

Rural Poverty Reduction

Bank Strategy Paper

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What's New for the Bank in this Strategy?

- C *It focuses on the problem of rural poverty from a broader perspective, including other sectors in addition to agriculture (such as the social sectors, rural finance and basic infrastructure, and natural resource management), while recognizing the heterogeneity of rural poverty and promoting policies and instruments that in the medium term will decrease rural poverty in the region.*
- C *Its goal is to design and implement rural development programs that will produce results over the medium haul, based on national rural poverty reduction strategies, financing successive steps according to the results achieved in preceding stages, while at the same time ensuring that suitable policies prevail and promoting institutional strengthening as the first (pre-investment) stage of the process.*
- C *It reinforces the importance of designing rural development programs that include decentralization of activities and active participation by beneficiaries and, where warranted specific components for providing access to land and credit, and promoting agricultural and nonagricultural rural microenterprises.*
- C *It aims to establish closer coordination with other development, technical cooperation and lending agencies, as well as national, subregional and municipal development organizations, and to coordinate the various internal activities of the Bank related to rural development, ensuring closer integration of effort.*
- C *It stresses the need to focus greater attention on the execution and monitoring of operations, strengthening the Bank's Country Offices and the executing agencies working at the municipal and community level, providing the necessary flexibility to make changes during the execution of programs, evaluating results and applying them in subsequent stages or new programs.*
- C *It calls to continue to upgrade the Bank's technical capacity to ensure that the Country Offices and Headquarters have the necessary professional expertise to design, execute and evaluate rural development programs.*

INTRODUCTION

In relative terms, poverty can be said to be a rural phenomenon throughout most of the region. Over 60% of the poor in Mexico, Central America and the Andean countries live in rural areas; rural poverty is more extreme than urban poverty. The number and diversity of circumstances in which the rural poor find themselves makes it difficult in many cases to understand the causes and possible solutions to this problem.

This document proposes a menu of strategic approaches and options for reducing rural poverty in Latin America and the Caribbean, combining the Bank's own experiences and those of other organizations in designing options and instruments for use in programs carried out with the support of the Bank.¹ The proposals made in this document are consistent with a number of strategic initiatives already drawn up or in preparation by the Bank, in particular those aimed at poverty reduction (IDB 1997), promotion of microenterprises (IDB 1996a), development of indigenous communities, rural finance (IDB 1998a), and sustainable agriculture (IDB 1998a). Thus, a number of the alternatives presented here are already being applied by the Bank in several of its activities. Depending on the needs of each country, one or more of the options discussed could be used to define a rural poverty reduction agenda on a case-by-case basis. The flexibility of these approaches makes it possible to apply them to specific problems at the national, regional and even municipal level.

Rural development programs fall into the category

¹ Some of the elements included in this document have been discussed at the technical level at the Bank in recent years (BID 1994, Aristizabal et al 1992, Benito 1991). The document is based on Echenique (1996) and includes experiences of the World Bank (World Bank 1997, Binswanger 1995, Binswanger et al 1993), IFAD (IFAD 1992 and Monares and Parera 1995), IFPRI (Garrett 1996), IICA (IICA 1995 and de Janvry et al. 1989), and USAID (1987, 1994).

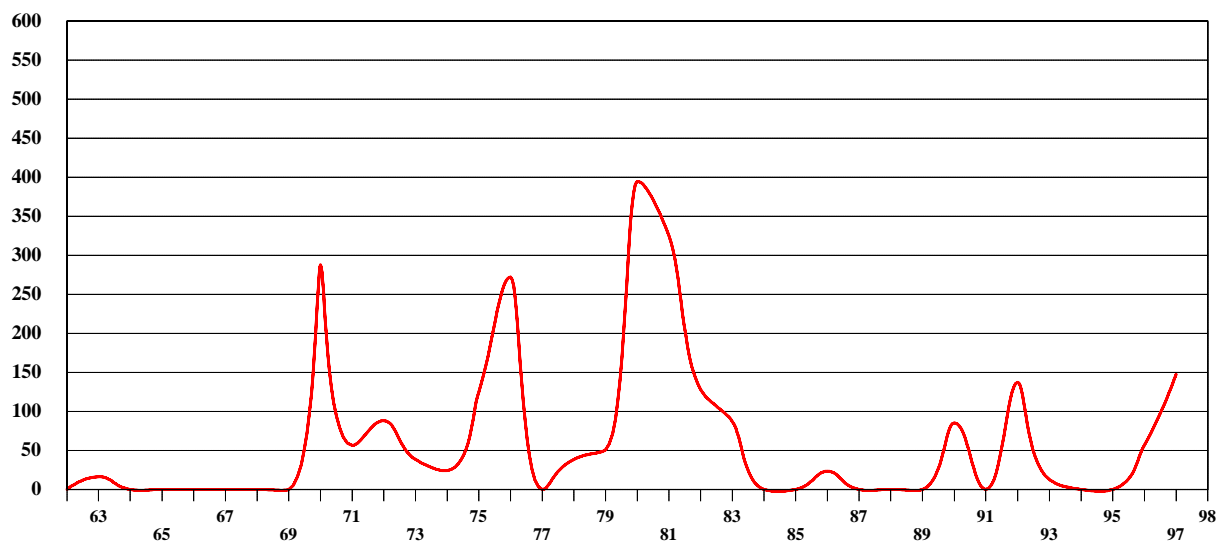
of poverty targeted investments whether aimed at regions or individuals, in accordance with the social equity and poverty reduction objectives set out in the Bank's Eighth Replenishment. Although the Bank has not had an explicit rural poverty reduction strategy around which to design projects in this area, it has nonetheless financed projects aimed at low-income groups in rural areas approximately 40 rural development projects designed to alleviate one or more of their specific problems.² During the past 30 years, the Bank has financed approximately 40 rural development projects for over one billion dollars (Figure 1 and Annex 1), which represents about 10% of total financing for rural, agriculture, fisheries and forestry projects.

In addition to programs aimed specifically at rural development, there are other Bank projects and activities that directly and/or indirectly benefit the rural sector, such as land titling, regional development, agricultural development, sustainable development and modernization of services. Moreover, the Bank has financed a number of rural development activities as part of investment programs classified under other sectors (watershed management, health, education, infrastructure) and in other types of projects (microenterprise and technical cooperations).

Given the great importance attached to this area under the Eighth Replenishment, and notwithstanding the difficulty in estimating the total number of activities financed by the Bank that affect rural poverty, it's worth noting the small number of projects focusing on this problem, and that the number has been declining since the mid-1980s, and especially during the past five years.

² The most recent policy document related to operations in this sector is "Integrated Rural Development Programs" (OP-752, Reference Document GP-108-3 of August 1984).

Figure 1: Rural Development Projects Financed by the IDB, 1963-97 (US\$ millions)



Reverting this trend, six rural development projects were approved in 1997 for a total of US\$150 million. Currently, approximately eight projects are being prepared for possible Bank financing ([Annex 2](#)). In

addition to the relatively small number of projects in preparation, there appears to be little correspondence between those projects and the regions identified as hardest hit by rural poverty.

RURAL POVERTY IN LATIN AMERICA AND THE CARIBBEAN

According to CEPAL (1997), between 1990 and 1994 the percentage of the region's households living in poverty dropped from 41% to 39%. Yet this progress was not enough to halt the rise in poverty that took place during the past decade. As the figures in Table 1 show, rural poverty fell by only one percentage point (from 56% to 55%) between 1990 and 1994, while the proportion of rural inhabitants living in absolute poverty remained at 33% during that period.³

Since the beginning of the 1990s, the urban poor (primarily female heads of household, fathers with

little or no formal education, and unemployed youth) have for the first time become more numerous than those in rural areas (Table 2), with the former currently estimated at slightly over 135 million, while the latter group numbers approximately 74 million individuals. But in relative terms, poverty in rural areas is more significant than in urban areas. In addition, rural poverty includes a much higher percentage of people living in extreme poverty, a problem that requires explicit projects if it is to be overcome. Finally, it must be remembered that the drop in the percentage of households beneath the poverty and extreme poverty lines has not prevented a continuing rise in the absolute number of individuals affected. Moreover, a high percentage and growing numbers of the poor living in cities are new or recent arrivals from rural areas.

³ In 1996, the per capita rural poverty line for the region was in the order of US\$360 per year, while those earning less than US\$180 per year were deemed to be living in absolute poverty.

Table 1: Percentage of Persons Living in Poverty and Absolute Poverty in Latin America, 1980-94

	Poverty			Absolute Poverty		
	Total	Urban	Rural	Total	Urban	Rural
1980	35	25	54	15	9	28
1990	41	36	56	18	13	33
1994	39	34	55	17	12	33

Table 2: Millions of Persons Living in Poverty and Absolute Poverty in Latin America, 1980-94

	Poverty			Absolute Poverty		
	Total	Urban	Rural	Total	Urban	Rural
1980	135.9	62.9	73	62.4	22.5	39.9
1990	197.2	120.8	76.4	91.9	45.4	46.5
1994	209.3	135.4	73.9	98.3	51.9	46.4

Source: CEPAL (1997). Notes: The poverty line is defined as that level of income beneath which a person cannot meet daily nutritional requirements and other basic needs (hygiene, clothing, education and transport). The absolute poverty line is defined in terms of income insufficient to meet the minimum daily nutritional requirements. Poverty indicators include those living below the absolute poverty line. The following countries are included in the analysis: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Guatemala, Honduras, Mexico, Panama, Peru, Uruguay and Venezuela. Annex 3 presents at a country level for 1994 the information summarized in tables 1 and 2.

Although the evaluation of the poverty figures vary for each country, and there are differences among several sources of information (CEPAL 1997) data indicates that the proportion of the rural population living below the poverty line in Mexico increased from 46% in 1992 to 47% in 1994, while it decreased from 65% in 1979 to 64% in 1986 in Peru (while absolute poverty in rural areas increased from 37% to 39% in the same period). In Venezuela, the percentage of the rural population living in poverty climbed from 36% in 1992 to 48% in 1994, and absolute poverty from 16% to 23% in that period. Although these information covers only part of the region, it shows a significant trend and underscores the growing gap between urban poverty which in many cases is declining, and rural poverty which is not diminishing and, in some cases, is growing.

The rural poor face three fundamental problems: (i) few opportunities for productive employment in agricultural or nonagricultural activities; (ii) inadequate nutrition, poor health services and absence of educational opportunities; and (iii) lack of sufficient levels of organization needed to lobby effectively for rural interests.

According to FAO data (1988), small farmers represent the largest share of the rural poor (66% or 47 million individuals), while the landless population (30%) and indigenous groups and others (4%) account for the remainder (21 and 3 million persons, respectively).⁴ Several estimates conclude that at

⁴ Indigenous groups includes all descendants of the original Amerindian population, including traditional hunter-gatherer

least one-third of all small-scale subsistence farmers have limited opportunities for overcoming poverty through agricultural production. This means that more than 40% of the rural poor would have very limited access to productive resources with which to generate sufficient earnings from agricultural production itself. This situation, already a crucial factor in defining strategies for the sector, takes on even greater importance when one considers that the number of rural poor with little access to agricultural resources are projected to grow faster than those with sufficient access.

Although the level of development in the region's rural zones varies greatly, both between nations and within a given country, it is clear that developing effective programs to reduce rural poverty should be a high priority for most countries, given the magnitude and incidence of the problem. Among the more urbanized countries, migration to the cities is beginning to decline, while in many other countries where rural inhabitants account for over 25% of the total population, high rates of urban migration continue to prevail. Among countries in the first group, it is imperative to accelerate rural development processes in order to create the conditions that rural inhabitants need to achieve living standards (including economic, political, social and cultural opportunities) comparable to those enjoyed by urban dwellers. In the case of countries with a higher proportion of rural inhabitants, seeking effective solutions for reducing rural poverty is more important still.

Analyzing trends in rural areas of the region reveals

communities (tribes inhabiting the tropical jungles of the Amazon and Orinoco basins, and in Central America and Panama) and the permanently settled agricultural groups descended from the pre-Columbian civilizations of the Andes and Mesoamerican regions. In spite of the fact that a large proportion of small farmers are descendents of pre-Columbian civilizations, including these, the indigenous population of the region may total over 30 million, in this document indigenous refers only to the first group (tropical hunter-gatherer communities) of approximately 3 million.

the existence of newly emergent poverty in the cities, together with an increase in rural poverty in indigenous zones and among older adults and families in which the head of household is a woman. Paradoxically, even as the agricultural sectors of most countries experience significant growth and undergo a period of modernization, marginalization and rural poverty are also on the rise. It is clear, as well, that economic growth has played a vital role in reducing rural poverty through increased demand for labor and the resultant migrations — proof that a large part of the solution lies outside the agricultural sector itself. However, economic and sectoral growth, although essential conditions for reducing poverty, are not sufficient in all cases. The extreme poverty conditions of many rural areas can only be improved through specifically targeted programs.

The Rural Poverty Scene

Four major trends affect the changes taking place in the region's rural sectors: growing economic integration and competition; the new role of the State; increasing degradation of resources and the ensuing emphasis on the importance of the environment; and the relationship between gender, ethnic groups and poverty.

Integration and Competition

Economic liberalization is in full swing in Latin America and the Caribbean. Bilateral treaties, the operation and expansion of MERCOSUR and NAFTA and agreements with the European Community and the APEC countries, have contributed to further opening markets and closer integration of the region's agricultural sector. New market opportunities are causing producers to become increasingly export-oriented, as protectionist barriers are coming down, allowing for imports of agricultural products from within and outside the region. The desire to become more competitive is leading to greater efforts to increase productivity and quality, while at the same time reducing costs. The expansion of the scale of production

(particularly in grains, meat, fruits, oilseeds and sugar), along with the simultaneous mechanization and automatization of the sector are having a profound impact on rural employment and real estate markets alike, as can be seen today in the countries of MERCOSUR and in northern Mexico.

It goes without saying that in facing the challenges of modernization and open competition, very small producers working marginal land and with only limited access to education, technical advances, communications and information, will be at a considerable disadvantage. Their marginal position vis-à-vis markets, and their bare subsistence production in any case, leave little room for this sector to rise above poverty.

The New Role of the State

Liberalization by governments based on privatization, structural adjustments to reduce fiscal deficits, and allowing markets a greater role in the economy, has meant not only less intervention by the State in rural matters, but also the dismantling of the institutions traditionally responsible for the sector, making rural development more difficult until these can be replaced with institutions devised mainly by civil society, especially at the local level. The reduction or withdrawal of public sector services has been particularly noticeable in some areas of rural life such as social spending (education, health), the financial system and infrastructure. Within these areas, the higher the demand for investment in the human capital, credit and communications needed to meet the challenge of improving rural competitiveness, the fewer the opportunities available to the rural poor to access these services.

The countries that are correcting this shortcoming and investing in growth with social equity often face serious difficulties in designing effective and innovative programs capable of reversing the traditional statism and excessive bureaucracy of their administrations, promoting instead active participation by local communities and the private

sector, and utilizing market mechanisms in the effort to reduce poverty. Despite the difficulties, greater reliance on market economics, the incorporation of NGOs, and the search for a new balance between the roles of the public and private sectors in development, are now a part of the region's new landscape. Yet it is equally true that progress in the transition from interventionist and centralized states to a regulatory and policy-setting role, together with more active participation by civil society and the private sector in the interests of the poor, is still halting at best.

Growing Awareness of the Environment

The great majority of the rural poor live in areas of low agricultural potential, including degraded zones, tracts subject to erosion or containing semi-desert or fragile soils, sloping hillsides and wetlands. This segment of the population is highly dependent on natural resources for basic subsistence (water, food, energy and income), yet because of their limited quality and quantity, many have no other alternative than to cross the threshold of sustainability and begin depleting these resources.

The region still has an abundance of natural resources, when compared with other areas of the world. However, the challenges of desertification, destruction of natural resources, climate change and loss of biodiversity add growing pressure to the search for effective means of ensuring sustainable development. For this reason, breaking the vicious circle of deforestation, the degradation of water and soil resources and growth in rural poverty is one of the keys factors shaping the new rural strategies. Since the links between poverty and natural resource degradation depend on the level and type of poverty, and of the environmental problem at hand, they are site specific, hence recommendations should be based on a case by case basis.

Society and governments in Latin America are increasingly concerned with the quality of the environment. While there is still an urban bias in the allocation of environmental spending, the number of

conservation programs and projects aimed at protecting soil, water resources and forests is growing. The insistence on sustainable management of natural resources relates not only to the citizens' demands for quality of life: it is also an opportunity for development of the rural communities themselves. Similarly, the use of environmentally-friendly technology and systems that ensure the sustainable development of natural resources is not only a part of the new framework, but also represents an opportunity (so far limited) for generating new (so-called organic or green) products, as well as for creating new technologies which can be adopted by poor farmers.

Gender, Ethnic Groups and Poverty

Rural women produce food and participate in the rural labor force. Although there are variations across countries, and in spite of the fact that female labor is sometimes “invisible” in national statistics, women may be responsible for the production of up to 50% of the food consumed in the region. In many countries, it is women who manage farms, gather firewood and water, and look after livestock, while their husbands and older children work in commercial farming or urban centers. Because of the breakdown of traditional family structures and the higher migration rate of males, a large share of the agricultural activities carried out by small producers is done by women.

Despite the overall reduction in rural employment, the proportion of women in the rural work force has gone up recently. It is estimated that women represent about 40% of the rural labor force. The growing contribution of women to family income has enabled an increasing number of rural households in the region to avoid poverty altogether, or at least to soften its worst effects. The drop in the relative importance of agricultural activities (and of production for on-farm consumption in particular), expansion of the trade and service sectors, and the spread of paid labor into rural zones, have combined to facilitate the entry of women into labor markets, and at the same time to make their participation

more visible. Women now own and operate between 30% and 60% of all microenterprises in the region, which is one of the fastest growing sectors.

Indigenous groups play a key role in the conservation of cultural traits and values, maintaining traditional systems and knowledge relating to biodiversity and the sustainable use of biological resources, especially nontimber forest resources. Historically, women and indigenous communities have lacked equitable access to land, credit, capital and extension services, even though it is these groups that make the heaviest use of water, soil and forest resources, both to provide the basics for their families and to generate additional income. Reforms to correct these faults have yielded some results, but some residual discrimination persists.

Lessons Learned

Many lessons may be gleaned from the rural development projects supported by the Bank and other lending agencies (the World Bank and IFAD) which will be useful in designing new policies and programs (Annex 4). In general, the specific rural development initiatives financed have been mostly local, one-off projects, discontinuous and unconnected from any national strategy. Or what is even worse, in many cases they pursued goals which ran counter to macroeconomic and sectoral policies being promoted at the same time. The rigidities inherent in the programming cycle, the lack of flexibility in adapting to changes arising during the course of a project, and technical and administrative weaknesses in counterpart arrangements, along with insufficient involvement of communities in the design and execution of the projects, have proven formidable obstacles to the achievement of expected projects results.

Nevertheless, many projects have achieved positive results, particularly those that gave access to productive resources and essential services not previously available to the rural poor, and those that set a positive example in the areas of decentralization and community participation in the

design and execution of activities. Over the past decade, many community-based organizations and various bilateral and multilateral organizations have sponsored innovative programs based on the positive achievements mentioned above. This experience is providing valuable information and new perspectives on the most effective ways of reducing rural poverty. These programs have generally

endeavored to correct the principal deficiencies in the first generation of integrated rural development projects (DRI in their Spanish acronym) carried out during the 1970s. The Bank has financed projects that take this experience into account: e.g. the *Fondo de Desarrollo Campesino* in Bolivia, and Colombia's Fondo DRI.

STRATEGIC APPROACHES AND OPTIONS

Strategic Approaches

Five approaches may be considered central to the definition of a strategy for reducing rural poverty: favorable institutional and policy framework, affirmative action programs to assist the poor, sustainability, investments in human capital and greater participation by communities in designing and carrying out strategies.⁵

Favorable Institutional and Policy Framework

Since economic and sectoral growth plays such a vital part in the reduction of rural poverty, an essential requirement for the options and instruments of rural development to succeed, is the creation of a favorable macroeconomic and sectoral framework. The Bank should insist on this favorable framework, and that it be based on stable policies and the institutional and policy conditions necessary to enable an effective and decentralized execution of projects. This enabling environment includes existence of safety net social programs for

people who cannot satisfy their basic needs.⁶ In addition to macroeconomic and sectoral policies that favor efforts to overcome rural poverty, this framework must include specific strategies such as those listed below.

Affirmative Action

Correcting the adverse effects on rural sectors of the tendency to favor urban centers in the allocation of resources is a major challenge inasmuch as political and economic power remains concentrated in the cities, whereas the majority of the rural population is poor, widely dispersed and unorganized. In addition, the ratio of rural to urban population is steadily declining. The actions recommended do not attempt to provide credit at subsidized rates, preferential price guarantees or other means that distort prices such as those tried in the past. The corrective measures include ensuring the neutrality of macroeconomic policies, which in the past, discriminated against the sector by means of direct and indirect state intervention in markets, through taxation and public spending.

To compensate for the cumulative shortfall in expenditures on rural infrastructure and social programs, greater emphasis can be placed on education

⁵ These approaches and options are part of general principles of a new consensus for rural development. For instance, de Janvry, Murgai and Sadoulet (1998) highlight the following basic principles: favorable policy context, interagency coordination, participation of local agencies, resource mobilization and institutional strengthening.

⁶ Under these conditions of extreme poverty the general recommendations of the document "Strategy for Poverty Reduction (IDB 1997) are applicable.

and health services, and on building the basic rural infrastructure to provide an incentive for private investment, while providing the rural poor access to the services and markets available to the urban population. It is important that the programs of the sort mentioned here be transparent and targeted to the poorest segments in rural areas, and that they not become a general transfer of resources to the sector.

Sustainability

In this document, sustainable rural development is defined as the steady improvement of standards of living among the rural population which does not require continuous infusions of external financial aid and does not degrade the natural resource base (IDB 1996b). Hence, the strategy will consist of cooperation with the poorer segments to help them find their own path out of poverty. It will also include expanding job opportunities and helping the marginalized segments of rural society to raise their earning capacity in order to reduce the pressure on natural resources and break the vicious circle in which poverty leads to environmental degradation which, in turn, leads to still greater poverty. This approach stands in sharp contrast to that of trying to satisfy basic needs through government subsidies, which has been tried on prior occasions with little success.

It is estimated that the population of Latin America will increase from 441 million in 1990 to 670 million in 2020. The number of people living in rural areas will remain unchanged in absolute terms at 125 million. The pressure which rural and urban dwellers put on the region's natural resources will go up proportionately. Poor farmers generally do not have the equipment, inputs and technology needed to carry out conservation works or replenish natural resources. Many lack secure access to the land and resources they work, cannot count on reaping the benefits of conservation practices, and therefore have no incentive to protect water, soil and plant resources.

Breaking the circle of poverty and deterioration of natural resources can result in a virtuous circle where restoration of natural resources aids in the reduction of poverty, if support programs are designed with this specific aim in mind. These programs, which have been tried in southern Europe and the United States and were recently included in Mexico is rural employment program, have two main features: a long-term incentive plan for rural families in the form of a bonus per unit of land taken out of production and included in the program to restore depleted resources (and continuing until such time as the respective resources are restored); and a special loan for investment in and conversion of the area set aside for forestation, combined livestock and forestry operations, introduction of ground cover or other soil restoration practices. These are long-term programs rather than emergency projects for job creation.

Some of the elements employed in the sustainable management of natural resources which are considered appropriate for use in rural development programs include: (i) expansion of agricultural production using multiple cropping and conservationist methods that increase yields without depleting soil or water resources, while maintaining or creating employment; (ii) legal reforms that promote the rational use and decentralized management of water resources, ensuring equitable access and enforcement of the applicable regulations; (iii) watershed management which strikes a balance between the need for development based on sustainable use of resources, and participation by the rural population; and (iv) underscoring the role of protected natural areas as a key factor in rural development and the sustainable use of resources, focusing on the consolidation of national systems of natural area preserves, participation by rural communities in management and rational use of resources, and promoting sustainable uses of biological resources such as in ecotourism and alternative natural products.

Investment in Human Capital

Progress in terms of coverage, level and quality of rural health and education programs in the countries of the region has been very uneven. In several of the countries, achieving the conditions necessary to provide all girls and boys in rural areas with the opportunity to complete the six years of primary school remains a distant goal. In a few other countries, the current goal is to provide full access to a four-year secondary school education for young people in rural areas. The quality of rural education in most of the region's countries is lower than for the urban equivalent. The reason for this is a disperse population, low enrollment rates and lack of educational incentive in the rural environment. In addition, curriculums generally do not take into account the specific needs of students living in a rural setting. Another distant goal is the reduction of high mortality rates among young mothers in rural areas by increasing the coverage and quality of education for young girls, especially indigenous girls.

In view of the growing marginalization of certain regions, their lack of employment options, and the fact that a declining population base often makes it harder to provide basic services for the remaining inhabitants, some trade-off between social spending and local sources of income becomes necessary. In many cases this means introducing social investments programs.⁷ The relationship between road infrastructure and education and health services provides a good example. In many cases, building a road and providing bus transportation is the best solution for isolated rural areas. Similarly, setting up a boarding school in a nearby town may be preferable to scattering schools and teachers about the rural countryside.

Diversity and Participation

In addition to differences in culture, rural geography and natural resource endowment, and institutional

⁷ It is important to ensure that women not only contribute with labor but benefit from the income generating components of social investments programs.

and political climate that distinguish the various countries of the region, there are also myriad regional and microregional differences within each country. This heterogeneity of circumstances has several implications for rural development strategies: (i) *for the Bank*, it signals the need for continuous and open dialogue with each country to ascertain specific issues and shape projects to address them; (ii) *for individual countries*, it means a strong commitment to decentralization to accommodate diversity and encourage the various actors to express their opinions; (iii) *for the region* or microregion in which the strategy will be implemented, it calls for flexibility to ensure that implementation is consistent with the possibilities and interests of the inhabitants; and (iv) *at the community level*, it means that the strategy chosen must include a well-defined structure for encouraging participation by all beneficiaries (women, men and youths) and cooperating organizations (community groups, government agencies, municipalities) in the design, execution and evaluation phases of rural development initiatives.

Based on the approaches discussed above, there are a number of complementary alternatives for addressing the problems of rural poverty. The options presented below are based on the agricultural potential of small scale farmers living in poverty.

Alternative Options Based on Rural Heterogeneity

For the purposes of this document, rural inhabitants living in poverty are classified into two types. The first type includes small scale farmers with agricultural potential; while the second, is comprised of small scale farmers with low agricultural potential and the landless poor. Agricultural potential is defined as access to the resources needed, including land of suitable quality and in sufficient quantity, to generate the earnings (or products) that will ensure survival of the farmer's family and development of the production unit. The low agricultural potential status is

modifiable, for example by improving access to land for *minifundistas* or through small irrigation projects in arid areas. In addition, both groups may very well exist within a single region. Although the reality of poverty is more complex, and there are several ways of classifying the rural poor, the general approach used here is useful for the purposes of this document.

While poverty is concentrated mainly in the group of landless and small farmers with very limited potential, some of the small farmers with agricultural potential are poor as well, primarily because of: restricted access to technology and credit which prevents individuals from realizing their potential productivity; lack of one of the factors vital to production, such as water; uncertainty over land ownership; or weak access to markets for products. The fundamental difference between the poor with more agricultural potential and those with less, is that the former can find a path out of poverty by overcoming these marketing restrictions, obtaining the necessary financial resources and investing in irrigation and technology. All too often in the region, agricultural development instruments have been used in an attempt to reduce poverty among rural inhabitants who lack agricultural potential. Predictably, the result is frustration.

For those with less agricultural potential and the landless poor (approximately 45% of the rural poor), the solutions that will free them from poverty do not lie in farming. Where no possibility exists for obtaining access to land, there are three main alternatives:

- C creating nonagricultural sources of employment in rural areas, using public funds and sufficient incentives to attract private investment for projects that use a variety of resources (tourism, fishing, agro-industries), or simply make use of their comparative advantages (low-cost land, available work force, water resources);
- C promoting small and microenterprises in

activities other than farming (in which one or more members of a family manage an enterprise in fields such as commerce, rural crafts, small manufacturing, repair services); and

- C providing job training to help poor women, men and young people in rural areas to enter the labor market with better qualifications, while emphasizing that access to secondary education is the best guarantee of success in finding suitable employment. It is important to develop specific incentives to assure that women, a predominant group within the rural poor with little agricultural potential, have access to nonagriculture work, credit and microenterprise options, and to work training.

The strategy based on agricultural production will require both opening up new opportunities for obtaining scarce resources, and overcoming the obstacles that prevent small scale farmers from realizing the full productive potential of the land and water under their control. Among the more important means for increasing agricultural production and earnings among the poorest segment of the population are: land titling and legal registration of holdings, promotion of leasing of properties and grazing rights, development and transfer of technology, investment in microirrigation and promotion of water markets, development of rural financing systems, and ensuring efficient market entry. It is important to check for gender biases in the access to those means of production, especially land and credit.

It is worth stressing the importance of promoting land and financial markets in the rural sector. The available evidence shows that currently land markets channel a limited demand, and because of the informal nature of most land transactions, they are significantly segmented based on farm size and social status. There are several instruments for the development of land markets such as: settlement and colonization programs, land taxes based on its potential productivity, and land titling projects and

development of cadastre. In addition to facilitate access to land for small farmers in particular, land banks and market assisted land reform programs have been developed recently. By placing the decision on land selection and price negotiation with the beneficiaries these instruments could eliminate several inefficiencies. In general, the effectiveness of land markets can be increased by avoiding distortions on land use through a neutral macroeconomic, fiscal and sectoral environment; strong property rights and decreasing transaction costs by reforming public lands allocation policies; and eliminating regulations that limit the selling and/or leasing of land.⁸

Rural financial market development allows rural residents greater access to financial resources (i.e. helps them obtain credit). These markets could be developed by promoting and strengthening viable financial institutions, encouraging the use of nontraditional credit methods, establishing an efficient regulatory framework and well-defined

property rights, creating new guarantee mechanisms, and establishing the means for cooperation between formal and informal lending institutions. The development of policies and instruments that increase the availability of information, and reduce relatively high price and production risks, as well as inadequate contract enforcement in the rural sector will increase financial intermediation profits which, in turn, will increase access to financial services in the sector.

Specifically, rural financial market development programs could include support for an appropriate legal and regulatory legislation and active enforcement; sectoral economic reform that will increase rural investment opportunities and the reduction of production and marketing risks. In addition, reductions in risks associated with the investment decision-making process can be fostered by promoting insurance, futures markets, and hedging, as well as through the adequate disclosure of information. Finally, the development of rural financial markets also depends on the reduction of market distortions and government interference in the allocation and pricing of financial assets; support for the development of new financial products with appropriate risk control mechanisms; development of a variety of well-regulated and efficient private financial intermediaries; and the rationalization of the role and nature of publicly-owned financial institutions (IDB 1998a).

Table 3 summarizes the options and instruments discussed in this section.

⁸ Conflicts related to rural poverty ownership and land utilization have historically caused social tension in the region. In many cases the unequal distribution of land not only affects equity but the potential productive use of rural lands. The development of effective land markets is only a necessary condition to increase efficiency and equity in land allocation. Therefore it would be worthwhile to expand the analysis of effective land markets to identify other structural changes that may be needed to improve access to land to small producers with agricultural potential, to increase equity and efficiency. For a recent summary of land markets constraints in Latin America and elements to increase their effectiveness see BID (1998b); and de Janvry, Sadoulet and Wolford (1998) for a more detailed analysis of the roles of the state and grassroots organizations in land reform programs in the region.

Table 3: Summary of Strategic Options and Instruments

Options	Instruments
General programs to reduce rural poverty	<ul style="list-style-type: none"> - Favorable macroeconomic and sectoral policies - Investment in human capital (education, health and other social services) - Investment in infrastructure - Restoration and management of natural resources, and job creation
Specific program targeting small farmers with agricultural potential	<ul style="list-style-type: none"> - Land titling - Investment in irrigation - Research and technology transfer - Development of rural financial markets - Promotion of entry into new markets
Specific programs to create employment and increase the earnings of farmers with limited agricultural potential and other rural residents	<ul style="list-style-type: none"> - Develop effective land markets - Development of microenterprises, small businesses and financial markets in rural areas - Incentives to attract private investment to rural areas - Training for better job opportunities

STRATEGIC BANK ACTIVITIES

Depending on the specific problem, the Bank can take the actions described above individually or by combining two or more strategic approaches in a single program. The Bank can assist the countries in defining overall and sectoral policies that promote economic growth and a more equitable distribution of the resulting benefits, thereby contributing to reducing poverty. At the same time, it can support a more participatory approach to rural development by promoting the decentralization of activities and institutional strengthening at the local level. Moreover, the Bank can mobilize resources both within the region and from other countries to finance poverty reduction programs in rural areas. It can help to promote and strengthen public and private institutions in the region (including financial institutions) to enable them to participate in these

programs, and support efforts by governments to improve regulatory frameworks in order to reduce financial risks and encourage an inflow of domestic and foreign capital to the sector.

In addition to this global or indirect contribution to poverty reduction in rural areas, there is also a need for programs and projects that specifically target the rural poor. Along these lines, the Bank can undertake programs that are national in scope, consisting of one or more carefully coordinated components built around the strategic options described above and including, for example, programs aimed at raising the productivity and earnings of small-scale farmers with agricultural potential through technology development, irrigation and strengthening of rural finance markets. To

achieve more access to land (and remove a major constraint to agricultural potential) it would also be possible to finance projects that improve land titling, promote renting of land and, in some cases, establish land banks and market assisted land reform schemes.

As well, the Bank can finance implementation of multisectoral programs with components designed to support production and social services one or more regions of a country, provided certain requirements are met and the experience gained in the integrated rural development projects are duly incorporated. For example, financing could be provided for programs lasting 10 to 15 years, divided into 5-year periods with follow-up evaluations and reprogramming every 2 to 3 years, and with one central administration plus a number of decentralized executing units. There is also the possibility of selecting certain components under programs for rural investment in a marginalized region where these are seen to complement one another, as for example in the case of investments in infrastructure and social programs (small access roads and basic education).

The Bank's role in reducing rural poverty in the region will be defined primarily by interaction with each country. Nevertheless, the discussion that follows mentions specific actions which link the above strategy options to the Bank's mandate. The main thrust of these actions is to redouble efforts being made by the countries and the Bank to overcome conditions of poverty in accordance with the central purposes of the Eighth Replenishment.

Promoting Favorable Policies

In its ongoing dialogue with the countries, the Bank can promote an environment favorable to the adoption of policy initiatives and activities relating to rural poverty reduction. In addition, it can carry out studies and objective assessments jointly with the countries; organize workshops in each country to survey rural policies and options, and promote exchanges of experience between countries and

regions, based on successes achieved in current projects. Meetings with national and local government agencies, community-based organizations, universities, and other groups can also be useful to help identify possible projects. In this dialogue, the Bank can encourage the adoption of policies that will have a positive impact on the rural poor, promoting the allocation of resources and the design of programs to assist those among the rural poor who have agricultural potential, create nonagricultural employment in rural areas for those who do not, and provide training programs (targeting women and indigenous groups who have been traditionally excluded from such programs).

Strengthening Local Institutions

The Bank's activities can work to increase the negotiating ability and technical capacity of local development agencies in the public and private sectors, help to decentralize decision-making powers and the allocation of resources, and encourage networking and alliances between institutions. Through direct consultation, training and prefinancing, the Bank could also help strengthen professional skills and develop institutions through access to information, modern management and the means to become financially self-sustaining.

The devolution of decision-making powers to smaller territorial units within a country is a prerequisite for ensuring that residents of these areas have a stake in the decisions that affect them. A series of highly differentiated activities capable of meeting the needs of diverse types of rural inhabitants in a variety of regions cannot be carried out effectively by a centralized public sector with underqualified and poorly paid personnel, following bureaucratic procedures and without direct contact with the target population. What is needed are decentralized and interconnected units, with the participation of stakeholders at the various levels (municipality or microregion, community and family). It is essential that the staff directing these programs and projects in the region must receive solid professional training and competitive salaries.

Participation of Beneficiaries

Most evaluations of rural development programs note the importance of involving the local population (particularly women) more directly and continuously, starting in the design phase and continuing through execution of the activities. Yet there are few cases in which the communities are consulted and participate fully in such programs. Empowering of communities by improving their physical and social infrastructure seeks to frame public investment in a broader context than that of a single farm or individual productive effort. This context is based on the community (microregion) as a relatively autonomous space within which the State operates through policies intended to create the public goods needed to upgrade its production and trade infrastructure, train its labor force, promote the organization of local rural groups, and foster technological innovation.

The policy of providing access to information on the Bank's programs that are in preparation and approved is an important step for expanding public participation. However, consultations carried out in preparing projects are generally limited to officials of the institutions involved in their execution and groups directly linked to the project; only very rarely are potential rural beneficiaries consulted. Nor has it been common in the past to involve local governments or community groups in the design of projects, even in cases where such groups are directly related to the actions proposed in rural development projects. Most of these groups, however, are only loosely organized and lack technical capacity, limiting their potential for participating in rural development activities. Those with some capacity together with private enterprises could be involved in the preparation and in the execution of projects. In addition, these consultations could be useful to gather information to improve specific sectoral strategy preparation, studies and country papers, helping to prioritize actions in the rural sector.

Rural development projects could also include

training for interested groups in each country to strengthen their basic organizational capabilities, enabling them to participate fully in rural development activities. This training could cover aspects of the country's existing legal framework, organizational structure and democratic decision-making, and management and administration of organizations and projects. Training could also be included for staff of the government bodies responsible for design and supervision of rural development programs and projects in order to facilitate participation by the beneficiaries.

Coordination among Development Organizations

There are many organizations at various levels that can be mobilized to participate in rural development programs. The Bank is among these, and generally acts in cooperation or under an agreement or contract with other agencies. Closer coordination among agencies for the purpose of sharing their experiences in applying innovative means for financing projects in the rural sector, as well as in planning and cofinancing activities, will result in greater efficiency and more effective utilization of scarce resources available for the reduction of rural poverty.

Most countries in the region have rural development projects financed by bilateral and multilateral agencies. The lack of capacity in these countries to ensure coordination of planning and program management between these agencies has resulted in the inefficient use of financial resources and lack of effectiveness in the execution of development activities. The IDB and the World Bank concur on many of the development strategies applied, but do not always coordinate efforts in the countries. There is even less coordination with other international organizations (FAO, IFAD, IICA, ECLAC) and major bilateral technical assistance institutions (USAID, GTZ, JICA, COTEZU). In several countries this has led to duplication of effort and the possible "selling" of similar projects to several lending institutions. For these reasons, the Bank (through its Country Offices) can hold workshops at

regular intervals, in which it could invite representatives of the other local and international organizations involved to discuss strategy guidelines in the rural sector and coordinate efforts in the preparation and execution of projects. These meetings could be made part of the Bank's programming process in each country, and should be attended by the country teams and heads of the corresponding technical divisions.

Priority Areas for Investment

In addition to the strategic action areas mentioned above, there are four high priority investment areas given their importance in the effort to alleviate poverty:

- C *Raising productivity and earnings of small scale farmers with agricultural potential.* This option includes generating greater access to technology, markets and financial resources. As well, it includes land titling programs and, depending on specific conditions, provision of financing for purchase and distribution of land. By providing access to land (or investing in small irrigation projects), farmers with only limited agricultural potential at present could transform themselves into full-fledged small producers.
- C *Creating rural nonagricultural employment.* One of the highest priorities is to invest public funds and promote private investment in upgrading rural infrastructure and developing productive activities in the nonagricultural or service sectors (agribusinesses, tourism, cottage industries, fishing, forestry) capable of generating employment for poor women, men and young people. Along the same lines, cooperation for small- and middle-sized rural businesses, both in terms of fostering the creation of new companies and in promoting existing ones, will help to generate nonagricultural jobs. In this area and the preceding one, creation and strengthening of

rural financing systems will go far toward accomplishing both objectives.

- C *Building human capital.* Investing in the rural population itself is unquestionably the first priority for permanently reducing rural poverty, as well as for addressing the medium-term needs of the poor. Correcting the urban-rural inequalities in basic services and, especially, improving the coverage and quality of education and health programs (targeted to young girls when possible), are actions that must receive the highest priority in programs financed by the Bank. These actions include investments in community development.
- C *Conservation of the natural resource base.* As described earlier, the severe and accelerating deterioration of natural resources in the region represents not only a challenge but also a very real opportunity for the countries, supported by the Bank, to develop a win-win situation in the struggle against rural poverty by restoring the quality of soil, water, flora and fauna, and reversing the destruction of the landscape.

In order to design and carry out technically sound programs for reducing rural poverty, the financing provided by the Bank should be closely tied to the approaches and strategy options discussed earlier, or those developed in the course of implementing this strategy. Given the complexities involved, it is suggested that preinvestment funds be provided to finance planning of the programs described, that the disbursement schedule be adjustable based on evaluations carried out while the program is in progress, and that a guarantee mechanism be developed to ensure that scheduled counterpart contributions are made on time. Again, it is necessary to underscore the importance of carefully selecting the executing agencies and staff involved, and including sufficient financial and technical support for administrative tasks and training.

PLAN OF ACTION

To facilitate implementation of the proposed alternatives and satisfy the demands of the countries in the region, the Bank and the governments will have to jointly identify the areas in which the instruments are to be applied. Due to the agroecological, sociocultural, economic and political diversity of the region, it is essential that the Bank focus on each country individually. Moreover, different options should be conceptualized within each country, at the regional, departmental, and municipal levels.

Expanding activities already being carried out by the Bank, while at the same time putting into practice some of the approaches and instruments proposed in this document, it is estimated that over the next few years the number and the quality of lending dedicated to rural poverty reduction could increase. In addition, it is suggested that a review of the proposed options be conducted periodically (every 3 to 5 years) as changes occur in the rural development project portfolio and in poverty conditions in the region. It is also suggested that an evaluation of the 1995-2000 rural project portfolio be carried out in 2001. Following are several internal actions that the Bank could carry out to implement the various options mentioned.

Developing Strategies at the National Level

The majority of the region's countries do not follow a strategic pattern for reduction of rural poverty; rather, investment projects are often undertaken separately and designed with only the specific objectives of the particular project in mind, without analyzing the sectoral context and the relationship to national policies. The preparation of rural development strategies at the national level and for specified regions within certain countries would provide crucial input for the design and introduction of new programs. Such strategies could form part of the Country Paper prepared by the Bank and the

countries.

Designing Medium Term Programs Implemented in Stages

The actual execution periods of rural projects financed by the Bank have been consistently longer than originally scheduled. It is therefore suggested that the Bank continue its now customary practice of designing medium-term programs in a series of stages based on the particular characteristics of each country and each project, as well as the institutions and communities involved. A first stage (5-6 years in length) would establish the minimum policy and institutional conditions, and the staff training programs necessary for undertaking the full activities of the program in subsequent stages.

The most important obstacles preventing previous rural development projects from achieving their physical goals and final objectives have involved institutional problems and lack of participation by the target population in the design and execution of projects. Hence, a pilot phase to adapt strategies and instruments could be included in the design of projects. Although smaller projects (whether financed by the Bank or other development assistance organizations) have had little coverage and limited influence on policy or institutions, they have generally proven the most successful rural development initiatives, primarily because of the high level of participation by their beneficiaries in developing technical innovations, and their efficient institutional arrangements. Based on this, the Bank could emphasize an initial institutional-strengthening stage preceding the loan activities themselves. Once the technical aspects, methods of execution and mechanisms for public participation have been adapted to the specific conditions of the place, they can be applied in large-scale investment programs. To facilitate the execution of these preliminary stages of projects, more frequent use could be made

of technical cooperation resources and/or direct funding by the governments via preinvestment loans.

Emphasis on Execution Based on Analysis of the Experience

For reasons mentioned earlier, the task of providing technical supervision for rural development projects is of enormous importance. Although greater emphasis is still placed on the preparatory stages than on execution itself, with the resultant impact on quality and length of time taken to complete project execution, there is general agreement within the Bank on the need to reverse this situation. To do this, specialists in the Country Offices responsible for supervising the execution of projects could schedule more time with their national counterparts in order to help get activities started, and more field visits to anticipate and resolve problems affecting execution and technical quality. These activities should be encouraged during the preparation and evaluation of individual plans for staff performance.

Another option where warranted by the complexity of given projects, would be to establish a local technical consultant group on the preparation and execution of rural programs which could advise the institutions in charge of execution, helping to resolve conflicts between these institutions and the project beneficiaries. This group could be made up of representatives from local governments, community-based organizations, universities, private enterprise, and/or other actors involved in the activities of the projects and the areas where they are to be carried out, along with personnel from the financing and technical cooperation agencies.

The establishment of adequate benchmarks for evaluating the effectiveness of the methods and procedures used in executing the projects, and the progress made toward their objectives, should begin early with initial work on a data base to be developed during preparation of the operation including, for example, agroecological, socioeconomic and politico-institutional indicators that are easily obtainable. Supervision of these

tasks could be carried out by private companies, universities or community groups with the cooperation of the executing agencies.

In addition to the formal ex-post evaluation documents on projects financed by the Bank, the experience gained in executing programs in the field of rural poverty reduction should be utilized via monitoring and evaluation mechanisms, and informal progress reports, best practices and guidelines documents. Preparation of these guides should be approached systematically, beginning with a review of the literature, interviews with specialists in the subsectors (per country and per region), and visits to the areas in which the practices and procedures have been adopted or verified. These documents should be discussed in seminars held in the Country Offices and the Bank's Headquarters (in addition to being published as source books), in order that their findings be taken into account in the preparation and execution of subsequent projects. It is suggested that a document series on practices in rural development be launched, including the following topics in the first three years: finance and development of rural microenterprises; effective institutional mechanisms and strategies for managing rural development programs, and methods for participatory planning and management of projects.

Resources for Implementing New Programs

Implementation of the options proposed here may mean a need for new personnel, both at the Bank's Headquarters and in the Country Offices. Essentially, the need will be for a minimum number of rural development specialists capable of responding to the new challenges in this sector. In addition of the expertise in the rural sector, these professionals should have social development skills, particularly those working at the Country Offices. It is suggested that the Regional Departments and the Sustainable Development Department assign a larger number of people (regular staff or consultants) to the design, preparation, execution and evaluation of rural development projects. This suggestion would not require new positions, but

rather the possible reassigning of professional staff, and the use of positions that may become vacant in other sectors and/or functions.

In addition to assigning the most suitable persons to complex operations such as those of rural projects, thought should be given to providing specialized training for current staff, hiring local experts on short-term contracts, and signing agreements with universities, research centers and/or NGOs in the region and from countries outside the region, for the use of their specialized capabilities when needed. Working and joint financing agreements could also be contemplated with specialized organizations such as the FAO, IFAD or IICA, and bilateral technical cooperation agencies with recognized expertise in the area (GTZ, COTEZU).

In conjunction with having a technical critical mass, it is essential to reinforce ties with specialized agencies (both multilateral and bilateral organizations) and to establish retainer-type agreements with organizations specializing in the preparation, supervision and execution of poverty reduction programs in rural areas using the

approaches discussed earlier. In order to facilitate the preparation and execution of these programs, the Bank can make maximum use of the various technical cooperation funds (national, bilateral, regional funds, as well as co-financing arrangements with other agencies) to prepare project documents, country papers, studies and sectoral strategies, analyses of capacity and need for institutional strengthening at the central and local levels, documents on best practices, and procedural guides.

Because of the intrinsic characteristics of the rural sector (geographic dispersion, heterogeneity of actors, and complexity of the causes of poverty) rural project preparation costs could be somewhat higher than the average cost of project preparation. As the decline in the number of projects targeted to rural poverty reduction is reversed and the quality of other activities that complement lending is increased, it would be appropriate to analyze the costs associated with these activities. This analysis could be included in the evaluation of the 1995-2000 rural project portfolio, linking such costs with the potential benefits derived from a significant reduction in rural poverty in the region.

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ANNEX 1

RURAL DEVELOPMENT PROJECTS FINANCED BY THE IDB, 1963-97

Country	Project	Year	Amount (US\$m)
Argentina	Agricultural development, irrigation and land settlement (AR0002)	1973	11.5
Bolivia	Rural development program (BO0064 - BO00078)	1963	1.5
	Investment program for campesino development (BO0093)	1993	12.5
	National irrigation program (964/SF-BO)	1995	25.6
			39.6
Brazil	Southwest Paraiba integrated rural dev. program (BR0152)	1980	40.0
	N.E. Minas Gerais integrated rural dev. program (BR0160)	1980	60.0
	State of Parana integrated rural dev. program (BR0059)	1980	80.0
	Irece-Bahia region integrated rural dev. program (BR0158)	1982	36.8
			216.8
Paraguay	Integrated agricultural development project (PR0012 - PR0009)	1971	15.4
	Dept of Paraguari integrated rural development (PR0079)	1981	31.0
	Consolidation of rural settlements (PR0083)	1992	55.6
			102.0
Uruguay	Infrastructure for dairy enterprises (UR0062)	1996	40.0
	Farm development (UR0072)	1997	32.0
			72.0
	Subtotal Region 1		441.9
Belize	Modernization of agricultural services (BL0003)	1997	4.0
	Land administration (BL0007)	1997	0.8
			4.8
Dom. Rep.	Integrated agricultural development: Stage I (DR0009)	1972	24.8
	Land zoning (DR-0018)	1997	32.0
			56.8
Guatemala	Sustainable development in Petén (GU-0081)	1996	16.9
Haiti	Península del Sur, L'Asile rural development (HA0023)	1980	3.3
Honduras	Bajo aguan integrated rural devt: Stage II-INA (HO0017)	1976	40.0
	Rural development of the western region. SRN (HO0036)	1979	13.7
	Rural development La Paz-Intibuca. SRN (HO0042)	1986	17.3
			71.0
Mexico	Public investment program in rural development-PIDER (ME0009 - ME0040)	1975	40.0
Nicaragua	National rural development program (NI0042)	1994	30.0
	Food and agriculture re-activation (NI0014)	1997	40.0
			70.0
Panama	Farm credit for small/medium-sized producers (PN0001)	1974	8.0
	Subtotal Region 2		270.8

Bahamas	Rural Development Programme (BH0023)	1979	4.1
Colombia	Boyacá-Santander integrated rural development (CO0030)	1976	64.0
	"Arauca II" Colombia rural development (CO0137)	1981	22.8
	Northern Colombia zone II integrated rural devt (CO0173)	1981	64.6
	Program for investment in rural development (CO0186)	1990	75.0
	Land titling and registry (CO0157)	1997	38.5
			264.9
Ecuador	Small farmer development: Stage I (EC0070)	1963	1.8
	Zamora/Nangaritza integrated rural dev. project (EC0082)	1978	16.9
	Western Pichincha integrated rural development (EC0117)	1980	35.2
	Integrated rural development in Southern Loja (EC0045)	1983	15.5
	Western Pichincha II regional development (EC0098)	1992	73.8
			143.2
Jamaica	Rural Parish Market Programme (JA0036)	1979	7.0
Peru	Integrated rural development (PE0117)	1982	46.0
	Jaen-Bagua-San Ignacio regional development (PE0042)	1983	42.8
			88.8
Venezuela	MAC-integrated rural development (VE0001/04/05)	1970	75.0
	Subtotal Region 3		583.0
TOTAL			1295.7

Notes:

- (1) Dates refer to year in which programs were approved.
- (2) Amounts are nominal value for the fraction of the program financed by the IDB.
- (3) Only loans specifically defined as rural development programs are included; since the Bank has financed rural development components or subcomponents under other projects, as well as technical cooperations for national and regional rural development, the actual amount of financing that the IDB has provided for rural development activities is greater than that shown in the above table.

ANNEX 2

RURAL DEVELOPMENT PROJECTS IN PREPARATION, IDB 1998

Country	Profile	Amount (US\$m)
Brazil	Pernambuco jungle zone program (BR-0246)	120.0
	Preparation and development of ecotourism programs (BR-0208)	10.0
	Fishery management Alagoas (TC-9611098)	0.8
	Consolidation of rural settlements (BR-0274)	75.0
Paraguay	Peasant production diversification (PR-0084)	13.0
Haiti	Modernization of the agriculture sector (HA-0016)	30.0
Mexico	Rural water and sewage (ME-0150)	200.0
Colombia	Integrated rural development IV (CO-0192)	100.0
Ecuador	CALPI irrigation project (TC-9309297)	1.0
Jamaica	Watershed management program (JA-0039)	14.0

Source: IDB Projects (IDB 1998b).

ANNEX 4

LESSONS FROM INTEGRATED RURAL DEVELOPMENT PROGRAMS

It is not easy to rigorously analyze the experience gained in nearly two decades of work that has gone into development of an integrated rural development (DRI in its spanish acronym) strategy for Latin America, since this issue has been surrounded by polemic, with the inevitable ideological content. Briefly, support for projects which target disadvantaged social groups (whether urban or rural) has been criticized in two ways: (i) given scarce resources, funds should be allocated to the most productive sectors (it is necessary to grow first before distributing gains); and (ii) rural development policies are "social" policies and by definition redistributive and inefficient. Counter to these arguments, the DRI strategy has consistently been that investing in the rural poor, in addition to acknowledging the objectives of social equity, is a policy which promotes efficient allocation of resources since the productive potential of small agricultural producers will ensure satisfactory financial and economic returns once the main obstacles to their development are removed. The economic crisis in the 1980s provided fertile ground for this debate, which ran its course without resolution.

Two important studies evaluating rural development experience were published near the close of that decade: USAID (1987) and World Bank (1988). These two studies, along with a more recent World Bank Rural Development Strategy (1997) and other works produced by various organizations including the IDB (Aristizabal et al, 1992), the GTZ, and other development agencies, identified a series of problems impeding execution and making it difficult to achieve the objectives set for rural development programs. This annex summarizes eight lessons from these initiatives, at the same time relating them to the strategy options proposed in the main document.

The Scope of Rural Development Strategy From a Global Perspective

It has been suggested that despite the massive amount of resources invested in rural development, the results have benefitted only a very small proportion of the rural poor, in some cases not even reaching the intended target, having been diverted to other sectors of the rural population. This general contention should be carefully examined. It is true that such phenomena have occurred in many cases, but there are also numerous cases we can point to in which the resources provided had a major and beneficial impact on selected target groups.

The principal lesson in this case is that rural development strategies and policies must be planned at the national level from a global perspective, even though the particular actions (projects and other activities) through which these policies are realized are specific in nature and relatively small in scope. The lack of an overall focus and centralized policy direction has been the main cause for the failure of controls, diverting of resources and dissipation of numerous specific initiatives in many of the region's countries. Another reason for this has been the failure to reach the threshold level or critical mass of resources necessary to deal with the magnitude of the problem, and even regions where it was possible to make significant investments sometimes lacked the necessary continuity in the allocation or flow of required resources. It would be fair to conclude, therefore, that the DRI experience constituted an inconclusive effort, but not necessarily a failure.

Influence of the Economic and Political Context on Rural Development

The evaluations carried out have repeatedly pointed to contradictions between the policy objectives of rural development projects and the sectoral or macroeconomic policies being applied at the same time. Typical examples of this can be seen in the policies governing food imports, exchange rates and price controls for basic commodities.

Another important lesson is the recognition that when unforeseen changes have arisen (e.g. fluctuations in international prices, shifts in monetary policy or large-scale devaluations), those rural development programs and projects that provided an ample degree of flexibility in the execution of their components were able to adapt better to the new conditions and achieve their preset objectives in the face of adverse conditions.

The role of the international lending agencies in these circumstances is of crucial importance in permitting rapid changes in the execution of the various components of these programs and projects. Moreover, from this experience we can also derive useful lessons for the future design of rural development programs and projects. On the one hand, it is important throughout the process of preparing these initiatives to analyze their degree of conformity with existing sectoral or macroeconomic policies in order to avoid major contradictions, or at the very least to ensure that no discriminatory measures are introduced which would adversely affect the target groups. And on the other hand, the different components of these programs should include sufficient flexibility to allow for timely introduction of changes where the shifts in circumstance threaten to impede attainment of rural development policy objectives.

Identification of Target Groups and Formulation of Appropriate Policies

The evaluation studies have shown that the inefficiencies identified in many of the rural development programs and projects have to do with fundamental design flaws in which the proposed components had little to do with the real needs of the selected target groups. The lesson to be drawn in this case is the vital importance of differentiating between groups of rural poor and the extent to which they are caught in the cycle of poverty. Without adequate diagnostic studies it is extremely difficult to formulate pertinent policies. Accordingly, it is essential to include suitable socioeconomic studies capable of identifying the different segments of the rural poor, with special attention to the most vulnerable groups such as women and indigenous peoples.

Other lessons in this area can be gleaned from an analysis of certain frequently cited "dilemmas:" whether to benefit only the small but viable producers, or to assist other groups among the rural poor; restricting programs to productive components only, versus emphasizing basic infrastructure and social components; etc. These dilemmas pale in significance when the notion of differentiation is incorporated into programs, since (for example) it is possible to identify infrastructure needs in communities made up of small agricultural producers, while at the same time including nonagricultural productive components to augment the income of landless groups among the rural poor.

The Design Process and Program Components

The studies have pointed out various problems relating to the design of rural development programs and projects. For one thing, they identify a series of problems resulting from what is described as a technocratic ("top down") bias which fails to take sufficient account of the real needs and problems affecting the target

groups. And for another, they point to methods of execution usually imposed by the international lending agencies which have actually interfered with the proper operation of projects.

Participation by future beneficiaries from the initial design stages of projects will become a sine qua non; adjustment of the number and type of components in a project to the rate of absorption, interest and commitment of beneficiaries must take precedence over schedules drawn up on exclusively technical grounds; and the time allotted for commitment and disbursement of funds must be tailored to the complex dynamics involved in implementing participative projects.

Participation of Beneficiaries

All of the evaluations agree that where beneficiaries have not taken an active part, rural development programs and projects have failed to achieve the goals set for them. Yet while adequate participation is a prerequisite, it is not in itself a guarantee of success since lack of proper mechanisms for channelling the desires and potential of the rural poor can be a major hindrance to ensuring effective participation by these groups.

Past experience recommends ensuring that target groups participate not only in the initial diagnostic studies and planning, but also in the phases of execution, supervision and evaluation. Equally significant is the need to provide means for different groups to participate, ensuring the integration of women, youths and other specific groups in projects. It should be noted here that attempting to promote female participation through separate components "for the development of women" has ended up increasing their isolation and marginalization by, in effect, keeping them from contributing to the given project as a whole. Rather than creating a separate component, project organizers must concentrate on giving women access to program decision-making at the overall level.

Impact and Sustainability of Programs

Some of the project evaluations studied indicate that rural development programs and projects have not achieved the expected level of results, as measured using artificial indicators such as the IRR. Others show that the desired effects on production and the real income of the beneficiaries have fallen short of their targets. Many ex post evaluations confirm that the bulk of the support services and infrastructure projects have ceased to operate or continue in force once the disbursements under international loans stopped.

In any case, given time lag involved in rural development strategies, it is risky to hazard conclusions concerning the impact on real incomes of the beneficiaries of these programs and projects, or on whether or not there is in fact a causal relationship between projects of this type and the lack of sustainability seen.

The Institutional Framework and Organization of Program Execution

Under this heading, the evaluation of previous rural development projects in LAC indicates two major topics/problem areas: (i) the question of centralized versus decentralized institutional frameworks and the optimal size of initiatives; and (ii) the important issue of coordination between institutions. The studies are in general agreement that these problems were not adequately dealt with, which was an obstacle to the effectiveness of rural development policy.

With respect to the first area, past experience points to the need for a central authority governing rural development policy, while at the same time encouraging diversification and autonomy vis-à-vis local and microregional rural development initiatives, as two elements crucial to the success of this strategy. Where the formulation and execution of programs has been controlled by a central authority, the response of beneficiaries has been muted and their participation almost nonexistent. And where a large number of small-scale rural development initiatives were carried out at the local level without central support and coordination, they were short-lived, had little impact, and were never repeated. The question of the optimal size of programs and projects becomes moot when considered from the standpoint of combining centralization of policy-making and decentralization of program execution.

It is suggested with regard to coordination between institutions that there is a need to: (i) review the almost exclusive role assigned to the public sector in the execution of multisectoral programs, projects and components; (ii) restudy the mechanisms for budgetary and cash management and allocation in the execution of programs, and planning of activities to be carried out; and (iii) conform to the rates of absorption and methods of direct participation in planning preferred by the beneficiaries.

The Role of the International Lending Agencies

The evaluation prepared by the World Bank contains a long list of criticisms of its role in financing and supervising rural development programs and projects. To a large extent, the conclusions reached in this study can be leveled at the other international lending agencies as well. The following, in particular, are worth repeating:

- C unjustified pressure from the Bank (motivated by internal budgetary goals) on various countries to carry out rural development programs and projects employing time frames and methods not necessarily compatible with national needs and capabilities;
- C insufficient number of trained personnel in the Bank committed to the rural development strategy, which meant that a large number of the staff assigned to programs lacked the necessary capacity to carry out these tasks properly, both in the planning stages and (especially) in the implementation stages of the projects;
- C the detrimental effect that the inability of many rural development project supervisors to assess the importance of contextual variables, and/or changes in such variables, had on implementation of the programs and projects;
- C the inadequate attention paid by Bank personnel to aspects of the monitoring and evaluation process; and
- C many of the Bank's practices and procedures applied globally to all sectors of activity proved incompatible suitable implementation of rural development programs and projects.

