

## **RURAL TERRITORIAL DEVELOPMENT**

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There is no globalization worth its name if there are no functional localities  
Carlos Fuentes

**Ibero-American Forum, Toledo, Spain  
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## A. INTRODUCTION

Four out of every ten Latin Americans live in poverty (ECLAC, 2002). Depending on the country, between one fifth and up to 86% of the rural population is poor (Valdés and Wiens, 1996). Rural poverty levels have remained constant over the last thirty years (de Janvry and Sadoulet, 2002), and as a consequence, there are more rural indigent today than there were 20 years ago (Berdegué, 1998).

### Box 1 WHY THE NEED FOR RURAL DEVELOPMENT?

High income urban neighborhood in Santiago, Chile	Rural neighborhood in southern Chile, w significant indigenous population
A newborn child has a 0.2% chance of being born into a poor household, where a family member has received no education	A newborn child has a 33% chance of being born into a poor household, and an 8% chance of having an illiterate family member
Average household income of USD3,500 per month	Average household income of USD276 per month
On average the child's mother will have completed 15 years of education, and the likelihood of the father being unemployed will be approximately 5%	On average, the child's mother will have completed 6.5 years of education, and the likelihood of the father being unemployed will be approximately 12%
There is a 3.5% possibility of the child being born underweight	There is an 8% possibility of the child being born underweight
During their first year of life, no more than 5 in every 1000 of these children will die	During their first year of life, 22 in every 1000 of these children will die
During their preschool years, 86% of these children will attend kindergarten	During their preschool years, less than 20% of these children will attend kindergarten
In their fourth year of primary school the average Ministry of Education evaluation (SIMCE) scores will be 294 points; 292 points in their eighth year	In their fourth year of primary school, average SIMCE scores will be 250 points; 243 points in their eighth year
There is a 2% possibility of secondary school (9th to 12th grade) students abandoning school	There is a 25% possibility of secondary school students abandoning school
Regarding health, 87% of such children believe their health to be good or very good. As they grow older, 66% of women are likely to have regular cervical smear tests; their risk of fatal gallbladder cancer is five times lower, and the risk of cervical cancer is four times lower. Among men, the risk of fatal stomach cancer is 3.7 times lower than in the rural sample	Regarding health, 55% of such children believe their health to be good or very good. As they grow older, only 42% of women will carry out regular cervical smear tests, and the risk of fatality due to the most common diseases will be higher; 5 times greater for gallbladder cancer, and 4 times greater for cervical cancer. Men will be 3.7 times more likely to die from stomach cancer than people living in Santiago
Additionally, these inhabitants will have 30 times less risk of being murdered compared to those living in lower socio-economic levels; and will be 13 times less likely to commit suicide	Additionally, such inhabitants will have a 30 times higher risk of being murdered compared to those in the upper socioeconomic brackets
Life expectancy will be 14 years more than for those born in the district of Loncoche in Southern Chile	Life expectancy will be 14 years less than those born in the Las Condes neighbourhood of Santiago
<b>Source:</b> Adapted from the study carried out by Sandoval 2003	

The situation clearly outlined in Box 1 is commonly found in all countries that make up the region. Although many of the root causes of rural poverty lie outside of this particular sector, it is indisputable that rural development policies implemented over the last thirty to forty years have had little or no effect, even in countries that have witnessed significant economic growth.

A growing number of people are now of the opinion that if we really want to attain positive results in the future, we need to adopt a radically different approach.

In the search to identify new solutions, over the past four or five years, regional debate has become more emphatic regarding a so-called “territorial approach to rural development.” Numerous practical and theoretical initiatives, public and private, national and international, have voiced their support for this new approach.<sup>1</sup>

However, despite growing interest, new awareness regarding this issue has not developed to the point of becoming an innovative theory that can be put into action. This is due to three factors: (i) theoretical advances, especially those regarding rural issues, tend to be confined to particular disciplines and little effort is made to articulate these advances; (ii) few practical initiatives for rural development and to combat poverty incorporate a territorial approach, and those that do have only done so recently. As such, results regarding the effectiveness of this approach are limited; (iii) although national and international organizations responsible for rural development and combating poverty have expressed support for a territorial approach, they have not been able to bridge the gap between words and concrete actions.

The aim of this document is to provide input to the ongoing discussion process vis à vis territorial approaches to rural development, with the objective of contributing elements that offer an operational “road map.” This should help to clarify the current debate regarding “new rural perspectives” and, particularly, the need for rural poverty and its eradication to be firmly placed at the forefront of public and societal concerns.

This is imperative given that governments and international agencies are examining rural issues more attentively.<sup>2</sup> For such a political opening to be possible, coherent and substantial proposals must be identified, focusing on investments made in assets to promote growth, as opposed to repetition of more conventional methods, or those that favor direct transfers to the poor in the form of social development funds.

Additionally, identifying a territorial approach to rural development offers the opportunity to link up issues related to rural poverty with other areas currently under debate and exposed to public intervention, such as local economic development, competitiveness, decentralization, State modernization, and small and medium enterprises and the environment, amongst others.

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<sup>1</sup> An example of this growing interest was the 2002 Mink’a de Chorlavi Fund contest inviting Rural Territorial Development projects, which received 189 proposals: <http://www.fondominkachorlavi.org/>

<sup>2</sup> The Inter-American Development Bank (IADB) alone currently has a *pipeline* of rural projects covering the next two and a half years, at a cost of USD1 700 million (Rubén Echeverría, personal communication).

Following this introduction, the paper divides into four sections. In section B, we discuss the challenges and conditioning factors facing modern rural development, on the basis of critical analysis of traditional approaches and new on-going experiences in countries throughout and beyond the region, as well as proposals offered by international organizations that take part in Latin American rural development. Section C presents an analysis of new theoretical inputs that may be useful for providing Rural Territorial Development (RTD) with a greater level of consistency. Following this, section D provides a definition of RTD and eight criteria which, as far as we are concerned, help to establish a “road map” for the design and implementation of RTD programs. The last section offers a summary of the entire document.

## **B. CHALLENGES AND DETERMINANTS OF RURAL DEVELOPMENT**

### **1. New characteristics and determinants of rural development**

Among the structural factors that need to be considered when drafting rural development policies and strategies, are processes involving globalization, scientific and technological development, changes to the economic rules of the game, transformations within the structure and dynamics of rural employment, and decentralization processes. All play a major or minor role in the ability of rural institutions to adapt.

#### *Globalization and trade liberalization*

Independently of whether or not one considers globalization to be a new phenomenon, there is no denying that its present manifestation is qualitatively distinct from anything witnessed in the past. As Castells (1999, p. 259) aptly noted: “...this is an economy whose core activities work as a unit in real time on a planetary scale.” International trade and capital markets are articulated globally and operate 24 hours a day irrespective of the physical distances involved; the instruments that make this all possible arise from Information and Communication Technologies (ICTs).<sup>3</sup> New supranational actors such as the World Trade Organization (WTO) and transnational corporations have emerged and consolidated their influence, thereby introducing a new organizational approach to both production and coordination.

As a consequence, given that processes involving the opening up of regional economies have led to growth being increasingly dependent on competitive insertion in open global markets, the ability to compete at global level has become an indispensable condition for rural economies to remain viable. This has caused three types of problems: (i) greater

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<sup>3</sup> More than one trillion US dollars (a million times a million) circulate each day in global monetary markets; “measured as a stack of 100 dollar bills one on top of another, this would be 20 times higher than Mount Everest” (Giddens, 1999, p. 10).

macroeconomic vulnerability of developing countries to external shocks, given their limited capacity to control such events;<sup>4</sup> (ii) an imbalance between the heightened mobility of capital flows and restricted mobility of manual labor – especially for people who are less qualified – with all the subsequent repercussions on worsening income distribution and poverty; and (iii) the concentration of new technologies in developed countries, under circumstances where this has become a critical factor in relation to export dynamics.

The implications are evident if we take into account, on the one hand, the close relationship between growth and export dynamics (Maddison, 2001) and on the other, the fact that such dynamics are in direct proportion to the level of knowledge or technological density involved in production processes.<sup>5</sup>

A classification of world trade by four categories of goods – raw materials, natural resource based manufacturing,<sup>6</sup> manufacturing that is not natural resource based but technologically “mature”,<sup>7</sup> and technologically “new”<sup>8</sup> non-natural resource based manufacturing – shows clear differences in terms of growth dynamics. According to information for the period 1962-1985, while trade in raw materials grew at a cumulative rate of 1.6%, trade in natural resource based manufacturing grew by 3%, in technologically mature goods by 6.8% and in technologically new goods by 8.1% (ECLAC, 1990).

Table 1  
LATIN AMERICA: GLOBAL MARKET SHARE PER PRODUCT CATEGORY  
(percentages)

<b>Market share</b>	<b>1985</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>
	5.79	4.72	5.16	5.97
Raw materials	11.83	10.72	11.61	12.04
Natural resource manufactures <sup>b</sup>	7.64	6.48	6.79	7.03
Non-natural resource manufacturing <sup>b</sup>	2.58	2.69	3.45	4.6
- Low-level technology	3.21	3.28	4.14	5.34
- Mid-level technology	2.47	2.85	3.85	4.95
- High-level technology	2.13	1.76	2.2	3.64
Others	4.16	3.16	3.72	4.83

<sup>4</sup> The crises in Mexico (1994), Thailand, Indonesia and Korea (1997-1998), as well as those in Argentina and Uruguay, are sufficient evidence of the potential “stampede” that can be caused by the “electronic herd” (Blustein, 2001).

<sup>5</sup> This is down to the still incipient insertion and dissemination of “new technological developments” (information technologies, biotechnologies and new materials), which can reduce the comparative advantage derived from the endowment of natural resources and cheap manual labour.

<sup>6</sup> Processed foods and products made from wood, as well as mining and energy products.

<sup>7</sup> Mainly textiles, clothing, and iron and steel products.

<sup>8</sup> Mainly metallurgical and chemical products.

**Source:** Moguillansky, 2002.

Latin American and Caribbean participation in world trade is concentrated for the most part in the two less dynamic categories. This trend has remained relatively constant since the 1980s (Table 1).

#### *Globalization of agrifood systems<sup>9</sup>*

Another conditioning factor is the trend towards the concentration and transnationalization of agrifood industries, a process that has notably quickened in pace because of structural adjustment policies implemented to attract direct foreign investment. In the case of supermarkets, this trend meant that by the end of 2001 retailers were dominating the local food retail market in a significant number of the region's countries, at an average level (population-weighted) of 60% in the larger countries and/or those with the highest incomes (Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico), and at levels varying between 73% in El Salvador, 42% in Honduras, 35% in Guatemala, and down to 15% to 20% in Nicaragua. Estimates made by Reardon and Berdegué (2002) indicate that supermarkets are trading approximately twenty-four thousand million dollars worth of fresh vegetables and fruit in Latin American markets compared to the ten thousand five-hundred million dollars traded in non-traditional exports in the twelve countries studied.

This development has created serious challenges for raw material producers, given that the purchasing practices of supermarket chains and large food processors (quality and safety standards, packaging, cost, volumes, consistency, methods of payment) are transforming the rules of the game. Furthermore, by extending and intensifying the consumer market and creating opportunities for more dynamic requirements, supermarkets are also potential motors for primary production.

#### *Asymmetric impact of changes to the rules of the game*

Sectoral policies have been subordinated to macroeconomic policies and market rules. In effect, fiscal adjustment, the unification of exchange rate mechanisms, strengthening of property rights, deregulation of internal markets, privatization, trade liberalization, the elimination of foreign investment barriers and financial liberalization, have all been applied to a greater or lesser degree in each of the countries in the region at different times. Consequently, many sectoral instruments used in the past such as subsidies, differential exchange rates, tariffs, the purchasing power of state-owned companies, price fixing of basic goods, amongst others, have all but disappeared, thereby altering the rules governing the region's economies in recent decades.

In the rural sector agricultural enterprises with land suitable for the production of exportable goods and those with the capacity to access credit and possessing technology and

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<sup>9</sup> Derived from Reardon and Berdegué (2002).

information regarding internal and external market conditions, have taken advantage of the opening up and increasingly powerful nature of markets through globalization. This means that benefits are concentrated on specific products in selected regions by medium to large-scale producers. Without diminishing the positive aspects of these developments, there is an ongoing risk that the exclusive and restrictive nature of the region's agricultural modernization process will be exacerbated. An additional problem is that opening up markets tends to accelerate the process of exposing producers to greater levels of competition and tends to be accompanied by a reduction in state support to protect smaller producers.

Such asymmetry vis à vis the impact of these changes is a consequence of the structural characteristics of the rural sector. A bimodal production system has been in place since the establishment of farming estates and plantations (Fajnzylber and Schejtman, 1995), and this is coupled with an entrepreneurial sector comprised of large capitalist units and a huge expanse of heterogeneous family units with varying approaches as to the way resources are managed.<sup>10</sup>

#### *Imperfect markets and transaction costs<sup>11</sup>*

One of the obstacles faced by rural development is the absence or imperfection of key markets that would allow price systems to behave predictably. The need to perfect the performance of rural markets is a high priority in terms of creating options for rural employment. The activities of small producers, in particular, are characterized by participation in an arena in which the behavior of credit, insurance, technology, information, labor and other markets, cannot rely on the assumption that market-determined equilibrium prices apply equally to all participants.

Countless producers and business people, particularly small and medium-scale, live in constant uncertainty as they seek ways and means to innovate and adapt when faced with inadequate access to information, technology, business management services, land, water and finance. For these people, the promise emerging from the 'Washington Consensus' that the costs of market liberalization were worth covering, has proven to be empty.

One consequence of the dynamics discussed above has been that transaction costs linked with access are so high that it is more advantageous for agents to carry out transactions through institutional arrangements other than those of the market, stimulating exchanges in which access to a product, a service, employment or some form of insurance, becomes part

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<sup>10</sup> This is to say, the criteria used when making decisions as regards to how much, how and for what purpose to use resources at their disposal. (Schejtman, 1980).

<sup>11</sup> Transaction costs are those that agents need to make above the price of the goods or service acquired, in order to ensure that these correspond to their expectations, and thus include: investigation, information, supervision, as well as ensuring agreements are honoured. In the sense that trade exchanges "involve incentives for opportunistic behaviour by the parties which may result in adverse selection or moral hazard, avoiding them entails high costs. The first of these involves *ex ante* costs of pre-selecting candidates...while the second involves *ex post* costs for follow-up, legal action and measures to secure fulfilment" (Sadoulet and de Janvry, 1995, p. 255).

of a single broader operation, in clear contrast with the “anonymous and systematic interdependence of economic activity (in the respective competitive markets) posited by general equilibrium theory” (Bardhan, 1989, p.237). Insofar as transaction costs that affect rural families generally have locally specific features, their detection and possible solution must be approached at this level. General formulas are simply guidelines for focusing the areas of observation; however, only local level analysis of the nature and specific magnitude of their effects can serve as a guide for action (Box 2).

Box 2  
**TRANSACTION COSTS FOR RURAL HOUSEHOLDS**

An empirical study carried out in various rural districts of Peru revealed that transaction costs represent 50% of the value of potato sales, and were twice as high for small producers as compared to large producers; “...in addition to the journey time to markets, other influential factors include the experience of producers in sales markets, stability in the relationship between producers and trade agents, and the resources invested in acquiring relevant information and in supervising compliance to implicit contracts associated with transactions undertaken.”

**Source:** Escobal, <http://www.gdnet.org/fulltext/escobal.pdf>

*Concentration of land ownership and educational capital: two critical factors*

Latin America has the highest index for concentration of land ownership in the world, and the lack of significant development of land markets contradicts the view that agrarian reform has run its course. Recent studies have shown that transactions in land markets are carried out basically within the same strata of producers, without affecting the unequal structure of land ownership.<sup>12</sup> Furthermore, evidence points to the fact that the most dynamic land markets are those located around the major cities and in areas of more recent settlement, which tend not to be the places where the poorest small farmers (peasants) are living. Thus, changes in the structure of land ownership have been minimal, and market forces have done little to extend access to this important resource to rural families, who have traditionally been denied ownership (Vogelgezang, 1996).

Regarding education, empirical evidence clearly illustrates the impact of education on income levels and job opportunities. In this sense, unequal access to education represents a critical factor driving economic and social inequity.

Although the last twenty years have witnessed strong growth in education – thanks to which younger generations now receive an average of three years more schooling than their

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<sup>12</sup> See the study on land markets in <http://www.eclac.cl/ddpeuda/>

parents – a high concentration of educational capital persists. The highest income earners still have an average of six years more schooling than the poorest. Moreover, huge differences exist in the quality of education offered to the rural poor compared to the rest of the population.

### *Changes in employment dynamics*<sup>13</sup>

Employment conditions in the region's rural sector have undergone significant changes that challenge the agricultural identity of rural life. The number of people from rural households employed in non-agricultural work has increased by 2.5 million, while the number employed in agriculture has dropped by 933,000. However, the number of agricultural workers living in urban areas has also increased by 1.1 million, meaning that the total number employed in agriculture (rural and urban inhabitants) has experienced a net increase of 200 thousand persons. Consequently, a growing urbanization of the agricultural labor force can be identified, particularly in Chile (with an annual growth rate of 0.92%), Cuba (0.87%), Uruguay (0.73%), Brazil (0.55%), Ecuador (0.38%) and Panama (0.35%).

Recent studies reveal characteristics of non-agricultural rural employment (NARE), which include: (i) that it has a high and growing importance in terms of absorption of the rural labor force and on the incomes of rural families; (ii) that it represents an opportunity to overcome poverty that is not offered by agricultural work for some rural households; (iii) that it allows income diversification for rural households, reducing the effects of risks associated with agriculture; (iv) that most of the best opportunities are found in areas demonstrating more dynamic development within the agricultural sector; and (v) that access to better NARE options are closely linked to levels of education, infrastructure development (energy, roads, telephones), and gender, as men normally receive higher wages than women. Most NARE have no significant relationship with farming activities, rather they are driven by the demands of urban consumers for new types of services.

### *Decentralization*

In practically all countries throughout the region, there has been a broadening and intensification of both democracy and movements towards decentralization. The election of local authorities by popular vote and the growing responsibilities of municipal level governments are becoming more frequent as another conditioning factor influencing decision-making vis à vis rural policies. This is in stark contrast to the past, which was characterized by centralized administrations exerting tight control over public spending within a framework of fiscal austerity in order to achieve macroeconomic balances. Having arrived at a certain level of stability, demands for greater equality of distribution, integration and participation have gradually increased, underlining the limitations of centralized administration to respond to conflicts arising from distribution issues and environmental, ethnic and regional demands, amongst others.

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<sup>13</sup> Based on Reardon and Berdegue (2001).

The implementation or intensification of decentralization processes appears to respond primarily to the need for new regulatory mechanisms to deal with the modern demands of society: “Under these conditions, resorting to consensus, delegation and negotiation presents certain advantages for implementation and at the same time broadens the circle of responsibilities, which is a relief for a government facing the ever increasing demands placed on political administration (Von Haldenwang, 1997, p.18).

Without question, these processes represent a first step towards overcoming the limitations of centralization, However, to effectively deal with the local manifestations of rural poverty, of government, or more specifically governance ,failures are clearly apparent: (i) the absence or insufficiency of mechanisms that allow local demands to be integrated within a framework of national goals and strategies; (ii) the lack of resources (financial, human and material) necessary for such a delegation of responsibilities; (iii) the lack of mechanisms to generate municipal resources for the implementation of co-financed programs; (iv) the presence of overlapping functions between local and central government; (v) the reproduction at local level of the compartmentalized nature of public functions at central government level; (vi) the persistence of a paternalistic approach towards the most vulnerable sectors; and above all, (vii) the dominance of local elites in defining objectives and resources destined for local development.

These observations should be kept in mind given that enthusiasm for decentralization as a prerequisite for participation (“bringing decision-making closer to the people”) frequently omits the persistent tendency in our region to question the principle that all citizens are equal before the law. The corruption of members of government, public employees, judges and police officers; the economic dependence of the majority on the minority, and the concentration of power among an elite (autocracy), are the underlying causes of problems with decentralization in terms of satisfying people’s expectations.

We also need to take into account what has been coined the “*under-municipalization*” of the Latin American rural sector (ECLAC, 1992), due to its implications for rural development. This refers municipal districts that are too big and too populated to allow processes that rely on closer linkages amongst inhabitants, to flourish (Table 2).

Table 2

DENSITY OF MUNICIPAL DISTRICTS IN RELATION TO AREA AND POPULATION (circa 1990)

(In average values per municipal district)

REGION	Area (km <sup>2</sup> )			POPULATION
	TOTAL	FARMING	CULTIVATED	
Latin America	1 338	1 098	469	28 160
Western Europe <sup>a</sup>	26	22	15	3 635

Eastern Europe <sup>b/</sup>	39	34	23	4 735
Canada <sup>c/</sup>	1 300	933	169	5 626
United States	261	194	120	6 910

**Source:** ECLAC, 1992

a/ West Germany, Spain, France, Holland and Italy

b/ Ex-Czechoslovakia and Poland

c/ Excluding the Yukon and the North-Eastern territories

### *Demands for participation and citizens' rights*

In rural areas, active citizen participation is still a long way off and a significant number of people are still finding limited access to first generation human rights (so-called "natural rights"). For example, in Peru a high percentage of rural inhabitants do not have identity cards, an essential requirement if they want to exercise basic citizen's rights and access public services. In Bolivia, until the mid-1990s huge expanses of rural territories had not been incorporated into a political-administrative domain, or rather, the State was oblivious to their existence. In Colombia, for well-known reasons, the State simply has no presence in many municipal districts, formal or otherwise. In Chile, the State has persistently refused to constitutionally recognize the country's indigenous population, and throughout rural Latin America, women are far from attaining full citizen's rights.

The social movements that have recently emerged in the rural sector should be interpreted as a form of citizens' protest, "formed by groups who have no access to the power of the State, and do not feel represented by the political system (and who) have a greater public voice the more they relate to the issues of citizen's rights..., such as (demands for) the right to land, justice, language, public transparency and social welfare" (ECLAC, 2001, p. 246).

Effectively, the Latin American rural sector has witnessed a wide variety of social movements involving diverse peasant and rural worker groups.<sup>14</sup>

Thus, some of the movements generated by producers of surplus or transitional produce originate from the coca leaf growers of Chapare in Bolivia (Healy, 1991), and jute and tobacco growers in Santander, Colombia (Zamosc, 1990a). Among the subsistence and infra-subsistence producers, are movements formed by rubber tapers in Acre in the Amazon (Grzybowski, 1990), and the civil strike organized by peasants in Sarare, Colombia (Zamosc, 1990b). Moreover, an example of a landless rural workers' organization is MST (Landless Movement) in Brazil (Grzybowski, 1990). Examples of groups focused on ethnic issues include the Movement of Indigenous Authorities in Colombia (Findji, 1992), the rondas campesinas in Northern Peru (Starn, 1992), and recent protests organized by the Mapuche population in Chile. Together with this list is the Zapatista Army of National Liberation in Mexico, the first electronic media guerrilla movement" (Castells, 1999), who are not simply

<sup>14</sup> For a breakdown of the characteristics of the movements mentioned, see Schejtman (1997).

demanding ethnic rights, but also citizens' rights within a much broader context (López, 1996). Finally, with emphasis on the extent to which such social movements have spread, we must not forget the influential role played by indigenous movements in recent political developments in Ecuador and Bolivia.

What we wish to underline is the need for States and political systems to develop the capacity to “assimilate and reflect the new practices of social movements and combine public policies with the social capital that society itself, through its organizations, is fomenting” (ECLAC, 2001).

### *A changing cultural fabric*

Rural identity has also witnessed extraordinary transformations. To begin with, the Latin American population is now predominantly urban based, and this fact has had an enormous impact on rural culture. Due to greater contact with the urban environment, expectations and lifestyles of rural and urban inhabitants are becoming increasingly similar, particularly among young people. The massive incorporation of rural women into non-farm rural employment has also had a knock-on effect on inter-family relationships and traditional gender roles. Radio and television have disseminated new messages and values to every corner of the rural world; and millions of Latin Americans have experienced what it is like to work and live in the United States or Europe, with many returning to their homelands accompanied by new music, clothes, consumer and recreational habits, a new awareness regarding citizen's rights, and new outlooks and habits. Be it positive or negative, there is a cultural dimension to globalization.

## **2. Limitations of traditional approaches to rural development**

Without question, traditional approaches to rural development are becoming increasingly irrelevant due to the huge changes underway in rural society. The weaknesses are well documented and include the following:<sup>15</sup>

- They do not take into account the high degree of heterogeneity that is characteristic of rural societies, a world dominated by poverty, small-scale agriculture and small rural non-agricultural enterprises. Hence the need for differentiated policies, which have only recently and half-heartedly begun to be adopted explicitly by some countries in the region.
- They are oblivious to the multidimensional nature of rural poverty and tackle it with one-size-fits-all solutions, which capture neither the complexity of the issue, nor its causes.

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<sup>15</sup> A more detailed analysis of the issue can be found in the work of Chiriboga (2000) who analyses the lessons learned from rural development policies in the region over several years.

- ❑ They are centered on agricultural activities, without taking into account the multi-stranded livelihood strategies within family units, and the importance of non-farm rural employment, particularly for rural women who have entered the labor market.
- ❑ They do not take action to correct market failures or address the absence of markets, which affect small and medium producers, enterprises and the rural poor, in particular. Instead a superficial alleviation of these problems is done via development project resources, which only leads to the same problems reappearing after the interventions have been concluded.
- ❑ They are frequently unable to link activities that focus on transforming production processes with those aimed at reforming rural institutions. Moreover, the institutional dimension is often reduced to aspects related to the organization and public sector tasks, including those of the Ministry of Agriculture and rural development agencies.
- ❑ In general they are unable to articulate the specific policies and actions of rural development with those of a more 'macro' nature, which limits viability and sustainability.
- ❑ They are slow to recognize that it is increasingly the market and market agents that strongly influence the tendencies, opportunities and restrictions faced by the rural poor. They thus unnecessarily reduce competencies to the ambit of the public sector and its agents.
- ❑ With few exceptions, they do not consider the possibility of enrolling agro-industry, services, medium and large enterprises, and even the urban sector, to act as agents to spread technology to particular segments of the rural SME sector (Schejtman, 1998; Dirven, 1998).
- ❑ They lack the capacity to adapt centrally formulated strategic policies or proposals to the specific potentials and restrictions within local areas, or likewise, fail to consider repeating and upscaling successful experiences.
- ❑ In a broader sense, they do not recognize the potential effects of specific urban developments both on transforming agricultural production patterns, and on the living and labor conditions of the population, particularly the poor.

A sense of unease with traditional approaches has led to a series of strategic proposals aimed at refocusing rural development and the fight against poverty, which coalesce in a proposal for adopting a territorial approach.

### **3. The search for new approaches**

Changes in the external conditions affecting rural development and dissatisfaction with traditional responses to poverty-related issues, have led to a growing convergence of proposals for rural development in Latin America and the Caribbean being articulated over the last few years.

### *International organizations*

In its Strategic Framework for 2002-2006, the International Fund for Agricultural Development (IFAD) proposed the following: (i) “the development of small towns and intermediate sized cities, as well as the promotion of economic corridors, will create a favorable environment for reducing rural poverty”; (ii) “improving the standard of living of the rural population necessitates strengthening of local institutions...”; and (iii) the creation of income and employment opportunities for the rural poor should also focus on the development of industry, services and the links between agriculture, industry and services (IFAD, 2002 a).

For its part, the Inter-American Development Bank’s Rural Poverty Reduction Strategy (IADB, 1998) adopted a focus on multi-sectoral territorial development that was ratified in the conclusions of the Conference on Development of the Rural Economy and Poverty Reduction. The conference was organized within the framework of the Annual Meeting of the Board of Governors in 2000, where emphasis was placed on the multi-sectoral, territorial and decentralized characteristics that should form part of rural development strategies and the fight against poverty.

Additionally, the World Bank in its strategy for rural poverty reduction in Latin America and the Caribbean (World Bank, 2002), proposed the need for a “rural space” approach to move beyond a sectoral view of agriculture and strengthen the absorptive capacity of secondary towns in the context of increasing urban-rural interaction and integration, promoting new sectoral institutions to foster adequate governance.

Moreover, the Food and Agriculture Organization (FAO) of the United Nations, in its 26<sup>th</sup> Regional Conference for Latin America and the Caribbean (FAO, 2000), proposed a territorial approach to rural development that would shift the focus from the small farmer to the wider rural family; from farm work to multiple forms of work; from a general agricultural policy to specific policies geared towards different kinds of family units; from agricultural production to its links with agro-industry and services; and from market/State divisions to the rebuilding institutions to act as mediators between civil society, the State and the market.

At the beginning of 2000, the Inter-American Institute for Cooperation on Agriculture (IICA), in its publication entitled “The new rurality: sustainable rural development in the context of a new reading of rural reality”, indicated that the growing importance of “development focused on territorial units”. IICA further indicated that “...the concept of territory has a broad and multi-dimensional connotation, made up of integrated units of planning and development initiatives, particularly those with a high rural content” (IICA, 2000b, p.11). Such proposals were incorporated in the declaration issued by the First Ministerial Meeting on Agriculture and Rural Life, in which a new outlook regarding agriculture and rural life was proposed: one that was understood as “an adequate urban-rural balance or combination”.

Likewise, the UN Economic Commission for Latin America and the Caribbean (ECLAC), in partnership with the Latin American and Caribbean Institute for Economic and Social Planning (ILPES) established the Decentralization and Local Economic Development regional project (1995). This project focused on promoting local economic development

initiatives, which were understood as transformation processes within the economy and society of a particular territory. The aim is to overcome the difficulties caused by globalization through structural changes that are required to deal with competitive demands and environmental sustainability thereby allowing improvements to the standard of living of a given population.<sup>16</sup>

Finally, the German Society for Technical Cooperation (GTZ) has produced a series of instruments geared towards increasing the economic competitiveness and potency of sub-national units in order to foster better local level employment opportunities.<sup>17</sup> This focus emphasizes the systematic character of actions, taking into account that integrating skill development is possible at the local level with the support of: small and medium enterprises; improving technology with research and development; promoting suppliers by strengthening associations; and promoting employment by raising the quality of infrastructure, and linking all of the above.

### *Some regional experiences*

In an effort to respond to challenges presented by poverty and rural development, some countries in the region have restructured rural strategies and undertaken legislative measures to modify the way in which local economies work at the rural level. Consequently:

- **Brazil** has set up a National Plan for Sustainable Rural Development, which proposes implementing territorial development contracts (Veiga, 2001).<sup>18</sup>
- **Mexico** passed a Sustainable Rural Development Law, promoting programs at municipal and regional levels via rural development districts, and also creating the National Strategy to Assist 250 Micro-regions (Estrategia Nacional de Atención a 250 Microrregiones), establishing Strategic Community Centres in order to drive the development of predetermined areas (Ruiz, 2002).
- **Bolivia** has passed the Law of People's Participation and its complementary Law of Decentralization, kick-starting a huge process of participatory local planning (at municipal levels), which directly involves 37% of the country's rural population and almost two-thirds of all poor Bolivians (Urioste and Baldomar, 1999).
- **Colombia** has initiated an Integrated Rural Development Fund (restructured IRD), transferring the responsibility to promote and administer rural development from central to municipal governments, thus implementing the country's Law of Decentralization that was passed in 1987.

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<sup>16</sup> This initiative is closely linked to the document "Productive transformation with equity" (1990), which became a framework and point of reference for a series of conference documents throughout the aforementioned decade. The document underlined how strengthening the linkages between agriculture, industry and services represented a key component of productive transformation with equity.

<sup>17</sup> [www.gtz.de/agriservice/areas/tools](http://www.gtz.de/agriservice/areas/tools)

<sup>18</sup> <http://www.cndrs.org.br/pndrs.asp>

- **Ecuador**, with World Bank funding, has implemented a Sustainable Local Development Project (PROLOCAL), aimed at implementing development programs in 150 ‘cantons’ or municipal districts, administered by socio-territorial organizations, which will compete for funding resources.<sup>19</sup>

The search for new approaches has awakened interest in the region regarding the experiences of other countries, particularly in relation to the LEADER program in Europe and Rural Partnerships in Canada.<sup>20</sup>

The main characteristics of the European Commission’s LEADER program can be summed up as follows:<sup>21</sup> (i) the focus is territorial (regional, municipal level); (ii) a bottom-up approach is used for taking decisions at all stages of the program; (iii) local action groups (LAGs) bring together partners from different socio-economic sectors and local institutions, and are responsible for tasks that in more traditional programs tend to be assigned to public bodies, including administering support funds, allocating and paying beneficiaries, and administering project implementation; (iv) the focus is integrated and multi-sectoral, promoting innovation; (v) emphasis is placed on the organization of a network of diverse initiatives that allow linkages to be set up with groups in other regions and countries (Sumpsi, 2000).

## **C. THEORETICAL BASIS OF THE TERRITORIAL APPROACH**

The following sections review a selection of theoretical contributions that may contribute, together with an analysis of experiences such as those outlined above, to development of the idea of rural development as territorial development beyond merely “informed intuition”. The aim is to arrive at a theory that is able to form a basis for the design of policies, programs or projects geared towards overcoming rural poverty.

### **1. Economic Development and Space: two approaches**

The flow of opinions regarding space and territory within economic literature has had fresh impetus over the past decade. This is in response to the need to establish underlying factors determining both the processes behind the concentration of productive and service activities in specific spaces. In addition, the underlying factors causing some areas to be more dynamic and competitive than others also need to be determined.<sup>22</sup>

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<sup>19</sup> <http://www4.worldbank.org/sprojects/Project.asp?pid=P039437>

<sup>20</sup> <http://www.rural.go.ca/lens/c.phtml>

<sup>21</sup> Derived from the French acronym *Liaison Entre Actions de Developement de l'Europe Rural* (Linkages between development initiatives in rural Europe).

<sup>22</sup> Krugman (1995) noted that the issue of space or territory in which economic activities are carried out has been completely absent from standard economic theory.

Theories as to the location of economic activities have developed along two parallel paths, which only a few recent attempts have considered integrating. One of the two paths derives from the German tradition dating back to the first half of the last century and earlier, with Von Thunen (1966), Weber (1909), Christaller (1966), Lösh (1967) and the integration attempts of Isard (1962) based “on a competitive general equilibrium model” (Krugman, 1995, p. 56). This path culminates in the school of regional science that emerged in the 1960’s and 1970’s (Scott, 1998). In Latin America, this school has had a strong influence on geographical matters and in initial studies for regional planning, rather than effecting recent literature vis à vis local development.

The second path derives from Marshall (1920), particularly his references to influential factors in processes of industrial agglomeration, which instigated extensive literature on the gestation and development of clusters, flexible industrialization, new industrial districts (NID), learning regions and competitive environments (innovative milieus). It is this second path and its offshoots, together with contributions from new institutional economics, which has had the greatest influence on the Latin American understanding of Local Economic Development (LED), rendering a brief foray into the theory important.

In his book *Principles of Economics*, Marshall (1920) coined the term ‘industrial districts’ (as applied to Lancashire and Sheffield) and explored how the clustering of companies in a determined space led to certain ‘localized external economies’ that contribute to reducing production costs. This is largely due to the presence of: (i) a group of qualified workers; (ii) easy access to specialized inputs and services; and (iii) and the dissemination of new knowledge, thanks to the existence of an “industrial atmosphere, a veritable framework of useful customs and awareness” (Scott, 1998, p. 83). Krugman (1995) underlined the centripetal forces of economies of scale, transport costs and external economies (building on Marshall’s work) that are expressed by the existence of a skills reserve, and of specialized services and institutes that generate links via markets (building on Hirshman) and information and knowledge flows. As centrifugal forces, he mentioned stationary factors (manual labor, land rents) and the appearance of diseconomies of scale.

This line of thought, applied to the area of small and medium enterprises, led the way towards a series of studies on clusters and new industrial districts, based primarily on the seminal work of Piore and Sabel (1984), which sought to analyze successful experiences of these kinds of arrangements in Italy, Germany, Japan and the United States. Their analysis on the implications in different areas (productive, technological, organizational and institutional) in the United States was particularly relevant, due to the contrasts between mass production and “flexible specialization”<sup>23</sup>

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<sup>23</sup> Or rather, the existence of flexibility both in the use of a labor force as well as adaptation by companies to changes in demand conditions.

## 2. Clusters or industrial complexes

When the open market acting as a coordination mechanism between agents incites high transaction costs, other institutions surface to regulate trade exchanges. These have been the focus of a vast and concerned literature, still copiously produced, as proven by the fact that a common term has yet to be agreed to describe such mechanisms.<sup>24</sup> The starting point for this literature was an article by Coase (1937) on “The Nature of Firms,” which provided a basis for subsequent elaborations regarding the governance of vertical coordination forms developed, by Williamson, amongst others. Williamson’s work on *Markets and Hierarchies* (1991), examines vertical integration explicitly as a transaction cost reduction mechanism, and his earlier book on the *Economic Institutions of Capitalism* (1989) offers an in-depth study on aspects related to the governance of contractual relations (Chap. III). The issue of extra or non-market coordination and the integration of agents throughout supply chains has developed over the last few years thanks to efforts to integrate the horizontal linkages of such chains with vertical linkages or networks, using the “*net-chain*” concept (Lazzarini et al, 2001).

Porter, in his influential study regarding *The Competitive Advantage of Nations* (1991), introduces two concepts: clusters and the ‘systemic nature of competitiveness’. This led to a series of studies on the conditions fostering such competitive advantages, beginning with the Marshallian explanation of agglomerations. Porter introduces the concept of “competitive sector groupings” that make up the frequently quoted “diamond model”<sup>25</sup> and which are linked via vertical (buyer/supplier) or horizontal (clients/technologies and/or common channel) relationships underlining the systemic nature of the relationship between the constituent sectors that in later studies he referred to as ‘clusters’.<sup>26</sup>

A most basic definition (which differs from Porter, but tends to appear in related literature), clusters are spatial concentrations of companies from a particular field, understood either from a broad perspective (agricultural, mining, the car industry) or in a more restricted sense (grape and wine, furniture, apples). However, interest regarding clusters is not only based on simply grouping certain types of companies, but also in the inherent potential of value chain components present in the same territorial area, or rather, when both the “backward” linkages with suppliers of materials and services, and “forward” linkages with product users are all incorporated<sup>27</sup>. These can lead to opportunities for “collective efficiency via external economies, low transaction costs, and joint actions” (Altenburg and Meyer-Stamer, 1999).

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<sup>24</sup> “The vocabulary itself is not stabilised; besides hybrids, one can read papers about *clusters*, networks, symbiotic arrangements, supply chain systems, administrated channels, non-standard contracts, and so forth.” (Menard, 2002, p.3).

<sup>25</sup> The “diamond model” is comprised of four components: productive factor conditions, demand conditions, supporting industries and competitors.

<sup>26</sup> “*Clusters* are geographic concentrations of interconnected companies and institutions in a particular field” (Porter, 1998, p. 78, cited by Schmitz and Navdi, 1999).

<sup>27</sup> In their original form, supply chains correspond, according to Hirschman (1957), “to the forces that launch investments that are placed into movement through input-product relationships when production installations that provide inputs to the production line or use its products are inadequate or nonexistent; the backward linkages lead to new infrastructure investments of input suppliers, and forward linkages

Under the heading of clusters, Latin American literature includes a broad and heterogeneous range of enterprise concentrations in determined business sectors; in some cases with very few local linkages in the sense indicated above, and thus reduced to the presence of many firms belonging to the same trade sector. Altenburg and Meyer-Stamer (1999) identified three general types of clusters for Latin America: (i) survival clusters, defined as being “made up of micro and small enterprises, that produce low-quality consumer goods for local markets in areas in which entrance barriers are very low. These types of cluster units generally express many characteristics of the informal sector, with production and wage levels much lower than medium and large firms;” (ii) clusters formed by medium and large enterprises mass producing goods for national consumer markets, which prospered during the import substitution phase and were, as a result of this opening, confronted with the need to introduce changes of varying importance in order to continue in the market, and which by way of contracts and outsourcing of certain tasks, created a conglomerate that frequently provided an identity to a certain territory; and (iii) clusters of transnational corporations in areas incorporating more complex technology, which often fail to establish significant linkages with small and medium enterprises.

Based on this conceptual approach, many studies have been published over the last ten years by regional authors; some aimed at examining the general conditions that have led to the formation of clusters (Ramos, 1998; Cassiolato and Lastres, 1999) and others based on case studies. There are a huge variety of the latter, centered on areas such as dairy industry clusters (Dirven, 2001) including studies carried out in Chile, Colombia, Uruguay, Argentina and Mexico); or on ecotourism resorts which together with general policy considerations includes cases in Chile, Mexico, Brazil and Costa Rica); others also deal with agro-industry clusters, specifically: apple production in Brazil, wine in Chile, cooking oil in Argentina, and palm oil and palm hearts in Ecuador.<sup>28</sup> Added to these are other studies such as Schmitz (1999) on the shoe manufacturing cluster in the Sinos Valley in Brazil; Meyer-Stamer (1998) on the ceramic tile cluster in Santa Catarina, also in Brazil; Visser (1999) on the clothing industry cluster in La Victoria, Lima; and Rabellotti (1998) on another shoe manufacturing cluster in Guadalajara, Mexico. The majority of these cases involved “truncated” clusters due to the absence of more sophisticated production and input components, a characteristic of clusters in developing nations.<sup>29</sup>

In an area in which theoretical progress is still being developed, it is worth highlighting studies undertaken in Brazil by the researchers Zylbersztajn and Farina working at the Business Study Programs of Agroindustrial Systems (PENSA) based at the University of Sao Paulo, both for their contributions towards the theoretical debate, as well as their analysis of

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lead to new investments in product user installations.” In a later revision (1984), the author added fiscal linkages (state interventions to cover missing installations) and defined backward linkages as production linkages and the forward type as consumer linkages.

<sup>28</sup> In <http://www.eclac.cl/ilpes/> Documents presented in the International Local and Regional Development Seminar: “Towards the Construction of Competitive and Innovative Territories,” Quito, Ecuador, 10, 11 and 12 of July 2002.

<sup>29</sup> Please refer to Dirven (2001) for a comparison between dairy clusters in Holland and Chile.

specific agro-industrial supply chains.<sup>30</sup> Additionally, and in relation to contract agriculture, a study sponsored by ECLAC/FAO/GTZ (1998) dealt with this issue from the point of view of transaction costs as proposed by Williamson. The conclusion was that the competitive advantage of small producers regarding the prices of products requiring intensive manual labor and supervision, and which lack economies of scale, is completely lost due to the transaction costs incurred by the agro-industry when it contracts such producers as individual suppliers.<sup>31</sup>

### Box 3

#### **TRANSACTION COSTS CAUSING SMALL PRODUCERS TO BE REPLACED BY THEIR LARGE COUNTERPARTS**

Marsh and Runsten (1994) highlighted the case of an agro-industrial firm replacing a large number of small farmers by a reduced number of larger farmers, as the former required more intensive field visits to provide technical assistance; did not allow problems to be dealt with by phone; needed to rent or borrow specialized machinery; needed cash advances using resources that involved opportunity costs; infringed on some pesticide use guidelines, which also affected production output; delivered smaller volumes that required more loading and weighing times; and generated greater administration and accounting costs due to the large number of transactions incurred. When all of these costs were added up, they cancelled out the benefits of lower prices charged by small producers, and did not cover the costs involved in maintaining the business link.

Source. Marsh and Runsten (1994)

### **3. New Industrial Districts**

When clusters begin making significant inroads into international competitive markets, they start to be referred to by the relevant literature as 'industrial districts'. The most well-known cases are Silicon Valley in California, West Flanders in Belgium, Route 128 near Boston, West Jutland in Denmark and the regions of Marche, Emilia-Romagna, and Firuli-Venecia-Giulia in Italy. These are illustrative examples of innovative development processes that started off with small and medium enterprises.<sup>32</sup>

However, the Italian experiences have generated the most interest and enthusiasm in Latin America. This is not only because they were identified from early on as competitive development experiences based on clusters of small and medium enterprises, in stark contrast to the "Ford" model of mass-producing industries located in large cities such as

<sup>30</sup> The work of the aforementioned authors can be found at: <http://www.fea.usp.br/Fia/pensa/>.

<sup>31</sup> See especially Schejtman (1998) at: <http://www.rlc.fao.org/prior/desrural/10041.htm>.

<sup>32</sup> In spite of the fact that part of the literature tends to integrate cluster and NID concepts, the distinction is worth maintaining for there are structural and dynamic elements that are pertinent only to the latter.

Turin and Milan (Bagnasco, 1977), but also because in most cases, they incorporated small agricultural producers, benefiting from the labor costs and flexibility that these provided, leading to what is now referred to as “diffused industrialization.”

Regardless of whether or not traditions were pre-existing in business areas that later acquired international competitiveness in the towns in central and northern Italy, analysts underline the strategic role of small agricultural producers in these towns: “...they play an important role both in initial as well as intermediate and later stages of local development by offering subsistence production and housing, which reduces overall emigration from the area, especially in those places where the persons are homeowners; the existence of human resources for endogenous business initiatives, adapted to local conditions; adding value to low cost resources in terms of products; and contextual understanding that may help identify more extensive opportunities in global market niches” (Saraceno, 1998).

Autonomous management of small farm production contributed towards both an extension of economic control, as well as treating production as a “business” (Bagnasco, 1998); the mix of a local collaboration culture for harvesting and other activities of family farms, together with the knowledge acquired in manufacturing plants by younger members of the family, allowed opportunity costs to be lowered and increased the family income (Paci, 1982).

Bagnasco (1998) underlined how different sized urban centers were the driving force behind this process, thanks to the interaction established with the agricultural hinterland, characterized by a social structure made up of autonomous small farmer families (smallholders, tenant farmers, sharecroppers), who often lived on isolated, country farms. These types of families provided companies with a flexible labor force that relied on the support of relatives to compensate for the low wages and periods of unemployment during initial development stages of the industrialization process. Because the farmers had access to housing and food self provisioning.<sup>33</sup>

Analysis of these experiences leads to the conclusion that competitive potential of a given territory is strongly determined by the existence of a local institutional framework that facilitates the dissemination of knowledge and innovation. To define a context sharing these characteristics, some authors have coined the term *innovative milieux* meaning an environment with a capacity to innovate that allows collective learning through the links established by the supplier/user chain, and the informal exchange of knowledge via the so-called “coffee-shop effect” thereby reducing uncertainty and opportunistic behavior (Camagni, 1991).<sup>34</sup> For Maillat (1995), an *innovative milieu* occurs when the interaction between economic agents is developed through multilateral transactions that generate positive externalities, leading to a learning process for more efficient ways to jointly manage resources. This type of knowledge is locally specific or tacit and can be described as “impregnating” the territory, as it presumes a spatial and even cultural proximity as well as

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<sup>33</sup> Strictly speaking, there is a margin of family labor which is “non-transferable,” in the sense that it can only create value within the framework of the family unit and thus has no opportunity cost (Schejtman, 1980).

<sup>34</sup> This refers to the informal exchange of knowledge that takes place between technicians in informal daily life settings, such as a village or company coffee shop.

shared rules.<sup>35</sup> It is distinct from codifiable or generic knowledge that can be acquired at some cost by other agents in other locations, which is to say, it is ubiquitous knowledge (Maksell et al, 1999). *Innovative milieus* are a specific form of social capital pertinent to a given territory.

In relation to the above, Abramovay (1999) indicates in the following excerpt:

“More important than the competitive advantage created by the natural attributes of a locality... is the phenomenon of proximity that engenders coordination between actors able to appreciate all aspects of the environment in which they interact and so turn it into an innovative learning base... This proximity infers direct social relations between actors... There are two converging lines of thought regarding rural development... on the one hand, is that approach emphasizing **development’s territorial dimension** (which instead of highlighting) geographical advantages or hurdles regarding location, studies the conformation of... **institutions** that foment collective efforts... Another line of thought related to this process deals with **social capital**, which refers to the characteristics of a social organizations such as trust, regulations and systems... that increase the efficiency of an association by facilitating collective actions.”

The type of local knowledge development process that has proved to be viable in countries with small, open economies, is one which can sustain mid-level technological improvements that require not “major science,” but rather a national innovation system based on effective link between practical know-how and modern techniques vis à vis both production and the organization of production and marketing. These linkages generate place-specific and non-codifiable knowledge regarding the design of products and help to ensure that complex production processes work in an efficient and non-bureaucratic manner (Storper and Salais, 1997).<sup>36</sup>

Localized capacities rely on the presence and interaction of: (i) institutional assets,<sup>37</sup> (ii) soft and hard infrastructure, (iii) natural resources, and (iv) the know-how and competencies of the population. They include, therefore, a tangible component in the form of sunk costs

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<sup>35</sup> Porter (1991, p. 212) referred to the following as the type of relations that fomented knowledge exchange: “Personal relationships established when a student or while doing military service; membership of the scientific community or trade association; community links due to geographical proximity; trade associations that make up clusters; behavioural traits such as a belief in the continuity of long-term relationships.”

<sup>36</sup> The level, high or low, of technology is measured by the percentage of the production value that the respective industry devotes to research and development (R&D). Mid-level technology industries are thus those that devote between 1% and 2% to R&D, whereas low-tech industries devote less than 1%. Notably, low-tech industries include textiles and clothing, timber and furniture and the foods, beverages and tobacco group, all of which are feasible products in many rural areas of Latin America. Mid-level technology industries, to mention just a few, include stone, clay and glass products and metal manufactures (Maksell et al., 1999).

<sup>37</sup> Sharp et al. (2002) acknowledge the importance of these assets in their analysis of how “social infrastructure” conditions opportunities for self-development, endogenous development and industrial recruitment in rural communities in Iowa, United States.

(those already incurred by the structures that have been built), as well as intangible costs in the form of institutional assets.

Institutional assets are the totality of habits, practices, routines, customs, conventions, rules and regulations that are associated with access to products, services and production resources.<sup>38</sup> They are created by a complex interaction of elements, both historical (such as beliefs and values) and recent (such as industrial standards and regulations). Their function, as far as production and exchange processes go, is to reduce transaction costs.

#### 4. Local economic development

The basic tenets and policy proposals contained in the literature on different versions of local economic development (LED) are built up by integrating the elements that, as noted above, point towards a localized approach to economic development.<sup>39</sup> The literature refers, first, to externalities that generate economies of scale that are external to the enterprise, but internal to the territorial area. This idea forms the core of work on industrial agglomeration (Marshall, 1920; Krugman, 1995), clusters (Porter, 1991; Schmitz, 1999) and new industrial districts (Camagni, 2000; Bagnasco, 1998; Saraceno, 2000). A second strand of literature refers to learning environments (innovative milieux or learning regions), defining innovation-generating knowledge and collective learning as pillars of competitiveness (see the authors already noted as well as Maillat, 1995; Storper and Salais, 1997; Scott, 1998; Maksud and Malmberg, 1999). Thirdly, there are considerations as to governance, which refer to routines, rules, customs and values enshrined in the institutional assets of a region or territory (see authors above as well as North, 1990 and Hodgson, 1994).<sup>40</sup>

As can be seen in the bibliographical data, with the exception of Marshall, all of these developments began to gather momentum in the 1990s. Precisely these contributions influenced Latin American thinking on LED that began to emerge at that time. This is not to suggest that economists in the region unconcerned with regional development before that time, but rather how the concerns were formulated changed significantly, as they came to be expressed in terms of LED.<sup>41</sup>

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<sup>38</sup> Hodgson (1994) defines institutions as “patterns of behaviour and habits of thought, of routinised and durable nature, that are associated with people interacting in groups or larger collectives. Institutions enable ordered thought and action by imposing form and consistency on human activities.”

<sup>39</sup> In what are described as “new perspectives on local economic development,” Helmsig (2001) highlights three factors as explaining the localised nature of such development: externalities, learning and governance.

<sup>40</sup> The United Nations Development Program (UNDP) includes the complex of mechanisms, processes and institutions through which citizens and groups articulate their interests, mediate their differences and exercise their legal rights and obligations.

<sup>41</sup> See, in particular, the work on political division and regional planning conducted by ILPES, and especially by Boisier (1981), who shifted from a regional science approach to new perspectives on territorial development at the start of the 1990s (Boisier and Silva, 1990).

Most of the work on LED over the last decade has continued to show an urban-industrial focus, looking particularly at how SMEs compete and at decentralization (or, in some cases, municipalization) as a political and administrative framework. A number of studies have also dealt with themes such as linkages between LED and poverty.<sup>42</sup> This discussion had some interesting developments, as is evident in work done within and outside ILPES by Boisier (1997, 2001), Alburquerque (1997) and Silva (1990). Research presented at an international seminar on “Local and regional development in Latin America: towards the building of innovative and competitive territories” held in Quito in 2002, particularly that of Carlos López, Leandro Sepúlveda, Luis Lira and Sergio Boisier is also significant. This body of knowledge clearly illustrates the influence of thinking on new industrial districts, the Italian experience in particular.<sup>43</sup>

At the same time, writing emerged in the region with similar motivations but adopting a more rural perspective, focusing on urban-rural linkages for rural development in articulation with intermediate cities. It is our understanding that Paniagua was one of the first to start developing this approach into a framework for project design for Bolivia in 1991,<sup>44</sup> and this gave rise to seminars on similar themes in Mexico (1997)<sup>45</sup> and in Brazil (1998).

## 5. Seven contributions from the theory

What can we draw from the theories outlined above that may be useful and relevant for devising a Rural Territorial Development approach? In our view, there are at least seven important points:

- a) **Competitiveness**, determined by the broad dissemination of technical progress and knowledge, is a necessary condition for the survival of productive units. However, in a context of marginality such as we are looking at, where analysis is conducted from the perspective of poverty reduction, competitiveness should be understood as the capacity to generate better jobs (including self-employment) that can bring about sustainable increases in income as a requirement for improving living standards in rural households.
- b) **Technological innovation** in: (i) processes (transforming inputs into products more efficiently), (ii) products (moving towards higher value goods and/or more elastic and dynamic demand), or (iii) management (in terms of organization and relationships with

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<sup>42</sup> See the series of interesting work done as part of the Local Economic Development and Decentralization project, published by ECLAC/GTZ (2001), in which of 22 case studies, only two involved small agricultural producers.

<sup>43</sup> See documents presented at the international seminar on “Local and regional development in Latin America: towards the building of innovative and competitive territories”, Quito, Ecuador, 10, 11 and 12 July 2002 (<http://www.eclac.cl/ilpes>).

<sup>44</sup> See summary in Paniagua (1994).

<sup>45</sup> The materials presented at the seminar were published in *Políticas agrícolas* (Mexico) in 1998. They show a particular interest in the Italian experience, since they include writings by Bagnasco, Garafoli and Saraceno.

markets), to increase the productivity of labor. This is a crucial factor for determining possibilities to improve incomes<sup>46</sup> of the rural poor.

- c) **Systemic innovation**, that is to say, innovation not as an attribute of individual or isolated firms or units of production, but based and dependent upon environmental features. This includes systems of education, R&D, information and funding, as well as a range of suppliers of services and inputs. It is, therefore, a perspective that relies heavily on multi-sector articulation within a given territory.
- d) **Demand external to the area** as an engine of production transformation and, therefore, as a key factor in increasing productivity and income. A territory (especially a poor one) that is confined to internal demand is ultimately condemned, at best to reproducing its own precarious situation, or even worsening it.<sup>47</sup> It is a matter of changing the supply-based strategy typical of many projects, for one guided by extra-territorial demand or, in other words, a rationale of doing whatever it takes to meet outside requirements regarding the goods and services that the territory can generate. The advantage of this approach lies in the fact that training, technical assistance and other needs arise from specific problems and opportunities encountered in the course of fulfilling “contracts”, in terms of volumes, quality, timeliness and price. In rural areas that have undergone limited economic development, the potential capacities of particular rural nuclei have to be adapted to produce goods and services such as those defined in earlier sections of this report, as being low-level technologies.<sup>48</sup>
- e) **Urban-rural linkages** are essential for both agricultural and non-agricultural activities within the area as they are the channel through which external demand operates. They also determine the viability of certain undertakings by conditioning access to inputs, know-how, networks and relationships that are external to the rural world. This leads us, among other things, to reconsider the concept of rurality, which will be discussed later on.

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<sup>46</sup> Examples of innovations in products, processes and management among small rural producers in the region abound. Products, for example include: pineapple vinegar in Honduras, Tabasco chilli in El Salvador, and fine cheeses in Ecuador, Peru and Mexico. Process innovations include different experiences of organic coffee production as well as other products. Management innovation examples include the crafts of the Wichis in Argentina and Lautaro wines in Chile. Compilation and systematization of those hundreds of experiences must still be undertaken in order to draw policy lessons.

<sup>47</sup> Emphasis in many rural development projects is placed on demand from the population involved as a form of participation. We assert, however, the key role played by **another** type of demand — external demand — which expands the current or potential capacities of participants in the project.

<sup>48</sup> Tendler (1998) examines an example of this kind of dynamic in relation to Ceará, Brazil, where the government legislated that construction projects must use materials produced by small local businesses, including bricks, roof tiles and shovels. The provision extended to school furniture and uniforms for the Armed Forces, as well as small providers of electricity and plumbing services. In this context, an interesting case is the furniture supply program developed in San Joao de Aguru, which led to the formation of the Associação de Moveleiros de Aruaru (Aruaru Furniture-Makers Association). This Association started with four small firms and grew to 42 within five years. Amongst other activities, it centralised purchases of raw materials, organised an equipment pool, published information on second-hand equipment and sought technical assistance to prevent workshop accidents.

- f) **Institutional development** is crucial in territorial development. This is particularly true as regards the existence and operation of trust-based networks of reciprocal social relations; cultural elements and territorial identity; and networks with actors outside the territory. All of these are factors facilitate collective learning, which is a prerequisite for the broad diffusion of technical progress and competitiveness. These institutions also form the links among collective rural development projects and they are absolutely essential to enable development processes to overcome — rather than reproduce — the power relations that prevent poor sectors from sharing in the opportunities and benefits of such processes.
- g) **Territory as a social construct** is the final element that we extract from the theory. This means construing territory not as an “objectively existing” physical space, but as a set of social relations that both generate and express an **identity** and a sense of purpose that is shared by both public and private agents (although this construct often implies passing through processes of conflict and negotiation). This identity confers sense and content on a development project within a particular space, based on the convergence of interests and wills.

#### D. RURAL TERRITORIAL DEVELOPMENT

From the foregoing considerations as to conditioning factors for rural development, the convergence in renewed strategies of countries and international organizations, and from the contributions made by the social sciences and applied research in the 1990s, we derive six components of an approach to represent significant change in rural development and poverty reduction strategies and its field projects.

The first component that is implicitly or explicitly present within the different approaches is the adoption of the territorial dimension indicating that the field of action of any proposal needs to go beyond agriculture. The second is an acknowledgment of the socially heterogeneous nature of the territories, implying the need to engage all rural stakeholders, instead of focusing initiatives only on poor rural families. Third is the inclusion of farm and non-farm employment in all schemes aimed at increasing productivity. Fourth is emphasis on the linkages between the agricultural, industrial and services sectors, considering, as well, that agro-industry and agri-commerce can act as potential engines of agricultural development itself. Fifth, arising from the previous three points, is consideration of urban-rural links in defining the scope of action instead of confining efforts to the agricultural sphere. And the sixth component, based on contributions from the social sciences made in the 1990s, is the increasing importance attributed to rural institutions as a critical component of any new approach to rural development.

By integrating these concepts — rural areas as a territories, the social heterogeneity of agents, a multi-sectoral approach to employment, articulation between sectors, the inclusion of urban-rural linkages and the importance of the institutional — we can attempt to synthesize and take into consideration the contribution of different experiences, proposals and theories. We have called this Rural Territorial Development (RTD).

## 1. A definition of RTD

We define RTD as a process of simultaneous productive transformation and institutional change with the aim of reducing poverty and inequality in rural territories (Schejtman and Berdegué 2004). From this definition, it follows that RTD rests on two closely related pillars: productive transformation and institutional change, the content of which warrants further explanation.

**Productive transformation** is required in order to articulate the area's economy with dynamic markets in a competitive and sustainable way. This implies changes in patterns of employment and production within a particular rural territory.

**Institutional development** has the objective of promoting the concerted action of local agents, both amongst themselves and with relevant external agents. Further it aims to change the formal and informal rules that perpetuate the exclusion of the poor from the processes and benefits of productive transformation.

## 2. Operational criteria for a RTD approach

Since we are still a long way off from establishing a new paradigm for rural development or a proven model that could be applied to the multiplicity of heterogeneous situations typical of rural Latin America we have formulated a number of criteria to guide the design of strategies and policies to help reduce rural poverty.

*Criterion 1 – RTD programs must simultaneously address productive transformation and institutional development.*

The first operating criterion underlines the interdependence of productive transformation and institutional development. Given the systemic nature of competitiveness and the need for technological innovations and rural-urban linkages to access more dynamic markets, it is impossible to conceive of them without contracts, networks to give access to know-how and skills, partnerships among agents who complement each other in order to achieve shared objectives along a productive chain, and instances of public-private consensus-building. This criterion also reflects the fact that both elements are essential in order to achieve the purpose of RTD – to reduce poverty.

By itself, productive transformation of the non-inclusive type is self-defeating, as can be seen in the frustrated expectations of the “trickle-down effect” theory. Conversely, hundreds of rural development projects have been depleted in promoting participation without making any lasting dent in poverty, precisely because they fail to tackle the requirement for productive transformation.

*Criterion 2 – RTD programs must operate with a broadened concept of “rural”.*

If we define the term “urban” on the basis of a certain threshold of population density,<sup>49</sup> it emerges that the degree of urbanization has been overestimated in many countries in the region. This may be inferred, by comparison, from a study conducted by Von Meyer and Muheim (1997) for the Territorial Development Service of the Organization for Economic Co-operation and Development (OECD).<sup>50</sup> They established that in the countries considered an average of 40% of the population was “predominantly urban” and 28% “predominantly rural”. Even in the United States, where less than 4% of the population is employed in agriculture, the figures were 36% and 30%, respectively.

For Brazil, Da Veiga (2001) reclassified rural nuclei using population density criteria, taking 80 or more inhabitants per square kilometer to denote “urban”, and classifying rural nuclei based on whether their population was declining, constant or increasing. Findings (see table 3) strongly indicate that the supposedly universal and unidirectional nature of rural-urban migration, postulated on the basis of population aggregates and arbitrary definitions of rural and urban, needs to be qualified to reflect the importance of linkages between urban nuclei and the development of the rural hinterland.

Table 3  
BRAZIL: POPULATION TRENDS, 1991-2000

Types	Municipalities		Population (millions)		Variation 1991-2000	Variation (percentage)
	Number	Percentage	1991	2000		
Decline	2 025	45	20.8	19.7	-1.1	-5.3
Constant	1 351	30	16.0	17.5	1.5	9.7
Increase	1 109	25	11.0	14.4	3.4	31.3
RURAL	4 485	100	47.7	51.6	3.9	8.1
URBAN	1 122		99.1	118.0	18.9	19.1

**Source:** Veiga (2000)

Analysis of population trends between the two census dates shown in Table 3 uncovers a significant number of small urban nuclei that have demonstrated a growth capacity to match or exceed that of medium-sized and large cities. A similar trend emerged in work done on patterns in Bolivia (Paniagua, 1994), Chile (Cruz, 1998) and Brazil (Da Veiga, 2001). This analysis may be used to identify trends that have the potential to inject dynamism into the rural territories to which those nuclei belong.

<sup>49</sup> This means abandoning the custom of referring to municipal capitals as urban simply because of their administrative status, even when they have neither a level of infrastructure nor a population size to justify expectations that they may play a role in regenerating their environment.

<sup>50</sup> The OECD has developed a two-stage classification of territories by combining regional and local information. The first stage is to divide communities into rural and urban based on a threshold of 150 inhabitants per km<sup>2</sup>. The second is to define territories to reflect labor markets, based on commuting patterns. Thus three categories are distinguished: “predominantly urban”, where less than 15% of the population lives in rural communities; “predominantly rural”, where over 50% lives in such areas; and “intermediate” for the rest (Von Meyer and Muheim, 1996).

In the case of Mexico, de Janvry and Sadoulet (2002) analyzed the determinants of employment growth in manufacturing and services in rural and semi-urban municipalities (15,000 or fewer inhabitants). Their research found that the proximity of urban centres with over 250,000 inhabitants, and the regional context and the quality of urban-rural connections, together account for 94% and 67% respectively of growth in manufacturing and services employment in rural and semi-urban municipalities.

Briefly, then, the thrust of criterion 2 vis à vis the RTD proposal is that when the objective is poverty reduction, the concept of “rural” must necessarily include the urban nucleus or nuclei with which poor areas have or could develop functional productive and social linkages.<sup>51</sup>

*Criterion 3 –For the purposes of RTD programs, a territory is an area with an identity and a development project that has been arrived at through a process of social consensus.*

There can be no generic **operational** definition of ‘territory’ in the context of this proposal. From the point of view of a particular rural development process, territory is nothing more nor less than the space that its agents see as necessary (or, at least, possible) to contain and delineate the relationships that they establish amongst themselves within the territory and between their own group and the “outside world” in relation to the development projects or objectives they propose to carry out.

Put in another way, the territory in each rural development process is a *social construct*, not an “objectively existing” space whose boundaries may be defined through a purely technical ex ante exercise or set of physical and economic variables. The *operational* definition of “territory” is purely instrumental, i.e., it is a function of the objectives and scope of the project that the agents of the Rural Territorial Development process propose to undertake.

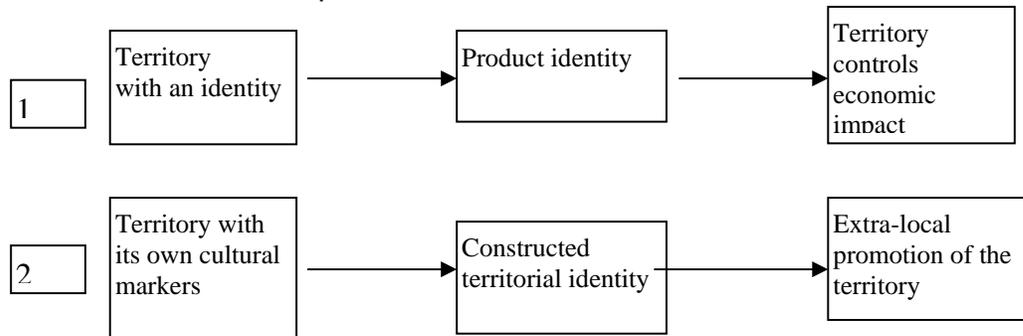
Nevertheless, the territory’s identity and boundaries are often basically predetermined in a specific development process, for example, a community or set of communities with a cultural or ethnic identity that is distinct from the rest of the population is targeted. In other cases, a geographical feature such as a microclimate or accessibility to a closed valley can be determining in defining the agents’ perception of the territory. Sometimes it is impossible to avoid sub-national political and administrative divisions, owing to the legal or even constitutional faculties of the respective governments. What is important is not to avoid taking these “predetermined territories” into account but rather to adjust our objectives in defining the sphere of the development project accordingly.

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<sup>51</sup> This criterion may be illustrated with an example from the Puno-Cusco Corridor Development Project in Peru, whose users of technical and financial services include firms located both in the agricultural area and in towns and cities, on the understanding that the more urban firms play a role in “driving” their rural counterparts.

Box 4  
**CULTURE AND RURAL IDENTITY**

Ray (1998) introduces the concept of the “culture economy” as a possible approach for rural development based on the (re)valuation of a particular area using elements of its cultural identity. These initiatives consider a particular locality’s cultural features to be a key element in improving rural living standards. Those attributes — or markers — include traditional foods, regional languages, crafts, folklore, visual and performance arts, literary references, historic or prehistoric sites, landscape and associated flora and fauna, and so on. In this framework, the economy of culture could take either of two routes towards becoming a force for territorial development:



In route 1, the territory “encapsulates” its culture *within* products. This occurs with “controlled denomination of origin”, for example, which turns geographical origin into product identity. The involvement of external regulatory bodies (government, trade agreements) makes the product part of the territory’s “intellectual property”. In route 2, the markers that exist or are to be discovered form the basis for building a territorial identity which, once consolidated, allows the territory to be promoted and to carry forward its strategic initiatives vis-à-vis the outside world more effectively. Under certain conditions, this can be an intermediate route towards achieving results similar to those of route 1.

**Source:** Ray (1998)

In other cases, territories emerge as a *potential entity* that a development project can help to materialize. This can happen when the productive structure of an area is changed by the establishment of an agribusiness, when the linkages and exchanges of particular populations are redefined by the building of a major road, or when a social demand identifies a community within a particular area. We are referring here to territories that are “produced” or “built” insofar as it is an exogenous event that allows actors in the development process to construct a “territorial identity.”

Ultimately, for the purposes of RTD processes, a territory is a space with an identity and a development project that has been arrived at through a process of social consensus.

*Criterion 4 – RTD programs need to specifically consider the heterogeneous nature of territories.*

Given the wide variety of situations, it is important to define some kind of typology of territorial configurations based on criteria that are considered important from the point of view of possible designs for RTD strategies.

The literature offers a number of possible typologies. Da Veiga (2001) proposes a typology based on the relative dynamism of the territory combined with its agricultural structure, and suggests six area types for Brazil:

1. Regional situations in which family agriculture performs well and the socio-economic environment is flexible and diversified.
2. Regional situations in which industrial agriculture is combined with a socio-economic environment that generates both rural and urban non-farm employment opportunities.
3. Regional situations in which both family and industrial agriculture are in crisis and the socio-economic environment cannot absorb the population surplus in rural areas.
4. Situations of depopulation, in which extensive productive systems, usually livestock farming, are often combined with a socio-economic environment that is rigid, specialized or labor-saving.
5. Situations in which the land occupation is so recent and the conditions of the socio-economic environment so precarious that none of the four previous patterns have yet emerged.
6. Situations in which the ecosystem or socio-economic environment is so fragile that it is impossible to intensify agricultural practices or generate employment opportunities outside agriculture.

The LEADER program classifies territorial situations using criteria derived from the degree in which seven groups of variables are present: image and perception; markets and external relations; activities and business firms; governance and financial resources; know-how and skills; culture and identity; and human and physical resources. Based on these features, LEADER proposes the following typology:

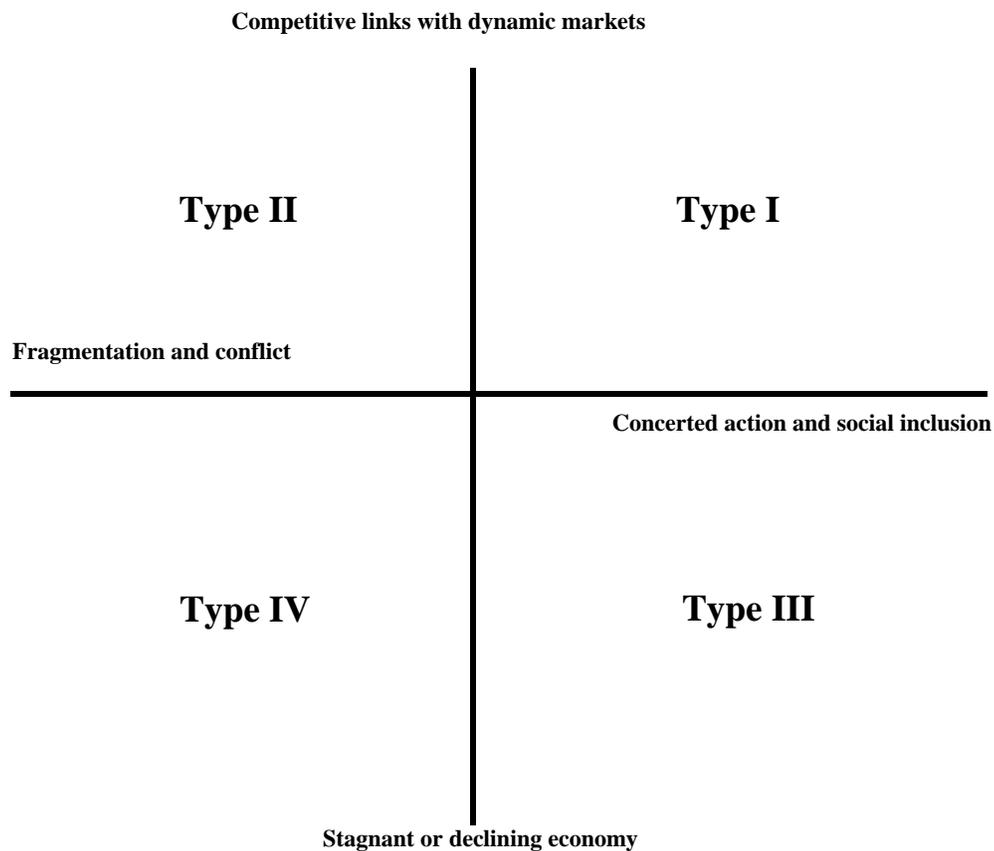
1. Areas where business firms are numerous and many work together for production, promotion and information-seeking purposes.
2. Areas where business firms are numerous but work in a dispersed manner, with no links to the area and no collaboration mechanisms, even where such firms belong to a single business sector.
3. Areas where there are a few dispersed business firms but where a sector, an activity, or an historic or natural element can be restored to serve as the basis for a local regeneration strategy.
4. Areas where business firms are concentrated in one part of the area, whereas elsewhere they are either disappearing, have failed to start up again or simply do not exist. The

5. Areas that have suffered serious rural depopulation or isolation, where there is a strong tendency towards abandoning farming and/or closing remaining businesses (which for the most part are run by aging entrepreneurs). The area is becoming deserted and it is vital to find resources or activities to inject it with a renewed dynamism.

The typology proposed below is a functional one *for the objective of reducing poverty through RTD strategies*. It is summarized in figure 1 and contains four general types of rural territory based on two pillars: the degree of productive transformation achieved, and the development of local institutions consistent with the definition of RTD provided above<sup>52</sup>.

Figure 1

### A TYPOLOGY OF RURAL TERRITORIES



<sup>52</sup> This typology is absolutely conceptual; real territories exhibit many variations that do not correspond to the “pure” types described here.

- **Type I territories:** those that have moved ahead in the transformation of the production structure and have achieved a level of institutional development that enables a reasonable degree of concerted action and social inclusiveness.

The economy of a type I territory has competitively articulated with dynamic markets. Exposure to demand from external markets with the associated public and private norms and standards, and competition from other regions and countries, act as constant stimuli for technological innovation. The existence of urban nuclei and efficient links between them and the rural hinterland provide the territory's productive units with timely, low-cost access to inputs and services and relatively sophisticated labor, technical and managerial capacities, public services, information and so forth, which without the urban-rural link would be unavailable.

Local agents maintain efficient and effective relationships both amongst themselves and with other agents outside the territory via rules, legal frameworks, standards, codes of conduct and conventions (institutions) that act as stimuli and rewards. It is due to relationships amongst agents that these territories have a clear-cut, well-defined identity that is socially inclusive and socially constructed. The competing entity is the territory or, more accurately, the competitiveness of individual firms is the outcome of the social and economic relationships that form the essence of the territory.

The Mexican Bajío or north-east and the central region of Chile are examples of type I territories built up around agriculture and agro-industry. Other examples include: Costa Rica's Guanacaste peninsula formed around the tourist industry; the area of San Pedro Sula in Honduras, around manufacturing; and the rural municipalities around Sao Paulo, around agriculture, agro-industry, commerce and recreational services.

**Type II territories:** those which have undergone significant economic growth, but this has had a weak impact on local development and, in particular, on the opportunities available for poorer sectors. Like type I territories, type II have strong economic sectors that are competitively linked with dynamic markets.

Unlike type I, however, type II areas are institutionally fragmented and typically exhibit social conflict due to the widespread exclusion of the bulk of the population, the poorest sectors in particular. Firms are based in the territory, but do not generate a positive impact on local development.

Examples of type II territories can be found in some areas in southern Chile, where enormous world-class timber companies coexist with an impoverished population of indigenous Mapuche; or in parts of the Brazilian Amazon or in Chiapas in Mexico, where large livestock and forestry corporations have always existed in a state of permanent conflict with local populations, which tend to exhibit very low indices of human development.

- **Type III territories:** those with notably robust institutional structures, often expressed in a strong cultural identity, but lacking endogenous economic alternatives that can sustain ongoing processes of rural poverty eradication.<sup>53</sup>

Huge tracts of rural Latin America have solidly established institutions, often built up over centuries, which structure much of the local inhabitants' daily lives. They have community authorities and government, rules governing the use of natural resources, conventions and provisions that frame people's behavior and ancestral legal traditions that are, in some cases, acknowledged in national legislation and are able to channel and resolve local conflicts. There is, undoubtedly, a distinctive culture.

All this plays a key role in facilitating the population's survival in a context of depressed agriculturally based subsistence economies, agricultural wages, non-agricultural refuge employment and, increasingly, emigration and migrant remittances. There are thousands of examples of type III rural territories in the high Andes, the south of Mexico, Central America and in northeastern Brazil.

- **Type IV territories:** these are territories caught in a process of outright societal breakdown.

Like type III territories, they have depressed and stagnant economies. But, unlike type III territories, they suffer from strong social fractures and weak or non-existent institutions, which ultimately makes it impossible to structure a positive day-to-day life at the local level. Examples of such rural territories are found in many municipalities of Colombia and, until recently, in conflict-torn areas of Central America.

*Criterion 5 – RTD programs should engage the different types of agents in the territory.*

Rural Latin America is well known to be socially heterogeneous. Poverty eradication policies have conventionally addressed this unevenness through targeting, which is often construed as ensuring that only the poor benefit from program resources and activities.

Through self-organization, poor rural areas can develop certain types of capacities and competences on their own. However, other determinants for development can only be accessed by the poor through building bridges to link them to other economic and social agents. The building of these bridges and the formation of links to other actors, that is to say the promotion of social consensus-building and concerted action, are essential tasks for RTD.

Examples abound of initiatives that reflect this logic: contract agriculture; supply contracts for supermarkets and restaurant chains; associations of small and medium-sized producers formed to resolve economy-of-scale problems; sectoral associations with a strong geographical focus to overcome infrastructure and service difficulties; organizations for

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<sup>53</sup> In the sense meant by Ostrom (1996), who refers to organizations capable of generating and enforcing legitimate rules.

managing irrigation systems; and subsidies and guarantees extended to private financial institutions to cover the transaction costs of micro-credit, amongst others.

*Criterion 6 – RTD programs must consider different routes out of poverty.*

De Janvry and Sadoulet (2000) and Echeverría (1998) summarized much of the discussion on life strategies employed by rural households to overcome poverty. But ultimately it comes down to ad hoc combinations of a limited set of overall strategies: the agricultural route, the rural non-agricultural route, the migration route and the social protection route, which combine to form different expressions of multi-activity routes. Importantly, the first three alternatives include both self-employment and salaried employment.

The agricultural route has the potential to reduce rural poverty only when it can be channeled towards more or less intensive production of differentiated, labor-intensive, high-value goods without significant economies of scale (Berdegué and Escobar, 2002). This type of production is suited to products destined for middle and high income markets. It also requires strong links with industry and services, which implies a stronger network between urban and rural elements. Agricultural production of commodities for the local market, particularly in poor areas, tends not to have a significant and lasting impact on rural poverty.

Non-agricultural rural employment is an increasingly important option in Latin America. It has a particularly noticeable impact for rural women entering the non-farm labor market. The non-agricultural rural employment with the highest potential for income generation tends to be found in more dynamic rural areas, however, while activities in poorer areas tend to be what are known as “refuge” activities, they nevertheless, significantly complement incomes of the rural poor.

A detailed examination of relatively successful examples of agricultural and non-agricultural strategies will show that micro and small entrepreneurs have been successful in transforming otherwise precarious activities due in great part to incentives accompanying the emergence of relationships with strong demand dynamics. In the most successful cases, this new relationship between local production and markets outside the territory has required the development of new institutional arrangements (contract systems, quality standards and rules, codes of conduct that reward responsibility in keeping commitments, “robust” rural economic organizations, and so on) which, on the one hand, have structured and organized the emerging social and economic relations and, on the other, have facilitated the involvement of poor sectors in new economic opportunities. When those two elements are absent, it is common to see cycles of creation of numerous micro and small businesses with resources that can be channeled through rural development projects or policies, followed by cycles in which most of these new enterprises collapse as the projects end or the policies are exhausted (Berdegué, 2001).

Examined exclusively from the viewpoint of its contribution to poverty eradication, migration may be the most important of the routes we examine. This is true despite the ambivalence about the contribution of migration to improving rural welfare. The sheer magnitude of remittances sent by emigrants back to their places of origin is enough to dissipate doubts as to their impact on poverty. A recent IADB estimate of remittances in 2002 placed them at

over USD32 billion.<sup>54</sup> This amount was almost equal to total foreign direct investment and it is expected that the figure for 2003 will exceed FDI. Research conducted by IADB shows that the multiplier effect of remittances is 3:1 (Orozco 2002). This is in addition to the fact that migrants themselves inject dynamism into their places of origin, both directly and indirectly: directly through the resources they channel in the form of remittances and fresh knowledge brought by those who return, and indirectly because their departure improves the ratio between the local natural resource base and the number of inhabitants that need to be sustained. Furthermore, emigrant communities constitute an important (and under-exploited) source of demand for their home countries' local products. The Mexican program of support for products that are known as "commercially non-traditional" — yet form the basis of ancient agricultural systems — promotes exports of "ethnic" foodstuffs in response to the huge demand generated by millions of Mexican emigrants living in the United States.

There is plenty of room for development action associated with migration and the use of remittances to finance RTD processes. For example, one point of support for collective initiatives may be found in Latin American migrants' associations or clubs in the United States. In the case of Mexicans, hundreds of clubs (of which 170 were in Los Angeles and 120 in Chicago), have established remittance funds to support social initiatives in their communities of origin.<sup>55</sup> Associations of Salvadoran migrants in western United States have also sponsored and co-funded development initiatives (for example, building or equipping rural schools) in areas where IFAD projects operate. In Cañar, Ecuador, a regional savings and loans cooperative has grown into an intermediation alternative through which "successful" migrants (that is, those who have found work in destination countries) can refinance, at better rates, loans extended by local lenders to cover the high costs of emigration.

Ambivalence about migration's contribution to RTD lies in the fact that it is selective, insofar as those who emigrate are usually those in the economically active age group with higher levels of training; emigrant patterns often also exhibit gender bias. This can result in the break-up of nuclear families and many areas are left with a high proportion of elderly people and children.

Apart from these reservations, the thrust of this criterion is, in short, that the design and implementation of RTD programs and their associated instruments (training, technical assistance, financing, and so on) must not be limited to a single route.

*Criterion 7 –RTD programs call for a complex institutional architecture.*

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<sup>54</sup> Remittances were equivalent to over 10% of GDP in several countries: Nicaragua (29.4%), Haiti (24.2%), Guyana (16.6%), El Salvador (15.1%), Jamaica (12.2%) and Honduras (11.5%).

<sup>55</sup> An example of a government program complementing such initiatives is *Tres por Uno* ("Three for one"), launched by the Mexican State of Zacatecas in 1986 and reformulated in 1996. Under the program, the federal, state and municipal governments each contribute one dollar for every dollar that Zacatecano clubs abroad raise for community improvements back home. A year after the program's reformulation, in 1997, 100 projects were carried out in 27 municipalities, for an amount close to USD5 million (ECLAC, 2002), according to Alarcón (undated).

Institutional architecture (IA) is understood to be the regulatory structure that is formed by organizations and institutions. By organizations we mean ministries, institutes, firms, NGOs, cooperatives, and, in general, groups of individuals organized for a common purpose. By institutions, we understand the systems of formal and informal rules that structure and limit the behavior of the members of society and the mechanisms established to enforce them. Formal rules consist of those established by legislation and regulations, while informal rules are those that arise from custom, convention and self-imposed patterns of behavior. “Continuous interaction between institutions and organizations in the economic setting of scarcity and hence competition is the key to institutional change” (North, 1998, p. 23).<sup>56</sup>

For the institutional architecture to facilitate cooperation for competition, market and government must generate incentives that can help to build up the capacities of rural households and communities (especially poor ones), that is, to increase the quality and quantity of their assets —physical, human, natural, financial and social — in order to improve their living standards within a competitive environment. Insofar as this requires the temporary or permanent transfer of ownership rights over goods and services among different actors, the “contracts” or formal and informal rules that govern such transfers are instrumental in meeting the desired objective.

Contracts are institutional mechanisms aimed at addressing market failures and dealing with the transaction costs mentioned earlier. In order for contracts to operate in the expected direction, several things are needed: more robust property rights for poor households; more symmetrical bargaining power; access to information and risk distribution; a non-discriminatory legal system; and mechanisms of arbitration that are reliable and accessible for the poor.<sup>57</sup>

Government organizations that are meant to play a key role in creating the stimuli for cooperation, compensating for asymmetries and overseeing the effectiveness and enforcement of contracts, tend to lack a structure that would enable them to address the multi-causal nature of poverty. They act in a sectorally fragmented manner and traditional administrative arrangements are dispersed among a multiplicity of public agencies: ministries of agriculture, environment, health, education, public works and social welfare, as well as a range of autonomous agencies such as social funds, agrarian institutes, and so forth. These instances lack effective coordination mechanisms and often have difficulty in moving beyond the status quo formed by the inertia of traditional practices and the vested interests of certain agents and organizations.

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<sup>56</sup> This definition of institution differs from the common use of the word and avoids the need to treat, for example, the creation of a new agency or ministry as an institutional change.

<sup>57</sup> In addition to the weakness of contract systems and/or the conditions set out for their effectiveness, it is important to note that, increasingly, **private** norms and standards are becoming crucial in governing the operation of agrifood systems in the rural sector. In most cases, such institutions are imposed at the global level by huge transnational corporations. They are thus international institutions in whose formulation and implementation national governments in Latin America and the Caribbean have no say or influence, either bilaterally or multilaterally. Thus, the private standards of detail conscious European firms have more impact today on the decisions taken by the region’s main economic agents than almost any public rule issued under the legislation of individual countries.

Private organizations in the rural world vary greatly in their ability to have an impact on policy and in their forms of action. Organizations that group businesses linked to more dynamic activities have greater bargaining power vis à vis the State and often exercise leadership that spans beyond their sectoral jurisdiction. Despite their limitations, with the right incentives, such organizations could play — and in some cases have played — an important role in articulating functional RTD agreements. Organizations that group micro and small agricultural and rural businesses have evolved since the time in which their role was limited to lobbying the State. Thousands of such organizations are making significant efforts to facilitate member engagement with new market requirements, technological innovation, productive transformation, entry into new non-agricultural economic activities and so on. All too often, though, those efforts are wasted due to errors on the part of the organizations themselves, failures in markets and in the institutions mentioned earlier and in the inertia of government entities that seek to apply old practices of political clientelism, or patronage, to those new organizations.

An important phenomenon to consider in the region's contemporary rural development is the role played by social mobilization of different sectors (small and medium-sized producers, rural wage-earners, the landless, and others) as a catalyst for transformation and institutional reform (Gordillo, 2001) in such areas as indigenous rights, concentration of land access, and local government capacities and attributes. To view those movements as resources of social transformation and democratic development demands a mental shift away from seeing them as threats to be repressed or confined.

Be all this as it may, the possibilities for rural development remain entangled in a mesh of persistent institutional weaknesses, such as ethnic or cultural discrimination, denial of citizens' rights to most of the rural poor, biased application of the justice system, unequal access to education and information, clientelism and corruption. All these constitute powerful obstacles to the development of relationships of trust and reciprocity, which, more than formal laws and rules, form the basis for cooperation among different agents in the rural world. In such unequal societies as ours, social mobilization is essential to add depth to democracy and citizenship and, therefore, collective action continues to be necessary for the development of a fairer and more inclusive society.

## Box 5

### COLLECTIVE ACTION

Collective action is necessary to address both individual and social needs that belong to the sphere of public life and that cannot be resolved if social action is reduced to the forms championed by neo-liberalism. It is principles of solidarity and cooperation that must underlie collective action.”

Strategies for rural collective action generally target one or more of three principal types of objectives: improving material living standards; modifying power relationships within rural groups, communities or organizations; and deepening democracy and strengthening civic responsibility. These are complex objectives, and achieving them fully requires the existence or development of sustained capacities in terms of human and social capital. These capacities cannot be simply transferred from abroad and instilled within the groups involved in collective action; instead they emerge from a process of social learning, which in turn requires time to mature.

From the foregoing discussion we draw two conclusions. First, collective action strategies require forms of organization based on the principle of achieving objectives gradually, starting with those that are less complex (building human and social capital) and moving on to those of greater complexity (eliminating poverty, modifying power relationships, deepening democracy). Second, the policies and strategies of some international agencies, governments and institutional donors, which demand immediate and visible results against complex objectives within three to five years, may be dramatic but they will not be effective, much less sustainable.

Collective action is not a guarantee in and of itself that opportunities or benefits will be distributed in an equitable manner among the different segments and strata of rural groups, communities or organizations. In particular, experience suggests that rural collective action has failed to achieve the expected results in terms of promoting gender equity. To the contrary, collective action often leads to the exacerbation of inequalities within rural societies. If the intent is to change power relationships in the direction of greater equity, this must be made explicit and actions of the magnitude necessary to achieve that goal must be taken.

The success or failure of collective action strategies intended to improve living conditions for rural populations will depend on internal factors (values, standards, codes of conduct, formal rules, mechanisms for enforcing rules and commitments, type of leadership), external factors (communication and cooperation among various stakeholders, linkages to "engines of sustainability" in collective actions) and contextual factors (in cultural terms, individualism versus solidarity; in economic terms, competition versus cooperation; and in political terms, autocracy versus democracy)” (see <http://www.grupochorlavi.org/ac/> page 6).

It is important to emphasize that a strong institutional architecture for RTD is strongly associated with the presence and quality of five elements:

- Technical, administrative and political attributes and capacities of local governments.
- Coordination — but also checks and balances — between different levels of government (national, provincial and municipal).
- Networks and other types of associations among local governments to generate region-wide organizations capable of undertaking productive transformation tasks that municipal governments acting alone, especially in poorer territories, are usually unable to tackle.
- Organizations dealing with economic matters and those representing civil society.
- Forums and mechanisms for concerted public-private action on a scale and in areas that are relevant for RTD.<sup>58</sup>

Municipal plans for local development that have proliferated in the region have the virtue of gradually breaking down the tradition of local government activities consisting mainly of maintaining and embellishing urban centers. Instead, they have addressed the provision of public services such as education and health and are increasingly involved in the development of productive projects.

These plans cannot be reduced, as often happens, to merely being exercises undertaken by technical experts or consultants to comply with formalities required for securing resources from the national budget. Nor should not aim to be all-encompassing models or manuals. Instead, municipal plans should be developed through processes of consultation and engagement with different sectors of the local community. In this way, they can become instruments to facilitate the mobilization of local resources, and transparency in the use of funds including an informed rendering of accounts.

Municipal plans to improve the standard of living of the rural population can develop into instruments for “adaptive learning”, which we interpret as the ability to understand prevailing trends, accurately identify opportunities and threats, acquire useful and timely information, implement solutions that fit with market limitations, political possibilities and civic standards, and mould the institutions that impact on economic performance.

The creation of platforms for concerted action is a crucial component for the new institutionality and should be a key element in municipal plans. Development of such platforms should be construed as a process of social construction for the territory. A first step is to reach consensus on less contested aspects in order to allow a gradual build up towards

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<sup>58</sup> This includes processes of participation, negotiation and conflict management, as well as public-private collaboration for managing and running RTD initiatives. Rodrik (1999) provides abundant evidence of the importance of this factor as a determinant of growth and the capacity to deal with external shocks.

more complex networks and alliances that institutionalize contractual practices and strengthen mutual trust among agents.<sup>59</sup>

Such innovations are aimed at the creation of synergies between State and society as catalysts of development and are based on the hypothesis that public agents can promote “norms of cooperation and networks of civic engagement among ordinary citizens [...] for developmental ends” (Evans, 2000).

With this in mind, the practice of subcontracting for the production of certain public goods should be gradually replaced by what Ostrom (1996) has called “co-production agreements” in cases where State and citizen inputs are complementary. This can be effective insofar as the commitments made by different parties are credible and there are mechanisms for enforcement.

Notwithstanding the virtues of a joint public-private approach at the local (municipal) level, it must also be acknowledged that RTD requires capacities and incentives that cannot be properly addressed at this level. In several countries, municipal partnerships, networks and regional public-private corporations have emerged in response to this problem, though they often lack legal status.

In this respect, an interesting idea is for central and/or provincial governments to promote Territorial Development Contracts (TDCs), as proposed by Brazil’s National Commission for Sustainable Rural Development (see box 1). TDCs are basically counterpart resource transfer mechanisms that take the form of commitments undertaken by sub-national entities (e.g. municipalities, municipal associations) based on activities set out in municipal development plans. These activities must generate public goods or positive externalities, and are selected by qualified bodies.

A complex institutional architecture such as what we describe requires systems of fluid communication amongst all actors in the process. This implies setting up interactive networks of information/communication linking the locality with the municipality, the municipality with the region and the region with the administrative centre, using the possibilities provided by information technologies. Such networks would make it possible to: (i) significantly enhance the productivity of scarce highly-skilled resources, in what Pérez (1990) calls “low-cost intelligence distribution”; (ii) coordinate separate but complementary functions as a permanent process; (iii) provide ongoing feedback to ensure the timely identification of opportunities and early warning of problems that require action at a different level; (iv) make public management more transparent; (v) facilitate consensus-building in relationships amongst the different agents; (vi) enable links with technological and scientific systems that cannot be sustained locally; (vii) effectively assess the signals from external markets. It must

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<sup>59</sup> In this sense, it is interesting to consider the experience of the local action groups formed within the framework of the LEADER programme. These are horizontal associations at local levels that include all of the public and private actors that are involved in different ways in the local economy and society. Those actors define the problems and develop strategies, establish a program of action, work out the associated costs and identify the available forms of funding accessing what is achievable in a given period with an overall subsidy (Saraceno, 2000).

be clear, however, that although it is no longer prohibitively expensive to gain access to equipment, effectiveness is critically dependent on progress made in organizational development, both in the public sphere and in local communities.

In addition to the points raised above, the viability of participatory local management also depends on other factors: the degree of habitat concentration; the homogeneity of social groups (referring to groups that, regardless of their differences, agree upon certain objectives); levels of organization; and quality and coverage of infrastructure. The requirements of institutional architecture become more complex as we move away from concentrated, socially homogenous and highly socially organized territories with sound infrastructure (see figure 2).

Figure 2  
**FACTORS AFFECTING THE STRENGTHENING OF INSTITUTIONAL ARCHITECTURE**

HABITAT		POPULATION			
		Socially homogeneous		Socially heterogeneous	
		organized	Non organized	organized	Non organized
Concentrated	With Infrastructure				
	Without Infrastructure				
Dispersed	With Infrastructure				
	Without Infrastructure				

*Criterion 8 – RTD programs must be formulated and managed from a medium and long-term perspective*

The different agents involved in RTD have a diverse and in some cases contradictory appreciation of what time frames are useful. Technical experts and agencies tend to operate with +/- five year horizons, over which period they can visualize the processes central to their respective disciplines. Important actions are those which can produce assessable results within that timeframe.

For politicians, time scales are governed by electoral cycles, which tend to be quite short at the local level, that is to say, between two and four years. They aim for achievements that will

materialize during their terms of office, and this criterion influences their selection of preferential actions or components. From the perspective of the local population, the more severe their deprivations the shorter the time scale to which they aspire. However, the length of time needed to improve their living conditions is, to the contrary, much longer than technical or political time frames. RTD must reconcile the pre-eminence of short-term aims with the significantly longer time periods needed for substantive development processes to mature — usually more than a decade.

A key to reconciling these differences is the construction of a shared vision of development potential within the territory and the associated commitments. If a shared vision can be developed then the community acquires a capacity for interlocution that enables it to transform the satisfaction of immediate demands into steps in a cumulative development process.

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