatemala	0.68	0.58	1.01	1.40	1.01	
Nicaragua			9.97	8.33	12.40	7.30
Dominican republic	3.95	3.81	5.01	8.39	8.51	7.52
Average	3.81	4.53	4.89	4.90	5.09	5.92
Median	3.39	3.46	4.59	4.11	3.83	5.92

Kerrigan, George R. 2001.

Mexico shows a very higher figure of over 15% which is a result of the large rural development programs like PROCAMPO and Alianza para el Campo implemented for many years. On the other extreme Brazil and Colombia show low figures of 3.32% and 0.,63 % respectively. These low figures are probably explained by the more decentralized structure of public spending of these two countries.

Although public spending remained low the changes in the institutional organization had, in some cases, a beneficial impact on the efficiency of the institutions and in mobilizing the participation of the private sector in the management and evaluation of their activities. Unfortunately the institutional reforms in many cases implied a weakening of the main institutions that had responsibility in the provision of public goods that are necessary for economic and social development, such as technology, technical training, sanitary control, management of irrigation water etc.. In many cases the private sector that was supposed to assume these responsibilities in replacement of the public sector did not do so in an effective manner. In addition, even in cases in which they did, they concentrated their services in the more developed regions and focused on the needs of commercial agriculture thus depriving small farmers and marginal regions from necessary services. In a way these institutional processes created new economies of scale that favored the larger commercial farms.

Although the evidence is weak, World Bank estimates based on FAO figures suggest that public expenditures for the provision of public goods do not have a historical bias against the rural sector and in favor of urban areas and especially large cities were political power is concentrated. However, specific figures for education estimated by FAO indicate that investment per capita in education, in a sample of countries, are much higher in urban areas than in rural areas. It is likely that a similar situation occurs in relation to investment in physical infrastructure.

IV. Rural Development in Latin America: Lessons learned and present thinking

1.Evolution of the theory and practice of Rural Development in Latin America

The statistical information and arguments presented in the previous sections illustrate the central dilemma of rural development in Latin America. On the one side agricultural production is, in most of the countries, one of the main economic activities and a major source of exports and capital accumulation. As a consequence, agricultural production needs to be efficient and internationally competitive in order to contribute to overall economic growth. On the other side, in many countries of the region rural population represents a high percentage of total population and a large percentage of this rural population is poor. Consequently there is a high need for governmental assistance through programs that have a number of different objectives such as protecting less competitive production opportunities, obtaining a more equitable distribution of assets and income, providing immediate assistance to the poor and helping in the process of modernization of small producers. Resolving the dilemma and finding the correct and most effective balance between all of these conflicting objectives and doing so within the economic and political limitation that each country has, is a major element in designing the most adequate rural development strategy.

However, the theory and practice of rural development in Latin America has moved in a different direction. In most cases a majority of policies and programs applied in the rural sector deal with family farms and commercial agriculture and emphasize modernization and productivity objectives separately from the problems and the policies associated with poverty alleviation and agrarian structure issues. This lack of articulation is exemplified by the fact that the term Rural Development has been exclusively associated to the programs and policies directed to the small and poor farmers while the policies directed to commercial agriculture are identified as Agricultural policies.

Fragmentation in the theory and practice of rural development had three negative consequences:

a) It made difficult to conceptualize an integral policy that addresses the problems of rural economic activities and rural life taking into account the many complex interrelationships that exist between, for example, agricultural production, agrarian structure, distribution of assets and income and rural poverty.
b) Rural development programs were focalized on poor farmers and defined as self contained activities with a strong participation of public sector institutions and mostly funded by international agencies (Mexico and Brazil are partial exemptions of the later). These programs even when they were effective had limited effects, at least in relation to the magnitude of the problems, and where unsustainable over time.

c) The attention of policy makers and international financial institutions has, in many cases, focalized on the problems of the rural poor relegating the analysis and design of overall strategies for the rural sector that maximizes its overall contributions to national economic development. These strategies are specially important in countries where agricultural production plays an important role and should include the implementation of policies and programs needed for the modernization of agriculture and the organization and promotion of international trade.

Within this context of fragmentation the conceptualization of rural development in Latin America has evolved following changes in the international context, the development of social sciences in the region and the programs and policies that were proposed by international organizations. The following paragraphs attempt to describe, very schematically, the major conceptual elements that characterized the dominant policies and programs that were applied during different periods in the last 40 years.

During the 60s the dominant paradigm was technological change based on research and extension. A number of public research institution were created (the INIAs) following a similar organizational pattern. These institutions extended to the whole region to the point that at present all countries in the region, with the exception of Paraguay, have one. They where, in general, quite successful and became a trademark in Latin America. In some countries during this period there is a beginning of modernization and yield improvement based on the adoption of technologies but it had little effect on poverty alleviation.

During the 70s the main preoccupation is poverty alleviation. The World Bank has an important role in defining the rural development agenda. Action programs are based in rural development projects targeted to the modernization and improvement of market access of poor farmers. In a few countries like Peru and El Salvador significant land reform programs that had lasting effects were instrumented. The question of land and assets redistribution is an important preoccupation in the region.

During the 80s there is no dominant strategy. Is a transitional period that IDB called the lost decade. It is a decade when the region faces serious economic problems and has a very low economic growth. The rural sector shows great resilience and performs better than the rest of the economy. At the end of the decade a number of countries, like Chile, start to apply market liberalization policies. To a certain extent there is a rediscovery of the importance of technology and there are special efforts to help small producers adopt technologies derived from the green revolution (Berdegue et al, 2003)

During the 90s markets liberalization and privatization of public services become the dominant policies. These policies dominate and supersede the specific policies of rural development. The role of public sector institutions decreases, and the role of the private sector is enhanced and promoted. The concepts of agro industrial chains, vertical integration and agro industrial clusters emerge as driving forces. Trade and trade agreements and, as a consequence, quality and sanitary themes emerge as greatly important

During the early years of 2000 a new vision of an integrated rural development strategy based on a territorial perspective becomes the dominant way of thinking at least in the academic world and in international organizations. This vision, which is described in more detail in section IV.4 below, emphasizes the rural-urban relationships, the importance of non-agricultural employment, and the macroeconomic relationships of agriculture and rural life with the rest of the economy. This is the beginning of a new paradigm that may have an important impact in the theory and practice of rural development in Latin America.

2. A brief review of the major programs and policies for rural development[3]

Public interventions in the rural sector have been substantial and continuous in most of the countries in the region. After world War II when an import substitution strategy dominated macroeconomic policy an agricultural policy directed to market administration, price and production support and socials program where common in most countries[4]. The objectives and specific instruments have changed during the years and the intensity and complexity of interventions have drastically decreased after the late 80s. Some of the specific and most important programs and agricultural policies are briefly mentioned below. They have been grouped in four major categories: a) market administration, b) productivity, c) focalized rural development projects and d) land access facilitation.

1) Market administration

Regulation and administration of product markets where important in many countries during the early part of the period considered. For example Argentina had powerful marketing Boards that regulated cereals, meat, sugar cotton and a few other products. A number of countries including Colombia, Costa Rica, and Guatemala had institutions that regulates the marketing of sugar and coffee. In Mexico CONASUPO regulated the marketing of a large number of products and inputs. Most of these institutions and mechanisms have been eliminated during the last decade but they are still significant in the two larger countries Mexico and Brazil and to a lesser degree in Costa Rica and Colombia. Some countries have retained market administration institutions or mechanisms only for some products that have special productivity or structural problems. An example of these situations is Sugar Cane in Argentina.

In Brazil public expenditures for these types of interventions still represent over 60% of total expenditures in the rural sector. They include a number of different instruments and a number of products including wheat, corn, rice and cotton.

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[3] This section borrows extensively from Kjollestrom,2004

[4] Although the objectives of these policies and their impact were very heterogeneous in many cases they resulted in a bias against agriculture.

Mexico has eliminated, as a consequence of the NAFTA trade agreement, price guaranties for all products with the exception of corn and beans. The two major programs that are now in operation are ASERCA which facilitates the marketing of wheat corn and sorghum through a price support mechanism and PROCAMPO that is a direct income support program. Recent studies suggest that PROCAMPO has been quite effective in improving the conditions of the poor in spite of the fact that a large proportion of the resources go to large farmers. (de Janvry and Sadoulet, 2003 and Coady and Harris, 2004)

2) Productivity

The basic instruments to be considered under this heading refer to the provision of two fundamental public goods: research and technology and animal health and plant pathology. All of the countries of the region have created specific public organizations to deal with these issues.

In regards to research and technology development the three larger countries Argentina, Brazil and Mexico have well developed institutions, with substantial funding and sizeable human resources. They account for around 80% of total public investment in the region. Other countries like Chile, Colombia, Dominican Republic and Uruguay have smaller but functional organizations that have contributed effectively to agricultural innovation. In most countries public funding represents almost 80% of total investment in research and development in the agricultural sector. In Mexico and Colombia private investment represents closer to 50% which in the later is explained by the Fondos Parafiscales a special mechanisms of assessed contribution from the private sector.
A number of studies suggest that the economic returns to these investments have been high (see for example Pardey et al, 2003, Alston, Norton and Pardey, 1995 and Rosenboon, 2003).

Regarding sanitary issues all countries have created specific organizations with a mandate on this area. The size and efficiency of these organizations varies greatly between countries but, in many of them , as for example in Uruguay, Brazil, Chile and Mexico the function is performed quite effectively

3) Focalized rural development projects

Large rural development project that concentrated an integrated effort in a selected region or community where a central element of the rural development strategy in the 70s. These projects were the flagship of Rural Development strategies that focalized on the poor. Substantial resources, to a great extent funded by international funding agencies, were invested on these projects specially in Colombia, Brazil, Bolivia, Peru, Ecuador, Chile and Cost and some of the countries in Central America. The Integrated rural development projects funded by the World Bank where a major element of the Rural development scenery in the region. They had a substantial impact on the thinking and where an important source of practical experience.

In some countries like Chile there is a specific institution that has the responsibility of executing these projects (INDAP) In other cases the responsibility has been shared by several organization, including the Ministries of Agriculture and/or Social development (Argentina, Ecuador) and in some cases special managing structures, with a considerable degree of autonomy, where created (Colombia)

In recent years these programs are being substituted by poverty focused cash transfers, in some cases with some conditionality in terms of children, schooling or health prevention. Mexico, Brazil, Colombia, Nicaragua and Honduras have implemented this type of programs that benefit more than 10 million people. (de Ferrantis et al, 2004).

4) Land access facilitation

During the 60s and 70s the uneven distribution of land was considered to be one of the main limitation to the development of the rural sector. Two main instruments where utilized: a) land settlements organized and partially funded by the public sector and b) land reform

Land settlements were developed in most countries. The government obtained land either by using government owned land, by expropriation to large land owners, or by acquisition of land at market prices. This land was subdivided and allocated to selected families under very favorable conditions. The government had the responsibility of developing the necessary infrastructure and of providing credit and technological information. These programs implied substantial investments per family and, in addition, they were not always successful and sustainable from a production point of view. For these reason they had a very limited impact.

Serious land reform programs were developed only in a few countries of the region, mainly in Mexico very early in history and more recently in Chile, El Salvador, Nicaragua and Peru. In addition, more limited actions have also been carried out in Brazil and in Bolivia. The impact of these processes are still under evaluation but it is probably fair to say that in general they had negative effects on production and productivity and positive effects on the distribution of wealth and political power.

More recently considerable efforts, both practical and intellectual, have been made in the development of land markets mainly through an improvement of the legal framework and more effective financial instruments.[5]

[5] It is interesting to note that in this recent discussion the potential impact of an appropriate and specific important fiscal policy has been neglected.

Although the experience is limited there is a growing evidence that the impact of a well developed land market may be potentially very effective in improving land use from a productive point of view. The impact on the redistribution of land ownership is questionable and very dependent on the existence of a well developed financial market that makes land purchase more accessible to the poor.

In addition to these four major categories agricultural policy included a number of other policy instruments. One of the most important was special subsidized lines of credit designed for the promotion of technological innovation, the production of specific products or the facilitation of investments in unfavored regions. The line of credit for promotional purposes has greatly diminished with the virtual disappearance of government owned banks during the 90s. There is considerable evidence that suggests that the privatization of financial services has also implied the reduction of credit opportunities in the more remote and poor rural areas.[6]

Fiscal policy has bee less used with promotional or distributional objectives. However some countries like Argentina have used it extensively, for both purposes. Export taxes have been applied to capture fiscal resources from agriculture and specific tax breaks have been used to promote investment in less favored regions.

3. Lessons learned

The accumulation of knowledge and experience in the area of rural development during the last few decades has been significant and a growing convergence in the diagnostic and in the recommendations can be found in the literature. In particular the main international organizations like the World Bank, IDB, IFAD, FAO and IICA have converged in their visions and proposals on rural development. [7]

A recent publication prepared by IDB after extensive consultation within the region (IDB April, 2004) describes a number of general conclusions, or lessons learned, that can be summarized as follows

1. The way we have conceptualized rural development in Latin America was not very useful. It negatively affected the quality of the strategies and policies for the rural sector, confused agriculture with the wider concept of rural life and underestimated the importance of the latter.

2 Rural development has not been addressed by a global strategy and with sufficient funds to deal with the magnitude and complexity of the problems. The strategy used has been based in individual projects which are relatively small, lack continuity and are not sufficiently related to global economic policies and national development strategies.

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[6] For an extensive discussion of this topic see de Ferranti et al, 2004.

[7] These organizations and a few aid organizations of individual countries have created an interagency group to exchange ideas and information on rural development.

3. It is not possible to significantly reduce the level of rural poverty in the absence of a vigorous economic growth, an adequate access to international markets and an improvement in the distribution of income.
4. Economic growth is a necessary condition to reduce the level of rural poverty but it is not sufficient by itself. A good part of the observed reduction in rural poverty has occurred through rural migration without an improvement of overall national poverty.

5.The strategies and policies for rural development should be coherent with macroeconomic policies and must include the totality of the rural space and include rural -urban relationships

6. Rural development strategies must take into consideration the heterogeneity of rural poverty situations in relation to the sources of income and of the possible avenues for escaping rural poverty.

7. The institutional structure that now exists is insufficient to deal with the complex problems of rural development. We need to give a new and decisive attention to institutional development, modernizing the public sector and allowing for a stronger participation of local governments and civil society.

8. The problem of the unsustainable use of natural resources cannot be resolved by the sanction of new laws and regulations. New policies and economic incentives directed to change the individual behavior of people, firms and institutions are needed.

These eight points represent in a nutshell some of the major shortfalls that have been identified in relation to the strategies and policies of rural development implemented during the last few decades. Now, on the basis of this diagnosis, a new and more integrated and complex set of proposals are emerging in the region .The main points are described in the next section.

4. New perspectives: “La Nueva Ruralidad” [8]

Building on the previous experience and on these lessons a new and evolving perspective, first articulated by IICA under the Spanish term “La Nueva Ruralidad” (Echeverri and Rivero, 2002), is developing.[9] It starts by recognizing that rural development is a simultaneous and interrelated process of production modernization and social and institutional development in a specific rural territory. In this perspective the concerns are not limited either to agricultural production or to the rural poor. All the rural population

[8] This section was developed on the basis of Echeverri and Rivero (2002), Schejtman and Berdegue (2003) ; Braun and John-Abraham (2004); IDB (2004)
[9] This new perspective was discussed and further developed in a number of articles and presentations by the institutions that participate in the “Grupo Ineragencial”. FAO regional office has been an active proponent and IDB, IFAD and CAF have incorporated the concept on their Rural Strategies documents

and all the economic activities that are developed by that population in a given territory are the focus of the analysis together with the ways and means in which natural resources are utilized through time. In this way the territorial approach allows for the integration of sectorial and spatial perspectives and policies and integrates productivity and poverty issues in one common vision.

The rural territory is taken as a social construct with a historical identity and rural development is seen as a process that leads to the better and sustainable use of human and other types of resources that increases production, productivity and the well being of all the population on a long term and sustainable manner

This territorial approach seeks to bring the design and implementation of development programs to the local and sub regional levels towards a common strategy for resource mobilization and economic development. But instead of conducting programs in relative isolation, sector by sector or village by village, territorial development offers a strategy to reach beyond administrative borders to areas that are natural social constructs defined by watersheds, social common heritage, homogeneity of natural resources and production processes etc. It responds through a multi-sectoral approach, linking key stakeholders (local governments, producers, civil society organizations, decentralized sectoral authorities) through local decision making structures that are connected to the sub regional and national spheres. The strategy also emphasizes the importance of linkages between rural and urban sectors. It aims to bring rural areas closer to towns and secondary cities, presenting greater opportunities for access to resources knowledge and social life.

It is based on two principal pillars:

1) Modernization of production that implies technological innovations in products, processes and management and the articulation of the territory to dynamic markets. Production includes agricultural production, processing activities, nonagricultural activities and services like tourism.
2) Institutional development in order that necessary public goods are produced and the benefits of modernization are equitably distributed among all social sectors. Public organizations need to be created and /or strengthened and a wide network of institutions both public and private needs to be developed with the common objective of rural development.

The implementation of a rural development strategy based on a territorial perspective also requires the simultaneous implementation of a wide set of policies and public interventions. The Rural Strategy papers for Latin America prepared by the World Bank in 2003 and IDB in 2004, after wide consultation, suggest the following priority lines of action:

1) An improved framework of public institutions aimed at sectorial integration, linkages between rural and urban and local and sub regional levels, and increased participation of local actors and beneficiaries of rural development programs. A strong institutional framework will help to increase efficiency of

resource allocation facilitate private sector investment and improve cross-sectoral planning. A renewed effort in strengthening the institutional capacity for the definition and application of policies the management of projects and the provision of public goods such as market information, sanitary and phitosanitary regulations, export promotion etc. In particular strengthening technological innovation as a principal source of competitiveness and efficiency. This includes: a) the adaptation and implementation of organizational and managerial principles that have been successfully applied in a number of countries in the region and outside the region, b) the development of stronger public/private alliances in the generation and transfer of technology. c) new and strengthened funding mechanisms that increase public and private funding and improve the efficiency and impact of innovations.

2) Development of small holders /private sector alliances in the production marketing chain in order to insure a better access to markets and to improve the distribution of the economic benefits.
3) A concentrated effort in improving the access to land and the sustainable utilization of natural resources. Land regularization, certification, titling, and registry to improve tenure security and land market transactions for ownership and other contractual arrangements.
4) Improve the access, efficiency and cost of rural finance as a means to improve efficiency in production and greater equity. Access to financial instruments as a critical factor to development. Sound financial instruments facilitate the long term investments required to diversify and modernize production, improves economic opportunities for small producers makes new technologies available and facilitate investment in non farm activities.
5) Improve the organization and transparency of product and input markets. Access to markets will provide the rural area with products and goods needed to improve quality of life and to carry out rural business. On the other hand, better access to markets will help small holders to locate demand for rural products and services thus providing them with opportunities to expand their economic activities to new markets.
6) Foster a Rural Space approach and the concept of community driven development. This implies the empowerment of local actors and building human and social capital.
7) Promote municipal and regional development. This implies a clear recognition of the interrelations that exist between urban and rural areas in the context of a continuum of mutually reinforcing and fully integrated activities and markets. Thus rural development is not based only on agriculture but also on non farm activities and markets.
8) Strengthen natural resources management, particularly in risk –prone areas. Assessing the most appropriate trade offs between short term private benefits and long term social costs will allow finding the win-win combinations for development and conservation
9) Promote social inclusion while respecting cultural diversity
10) Expand the delivery of basic education and health services.

11) Strengthen risk management and safety nets. To enable the rural population to better withstand market changes .The importance of this element increases under globalization trade liberalization and the weakening of public sector intervention in the markets. Safety nets are essential to protect the poor and to facilitate the transitional period of adaptation to the new production and market conditions brought about by trade liberalization
12) Development of rural infrastructure including among others irrigation, roads and telecommunications

5.Convergence with rural development concepts and strategies in the EU

Rural development has been a central theme in the development strategies and the economic and social policies implemented in the EU after World War II. The CAP was, from the very beginning, an ambitious set of policies directed to the development of the rural sector with a clear objective of increasing production and maximizing the contributions of agricultural production to overall economic growth. However, until 1988 the CAP was mainly oriented to deal with issues of production and productivity and was based on two principal policies: a) price support and b) structural transformation. (Perez y Caballero 2003) This preoccupation with structural and, to certain degree, with environmental issues implied that the CAP included special policies directed to the rural poor, the development of the more disadvantaged regions and the conservation of natural resources.

In recent years the tremendous success of the CAP from a production point of view and the new environment in the multilateral trade negotiations has led to important changes which include more reliance on direct income payments, a greater emphasis on rural and environmental issues and the inclusion of rural tourism as an important economic activity.

The concepts now being developed in Latin America like the concept of Nueva Ruralidad which emphasizes rural development with a territorial perspective has many common ideas, and actually borrows extensively, from concepts and policies developed in Europe around the formulation of the CAP. Perez and Caballero (2003) summarize the convergence of the thinking on rural development in both regions in the following way:

a) growing emphasis in the concept of territory and the explicit inclusion of other economic activities besides agricultural production as important functions or services provided by the rural sector.

b) Wider recognition of the significant relationships between small cities and the rural space surrounding them

c) Recognition on the importance of non agricultural activities as a source of income of rural families and the complementary and interrelationships between agriculture and other activities.

d) New recognition of the importance of the residential function of the rural space beyond its productive functions and, consequently the importance of providing social and services and appropriate physical infrastructure to the rural population.

e) Recognition of the growing integration of the rural space to products and inputs markets in the context of globalization and the importance of territorial competitiveness as opposed to sectoral

f) Recognition of the economic importance that geographical, cultural, historic, and ecological elements associated with a particular territory may have.

g) Greater emphasis in the participation of the different social groups that are part in the design and application of rural development programs

It is important to note that the Nueva Ruralidad that is evolving in Latin America and the new more integrated conceptualization of the CAP, exemplified by the notion of a Multifunctional rural sector, are concepts and policies that are evolving in both regions. They have not been totally internalized in the thinking of all governments and institutions or translated into totally consistent policies. There is still a long way to go, specially in Latin America, in the process of developing more refined and rigorous formulation of the concepts and in the construction of the most appropriate public policies for a successful rural development.

V. Concluding comments on policy and interregional cooperation

The analysis presented in the previous chapters shows the crucial importance of the rural sector for the development of Latin America. Its contributions to capital accumulation, trade and regional economic activity and employment are central components of an overall development strategy in most of the countries in the region.

This importance of the rural sector has been rediscovered in recent years, as a consequence of the trade liberalization policies of the 90s. These policies showed, in Latin America, the difficulties and limits of industrialization in a globalized international context and the resilience and potentiality of agricultural production under the new international economic and trade conditions.

A second element that works towards a wider recognition of the importance of the rural sector is related to the new concerns on environmental and natural resources conservation issues and on food safety. These growing concerns, which are also an indirect consequence of globalization, have resulted in a civil society more alert to rural life issues and more willing to raise a sympathetic voice in favor of the rural sector.

These changes in the real importance of the rural sector in economic development and in the public perceptions about the significance of rural life for the countries as a whole explain not only the new programs and public policy on rural development but also the hard negotiating positions that many Latin American governments have taken in multilateral negotiations regarding the agricultural sector.

Latin America has the opportunity and the challenge to define long run economic development strategies that take into consideration and fully utilize the full potential of the rural sector as an engine of growth. Thus, in Latin America, Rural Development policies and programs must be concerned not only with the problems of rural poverty, inequality and employment that affect the rural sector in itself but must include, as a main objective the maximization of the contributions the rural sector makes to overall economic development

In defining a strategy for Rural Development the consideration of present and future impacts of trade liberalization on the rural sector is a major element. The empirical evidence suggests that these impacts are important and in the aggregate, favorable to the rural sector. However it is also true that the impacts are very heterogeneous between countries, products and social groups and the adjustment process will be long and difficult and many social groups will loose.[10]

Two elements, that are integral parts of a rural development strategy, need to be stressed. First, the need to develop special programs to assist the rural sector to restructure and adapt to new price and production conditions and market opportunities. Second, the

[10] This theme is treated by a companion paper by Alberto Valdes and will not be dealt here.

urgency of strengthening appropriate social programs designed to sustain the livelihood of those that have been negatively affected by trade liberalization. Compensation is, as the experience in the EU suggests, a necessary economic costs to ensure the social and political sustainability of reforms

With this perspective in mind the following areas would seem to be fruitful opportunities for cooperation between the two regions:

1. Joint research programs on the conceptualization and analysis of practical experiences on rural development in both regions.
2. Joint activities on research that may lead to an acceleration of technological innovation in the rural sector
3. Information and analysis of experiences in decentralization of government, institutions and implementation of rural development programs. Monitoring and evaluation of decentralized activities.
4. Analysis and evaluation of experiences in direct income support programs

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