Toward a territorial approach to rural development:
International experiences and implications for Mexico's Microregions Strategy

by
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I. Introduction

The persistence of rural poverty, concentration in rural areas of the most extreme forms of poverty, and rising inequality in the distribution of rural incomes remain vexing aspects of rural development in Latin America, in spite of expensive programs intended at reducing poverty and inequality. Mexico is no exception to this observation. This widespread failure calls upon exploring alternative approaches to rural development that may have greater chances of success. Taking an approach that distinguishes between marginal and favorable areas, and that seeks to integrate rural and urban activities in a territorial dimension centered around regional economic projects and the economic incorporation of the poor is one such option that deserves further consideration. It has been introduced in Mexico through the Microregions Strategy. While it is too early to evaluate this program, we derive lessons from international experiences that provide guidelines to assess the Mexican strategy.

We do this by first characterizing the recent evolution of rural poverty and inequality in Latin America. We then proceed to explore a set of qualitative changes in rural poverty that need to be taken into account in a new approach. This is complemented by analyzing a set of new opportunities for rural poverty reduction that should also be factored into a new approach. On the basis of international experiences with territorial development, we derive a set of principles for success of the approach. We use these principles to discuss the methodology followed in Mexico for the Microregions Strategy.

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

There are five sets of indicators that give us the basis for discontent with current approaches to rural development. We evidence each of them briefly with available data.

1. The incidence of rural poverty has generally not declined and the number of rural poor has increased.

Overall, available evidence basically shows a flat profile in the incidence of rural poverty between 1970 and 2000. As can be seen from Figure 1 for Latin America as a whole, the incidence of extreme poverty has remained at 28% over the last 30 years. In Mexico, the incidence of rural poverty has remained in the 45 to 50% range since 1970. Brazil is the only country with a significant decline in rural poverty, especially in the 1990s. CEPAL data indicate a sharp decline in the incidence of poverty between 1986 and 1996. Other data sources also indicate a 15% decline in the incidence of rural poverty between 1990 and 2000 (Helfand and Levine, 2004). Paes de Barros (2004) calculates that two thirds of this poverty decline is due to income transfers from social protection programs, particularly the generous pension system, not the benefits derived from rapid agricultural growth. For the whole of Latin America, with stagnant poverty incidence, the number of rural poor has increased.

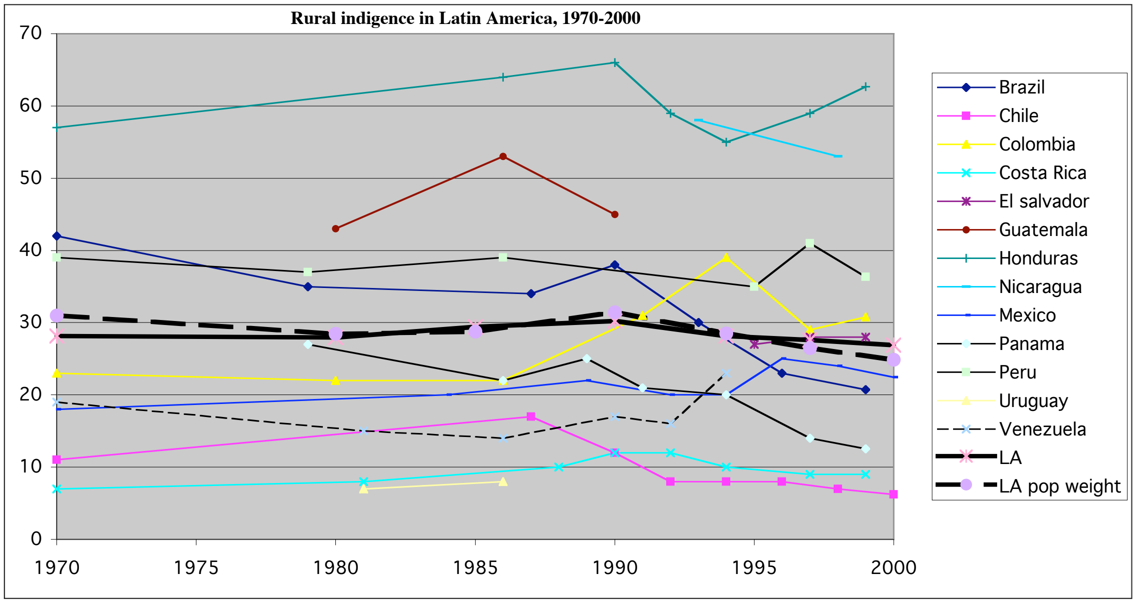

Figure 1. Incidence of extreme poverty in Latin America, 1970-2000

2. Rural inequality is exceptionally high and increasing

High inequality is a well known feature of Latin American societies. What is also specific to Latin America is that local inequalities tend to be as high as national inequalities. This is seen in poverty maps that decompose total inequality into within and between locality effects. For rural communities in Ecuador, 86% of total inequality is explained by within-community inequality and only 14% by between community inequality (Elbers et al., 2004). Inequality is thus a pervasive feature that is present even at the local level. High local inequalities imply that local growth will have little value for poverty reduction. What further is that rural inequality has been increasing, even when it may be decreasing in the urban sector. To be effective, any poverty reduction strategy at the local level must consequently address the issue of inequality, and identify the mechanisms through which local inequalities are being reproduced over the long term. Linking anti-poverty strategies to inequality reduction puts rural development initiatives in a new perspective, different from traditional approaches to rural development that have been concerned with the incomes of the poor.

With the exception of Colombia and Central America, rising inequalities have been the norm in all other countries. In Mexico, the rural Gini rose from 0.46 in 1992-94 to 0.51 in 2000-02 while the urban Gini fell from 0.50 to 0.47 over the same period. In Brazil, the rural Gini rose from 0.58 in 1991 to 0.62 in 2000, fundamentally as the benefits of a boom in agroexports with falling terms of trade and rising productivity hurt the landless and small and medium farmers, while benefiting large farmers (Helfand and Levine, 2004; Hoffmann, 2004). There is also evidence that inequalities tend to rise sharply during recessions, and may fail to fall during periods of recovery (de Janvry and Sadoulet, 2000). Concern with inequality should thus pay particular attention to sheltering not only the poor but also the middle class during periods of economic downturn. In these periods, the “new poor” tend to come from these social sectors, contributing to rising inequalities. Combating rural poverty thus requires concern with two complementary fronts: combating economic instability and combating inequality.

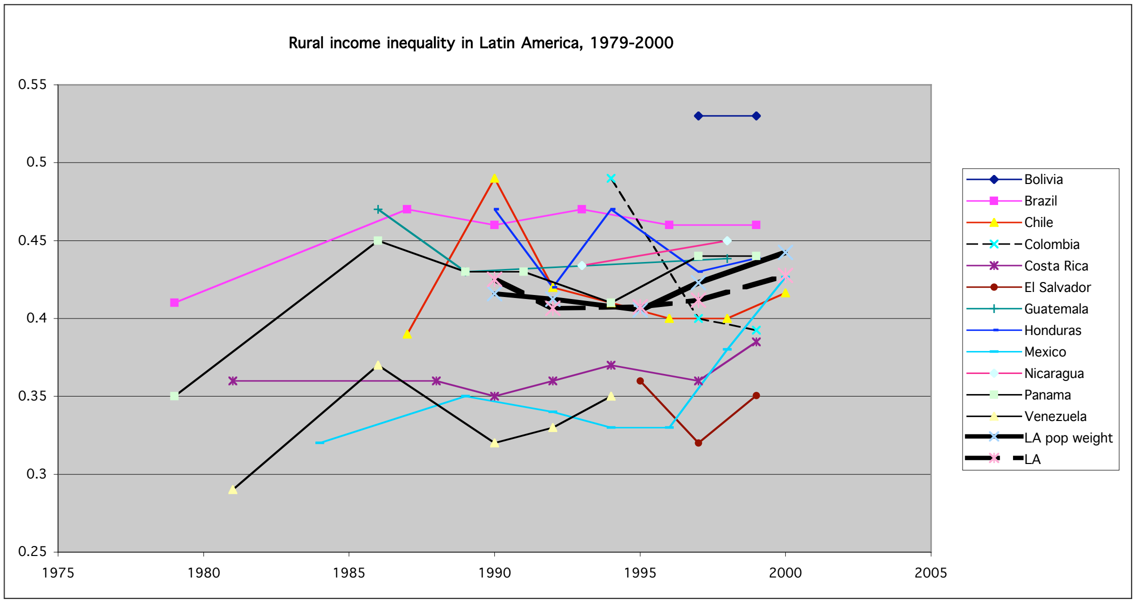

Figure 2. Income inequality in rural Latin America, 1980-2000.

3. Social development has improved, even though gaps between rural and urban social development remain large

There has been remarkable progress with social development, particularly education and health for the poorest. Indeed, while Latin America is failing to meet the Millenium Development Goals in poverty reduction, it is on target to meet the goals in primary school enrollment and child mortality. In Mexico, there has been a rapid rise in rural secondary and higher education, even though levels remain very low, rising from 11.5% in 1992 to 21.3% in 2002. In Colombia, illiteracy rates have been halved between 1978 and 1999 and school enrollment has increased by 37% in primary school and 52% in secondary school. Health indicators have all improved. In Honduras, between 1980 and 1997, vaccination rates have increased by 90%, births in hospitals by 43%, and population with access to water and sanitation by 60%.

Access to basic infrastructure services has also improved. In Mexico, rural poor households with access to electricity increased from 88% to 98% between 1992 and 2002. For access to water services, gains were from 65 to 86%, for hard floors from 79 to 91%, and for sewage from 53 to 69%. While rural standards remain inferior to urban standards and uneven across rural regions, catching up has been remarkable.

Asymmetry between income gains, with rural poverty remaining “broad and deep”, and social development that has progressed is thus a hallmark of Latin America. The challenge for rural development is thus to achieve gains in income to keep at par with the gains achieved in social development.

4. Urban migration has been the great escape valve in preventing a larger increase in rural poverty. Poverty has been displaced toward the urban environment.

The number of urban poor has increased faster than the number of rural poor. In calculations we did using the CEPAL data, we showed that most of the relative decline in the share of the rural population in total poverty has not been due to declining incidence of poverty in rural areas, but to population shifts between rural and urban sectors (de Janvry and Sadoulet, 2000). Migration has thus been the main contributor to displacement of poverty from rural to urban areas. The share of urban population growth due to internal migration and relocation was 40% in the 1960s, 41% in the 1970s, and 34% in the 1980s (Katz, 2004). The missing task for rural development is consequently to help retain populations in rural regions (but not in agriculture where structural changes imply the need for falling employment), while reducing the incidence of poverty among rural populations.

III. Changes in the nature of poverty and in opportunities that need to be accommodated in a new approach

3.1. Qualitative changes in rural poverty

There are deep changes in the qualitative nature of rural poverty. Most important for the redesign of rural development are the following three:

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

Part of the rural poor are geographically concentrated in low population density MRA (marginal rural areas) defined as areas with either poor agro-ecological endowments and/or isolated from access to markets and employment centers. They consist in:

- Geographical pockets of poverty: Mexico's Southern States, Brazil Northeast, Central America's East Coast regions, and high altitudes in the Altiplano.
- Indigenous territories: Indigenous communities attached to their homelands in the Altiplano and the East Coast of Central America.

The other part of the rural poor are socially diffused in FRA (favorable rural areas) defined as areas with good agro-ecologies and good connections to dynamic product and/or labor markets. They consist in:

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

Work with GIS information and poverty mapping is important to establish this territorial dimension of rural development. In Nicaragua, for instance, half of the extreme poor live in the quarter of the country that is within four hours travel time to Managua (Raine et al., 2004). In these FRAs, which are well endowed agro-ecologically and well connected to markets and employment centers, poverty is socially diffused. Even though they offer the greatest employment and investment opportunities, poor households are those with low asset endowments (especially education, land, and social capital) and consequently low capacity to take advantage of these opportunities. The rest of rural poverty in Nicaragua is concentrated in MRAs with unfavorable agro-ecological endowments, lack of access to markets and employment centers, and frequently composed of indigenous communities in ancestral territories.

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

Reliance on non-agricultural employment and income for the rural population has been increasing rapidly and is of great importance.

Farm employment has declined in most countries, especially its self-employment component. There has by contrast been a rapid rise in the share of rural population employed in non-agricultural wage labor and non-agricultural self-employment. For men, Durston et al. (2000) give the following changes in percentage employed in non-farm activities:

Chile	19% (1990) → 26% (1998)
Colombia	31% (1991) → 33% (1997)
Costa Rica	48% (1990) → 57% (1997)
Honduras	19% (1990) → 22% (1998)
Mexico	35% (1989) → 45% (1996)
Panama	25% (1989) → 47% (1998)
Venezuela	34% (1990) → 35% (1994)
Brazil	26% (1990) → 24% (1997).

With the exception of Brazil, these figures show that employment in non-farm activities of the rural employed population has been rising rapidly. For Brazil, other sources show a clear increase in rural non-farm employment. Between 1981 and 1997, rural non-farm employment increased by 95% in the Northeast, 51% in Sao Paulo, 52% in the Southeast, 69% in the South, and 100% in the center-West.

Corresponding to changes in employment patterns, there have been rapid changes in sources of income, with addition of a rapid rise in transfers, particularly remittances from migrants. For Mexico (World Bank-Mexico, 2004), changes in sources of income for the rural population have been as follows between 1992 and 2002:

Independent farming	39% → 13%.
Agriculture wage labor	12% → 11%.
Non-agricultural employment:	29% → 42%.
Public and private transfers, including remittances	7% → 17%.
Other sources	13% → 17%.

Better off rural households tend to be relatively less dependent on agriculture than poorer households, especially on agricultural wages, and more dependent on non-agricultural sources of income.

3. Inequalities are high and rising due to pervasive mechanisms of local reproduction of social inequalities in spite of growth, worsened by income shocks

Local inequalities have proved to be highly resilient to time and to recent economic and social transformations (de Ferranti et al., 2004). Identification of the mechanisms through which local inequalities are reproduced is thus important. What are some of these mechanisms?

Under-investment by the poor in the education and health of their children is a powerful mechanism through which inequality is being reproduced. Breaking this pattern of inheritance is the main motivation for conditional cash transfer (CCT) programs such as Progresa in Mexico and Bolsa Escola in Brazil. By imposing school attendance and health visits as conditions for the transfers, CCT programs transform the transfer from an income into a price effect, gaining in impact on schooling and health per unit of transfer. In Mexico, Progresa erases the difference in school achievements between poor and non-poor in rural communities, helping break the inter-generational inheritance of low education and ill-health.

Land distribution has remained largely unchanged, contradicting expectations of the rise of a powerful middle class of family farmers. This is in part because land and credit markets are strongly wealth biased. Land is overpriced relative to its use value, and many of the benefits from land ownership that are capitalized into land values relate to privileges of wealth (wealth shelter, social prestige, tax shelter). As a result, land is overpriced for poor borrowers, and only the wealthy can afford the full price of land. Credit markets are similarly wealth biased due to collateral requirements to face up to asymmetrical information between lenders and borrowers. As a consequence, short of financial institutions that substitute social collateral for wealth in borrowing, the poor tend to be shut out of financial markets, reproducing inequalities. Micro-finance institutions have made important headways in breaking this deadlock, but have to this stage not been effective in reaching small farmers.

Land rental markets are atrophied and socially segmented due to uncertain property rights and weak enforcement of rights. The consequence is that land tends to circulate within circles of confidence defined by kinship and class positions. Poor borrowers tend to be excluded from access to land put up for rental by large owners, reproducing local inequalities. In a study of land rental markets in the Dominican Republic, we observed that transactions are confined to similar social class positions for landlords and tenants in communities where there have been recent land occupations (Macours, de Janvry, and Sadoulet, 2004). By contrast, where property rights are secure, land flows across social classes, with in particular high class landlords renting to poor tenants.

Local inequalities are also reproduced by membership to social networks that determine access to off-farm non-agricultural employment. Analysis of the Progresa community data in Mexico shows that those who benefit most from peer effects are those who are already most engaged in off-farm non-agricultural employment (men, non-indigenous, high educated individuals), contributing to the reinforcement of local inequalities (Araujo et al., 2004).

Finally, the reproduction of social inequalities is also importantly achieved through local political economy processes. Class positions strongly affect the targeting of public expenditures and the choice of projects. In a study using Brazil municipal data, municipal public works projects funded by Federal Deputies are found to be inequalizing (Finan, 2004). This is especially so in municipalities where land inequality if high, but less so where there is more effective local representation through functioning municipal councils. Clientelism and high local inequalities thus reproduce social exclusion and the overall regressivity of public expenditure programs.

We conclude this review of quantitative changes in poverty and social development by observing that gains in social development have not been matched by gains in productive development. There has been progress in social indicators, but little progress in income status. Aggregate growth has either been insufficient, or has been of a type unable to reduce poverty in rural areas. New approaches to rural development need to be congruent with changes in the qualitative nature of poverty, and must be able to address the lag between income and social progress.

3.2. Emergence of new opportunities for rural poverty reduction

We identify six new opportunities to define an alternative approach to rural poverty reduction. They consist in expansion of the "new agriculture", industrialization of rural areas, increasing economic integration between rural and urban areas, progress in decentralization of governance, expansion of civil society organizations in rural areas, and increasing demands for environmental services.

1. Opportunities offered by the "new agriculture"

While there is a serious profitability crisis in traditional agriculture due to falling international terms of trade, urbanization and increasing integration in international markets has opened new opportunities to increase farm incomes on a limited land basis, which characterizes the rural poor. This is in meeting demands for high value crops such as vegetables, fruits, and animal products; quality foods required by urban distribution channels and exports (health standards, organic foods), standardized delivery in contracts with supermarkets, demands of agro-industry for non-traditional exports, labeling and certification of origin, post-harvest value added in commodity chains, etc. There are many dispersed success stories of small holders catering to non-traditional exports (Quatro Pinos in Guatemala), delivering to supermarkets (melons in Brazil, ejidos through Jacobs Farms in Baja California), and contracting with agro-industry (see Schejtman, 1998), indicating that the opportunities offered by the new agriculture, as an escape from the profitability crisis in traditional agriculture, can indeed be seized by small farmers. Capturing these opportunities requires, however, strong institutional support to achieve competitiveness and scale in delivery, which is not easy to achieve for smallholders.

2. The industrialization of many rural areas

There has been an extraordinarily rapid increase in the importance of non-agricultural employment and incomes for rural areas. Dirven (2004) estimates that 39% of the rural labor force is currently employed in non-agricultural activities, of which 21% in manufacturing and 77% in services. Demand for services can be driven by incomes from agriculture, or from manufacturing and tourism. Manufacturing is also linked to agriculture or to decentralized industrial activities. Not all non-agricultural activities offer pathways from poverty. Self-employment and informal sector employment are often low productivity activities that help survival, and provide important safety nets (additional to subsistence agriculture and agricultural wage employment), but with remunerations that perpetuate poverty. These are sectors where women and ethnic populations tend to be over-represented. Access to high productivity non-agricultural employment is fundamentally dependent on location, education, and younger age (Reardon, Berdegué, and Escobar, 2001).

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

Increasing integration between rural and urban markets is reflected in convergence between rural and urban wages. In Mexico, the rural/urban wage ratio rose from 28% in 1992 to 40% in 2002 (World Bank-Mexico, 2004). This wage convergence, that benefits more the educated and the higher income areas, has been an important factor in the observed rising rural inequality during the period.

As seen in Figure 1, proximity to urban areas is important for employment growth in manufacturing and (to a lesser extent) services. Rural and semi-urban municipalities with the highest growth in employment in manufacturing and services are closest to major employment clusters. Growth of employment in services is more autonomous from distance to employment clusters as they also respond to agricultural potential and to the expenditure of remittances incomes in the municipality (Araujo, de Janvry, and Sadoulet, 2004). Half of the rural and semi-urban municipalities in Mexico benefit from this proximity effect for manufacturing employment, and 70% for services.

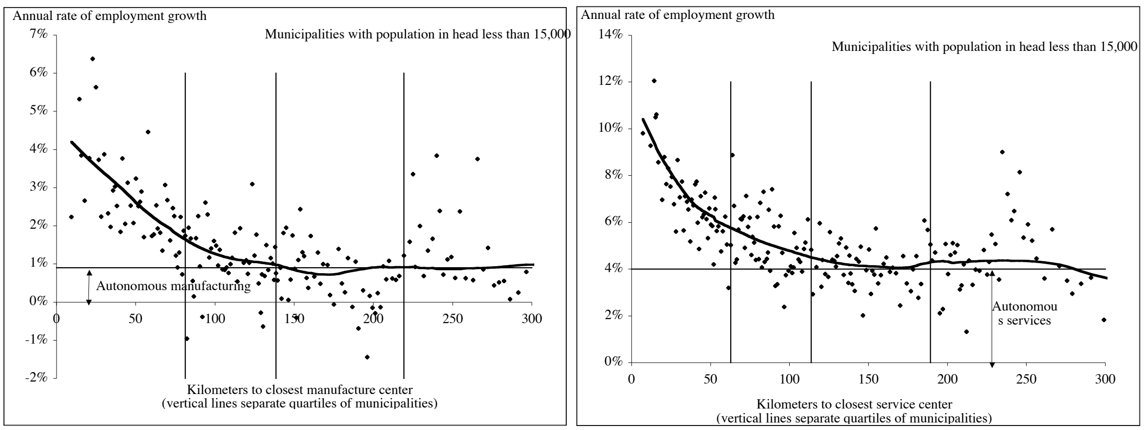

Figure 1. Annual rate of employment growth in manufacturing and services in rural and semi-urban municipalities by distance to an employment center in Mexico, 1990-2000

(Each point represents 10 municipalities. Source: Araujo, de Janvry, and Sadoulet, 2004)

As can be seen in Figure 2, employment in manufacturing and services in rural areas is in turn associated with lower poverty as measured by the municipal marginality index. These empirical regularities suggest that a joint rural-urban territorial approach to poverty reduction that brings rural areas "closer" to urban employment centers offers opportunities for a new approach to rural development.

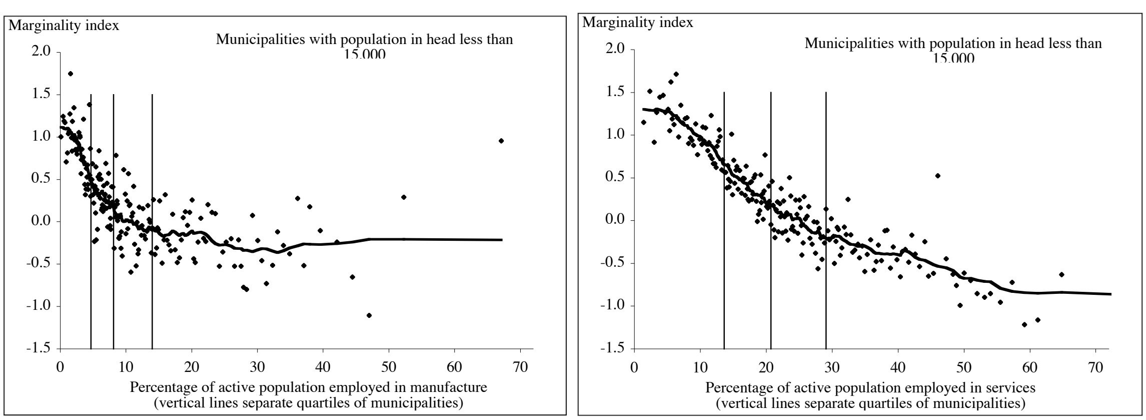

Figure 2. Rural non-farm employment and poverty levels in rural and semi-urban municipalities, Mexico 2000

(Each point represents 10 municipalities. Source: Araujo, de Janvry, and Sadoulet, 2004)

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

As a consequence of the strategy of industrialization by import substitution used throughout Latin America from the 1950s to the mid-1980s, economic development has typically been highly centralized in a few mega-cities and a sector of large enterprises, leaving entire regions and productive sectors at the margin of the development dynamics. In the wake of limited success of structural adjustment policies with local economic and social development, strong demands for changes in this development pattern have emerged. Local elected officials and local representatives of civil and private sector organizations are demanding greater roles for local governments in not only social but also economic affairs. This has led to extensive decentralization in most countries of Latin America toward states and municipalities. Local social development has generally benefited, but economic gains in employment and investment opportunities have lagged relative to social development. A regional level decentralization is still generally missing in this process.

Most Latin American countries have increased revenue sharing with municipalities (Brazil, Colombia, Mexico, Chile, Bolivia, Guatemala) or with provinces (Argentina) and states (Venezuela). In many cases, responsibility for primary education, health, water supply, local infrastructure, and security have been transferred to municipalities. Decentralization has, however, been mostly incomplete in that his has rarely been accompanied by fiscal decentralization and financial (borrowing) capacity for municipalities.

In Bolivia, extensive decentralization in 1994 made the municipality the basic unit of governance. The share of national fiscal revenues transferred from the central to municipal governments increased from 10% to 20% on a per capita basis. Decentralization led to a change in municipal budget allocation, with sharp increases in projects in urban development, education, health, water management, communications, and water and sanitation. By contrast, projects related to income generation (energy, industry and tourism, transport, and agriculture) have either stagnated or regressed (Faguet, 1997). Decentralization was accompanied by greater representation, participation, and accountability. Changes introduced included direct election of mayors, introduction of vigilance committees set up to oversee municipal spending, recognition of legal status for organizations of small farmers and indigenous people, and reduction of urban bias through extension of municipal jurisdiction to suburban and rural areas in the municipality.

In Colombia, direct election of mayors and transfers of revenues and responsibilities (oversight of health care, water, local roads, and primary education) to municipalities were introduced starting in 1983. This led to sharp improvements in educational and health coverage, with a decline in illiteracy and with health services coverage rising from 35% in 1990 to 63% in 2001. Local tax revenues have also increased. Again, gains were mainly achieved in basic social services and small scale infrastructure.

Results from the Bolivian and Colombian experiences are important in showing both the potential gains from decentralization at the municipal level in achieving greater efficiency in basic social services and small scale infrastructure, and also the limits of municipal level decentralization in promoting investments for employment creation and income gains. For this, larger geographical units would be needed, bringing up the concept of region in support of economic projects.

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

Civil society organizations (CSOs) have increased rapidly, leading to a "thickening of civil society" (Fox, 1996). This has been particularly remarkable in countries where the weight of state intervention had historically limited the role of CSOs (Mexico, Brazil), where indigenous movements have gained political representation (Ecuador, Bolivia), and where decentralization of governance has created incentives for greater local participation (Bolivia, Peru). Introduction of local development councils (Brazil, Mexico, Uruguay) and open town meetings (El Salvador, Honduras) with participation of CSOs has also been a strong incentive to reinforce these organizations. Demands for greater local level participation have been extended to the national level through second-order organizations that link community organizations to national organizations (Bebbington, 1996). These organizations build social capital that goes beyond interest groups and can identify broadly shared concerns among different groups, allowing them to focus on larger themes such as political participation and economic development.

This explosion in CSOs places strong demands for greater democratic participation on local governments and for greater coordination between local and national policies and programs. The challenge is to transform this "organizational revolution" into an instrument to achieve not only political gains and gains in improved local social services, but also in economic gains and poverty reduction (Manuel Chiriboga, personal communication).

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

Increasing social demands for environmental services in the face of extensive deforestation, mismanagement of watersheds, and pollution of water by chemicals from agriculture offer new opportunities for rural development. Missing markets for improved watershed management, delivery of higher quality water to cities and irrigation districts, reduced pollution from use of chemicals in agriculture, greater biodiversity conservation and carbon capture, and improved landscape management call for introduction of payments for environmental services. Many countries in the region have experimented with such schemes (FAO, 2004). They have reached large scale in Costa Rica, national-level pilot stage in Mexico, and are prevalent at the local level in numerous watersheds. PES allow resource owners to increase returns to investments in natural resources, transferring resources to rural areas in support of rural development initiatives. In Mexico, 80% of forests are in the ejido sector, and forest ejidos tend to harbor indigenous populations and the poorest among rural households. Environmental planning and management needed to deliver environmental services give an additional justification for pursuing a territorial approach to rural development. Regions as economic units will for this reason often correspond to watersheds and to ecologically homogenous territories.

IV. Territorial approaches to rural development as a potential solution

4.1. Evidence from successful experiences with territorial approaches

There are a number of success stories of rural development where rural populations have found employment without having to migrate to the metropolises and where rural poverty may have declined. In this case, economic growth is secured on a regional basis, including an important role for large employment centers. Poor people in rural areas find employment opportunities in a broad array of economic activities, including agriculture, industries and services linked to agriculture, and decentralized activities in manufacturing. Lessons need to be derived from these experiences with territorial rural development.

Case studies of territorial rural development are available that allow to identify dimensions of the initiative and some determinants of success. Each case has its specificity. Some of the more interesting documented cases are the following (see Table at end of text):
LEADER program in European Union.
Community Empowerment Program of the USDA in the United States.
Petrolina-Juazeiro in the San Francisco Valley (Brazil): Damiani (2002)
Cajamarca (Peru)
Central Highlands of Guatemala: Non-traditional exports and Cuatro Pinos Cooperative.
Central Valley of Chile: Agro-exports.

These experiences of territorial development show that there are several elements in common, in particular: (1) the need to define the region over which the development project applies, (2) the institutional transformation of the region, (3) the productive transformation of the region, and (4) the social transformation of the region. We use these categories to discuss the dimensions of a territorial approach to rural development.

4.2. Territorial approaches to rural development help accommodate changes in poverty and opportunities

If a territorial approach is to provide an instrument for rural poverty reduction, it must be congruent with the observed qualitative changes in rural poverty, and able to capitalize on the new opportunities available for poverty reduction.

We can see how the qualitative changes that we have noted can be met by a territorial approach. The changes noted are the following: (1) Increasing geographical heterogeneity between MRAs and FRAs. This implies that a territorial approach should link these two types of areas, seeking for MRAs a source of dynamics in their relations with FRAs. (2) Increasing diversification of sources of employment and income away from agriculture toward pluriactivity, and increasing integration of rural and urban labor markets. A territorial approach can seek to promote rural development in a multi-sectoral fashion, linking sectors and linking rural areas to the employment dynamics offered by proximous urban centers. (3) Finally, we have seen that rising inequalities is a factor that contributes to the reproduction of rural poverty. Addressing rural inequalities thus needs to be part of an effective approach to rural development. A territorial approach, by being exhaustive of all parties in a particular geographical environment, has the potential to seek mutual benefits in linking the poor to the non-poor and in limiting efforts at poverty reduction with efforts at inequality reduction.

A territorial approach must also be able to capitalize on the new opportunities for poverty reduction that we have identified. The opportunities noted are the following: (1) Globalization offering new opportunities through the "new agriculture" and the industrialization of rural areas. A territorial approach focuses on links to dynamic markets for agriculture, both in proximous cities and in distant markets. It also looks at the economy of a region in terms of multi-sectoral projects. (2) Increasing integration between rural and urban areas, in particular through the labor market. Links between rural and urban dimensions of a territory are indeed central to the approach. (3) Decentralization of governance. Increasing participation and representation is also a key component of the approach. (4) A rapid rise in the social capital of rural areas, with increasing participation to, and power of representation for, producers organizations. A territorial approach gives an important space to linkages between civil society organizations and local governance. (5) Increasing demand for environmental services. Environmental management has an obvious territorial dimension, sometimes providing the definition of region.

If a territorial approach is indeed congruent with observed qualitative changes in the nature of rural poverty and with the new opportunities available for poverty reduction, we need extract from past experiences what are the dimensions of an approach so it can be implemented and replicated. This is what we do in the following section of the paper.

4.3. Lessons from territorial approaches: identifying the dimensions of the approach

Changes in the industrial structure of European countries (Italian industrial districts, decentralization in design-based manufacturing in Denmark, LEADER project in the European union) have shown success with a more territorial approach to development, and with flexible small-medium enterprises and clusters of economic activity providing support to innovation and competitiveness (Piore and Sabel, 1990; Porter, 1991). The rural dimension of these strategies has been essential. Quality of context in giving value to locally held assets is also fundamental, shifting emphasis from the firm as the engine of development to support offered to entrepreneurship by the regional and local context where it operates. In what follows, we discuss how this territorial approach to rural development could help fit the facts with qualitative changes in rural poverty and the emerging opportunities for rural development we have reviewed.

MRAs tend to have a high poverty rate but low population density, hence a low share of the rural poor. Poverty is geographically concentrated. These regions need to be gradually de-populated and integrated with dynamic regions. Indigenous territories need special programs as these areas will retain relatively more populations. Options for these regions consequently include:

- Migration toward FRAs and cities: This requires programs to prepare migrants by investing in social development.

- Concentrate populations locally (purely voluntarily) in Strategic Community Centers (CECs) for the delivery of social services and the clustering of economic projects as in Mexico's Microregions Strategy.
- Link MRA to FRA and urban centers through the construction of integrated regions and economic corridors.
- Offer environmental services (forestry, watershed management, in-situ conservation, eco-tourism).

FRAs have a low poverty rate, but high population density. They typically contain most of the rural poor in a country. Based on lessons learned from the successful experiences reviewed of regional development in Europe, the USA, and Latin America, pursuing a territorial approach to rural development in FRA would imply putting into place the following five dimensions: functional definition of a region, institutional transformation of a region, productive transformation of a region, social transformation of a region, and procedures for implementation of a territorial approach.

Dimension 1: Define regions

Regions for a territorial approach to rural development can be defined in several ways. They can be classified in the four following types:

- Municipality for local governance. Municipalities can be effective for the provision of local public goods and services, but are generally too small for the management of successful economic projects. However, when municipalities are large, they can serve as economic units for regional development.
- Ad-hoc association of municipalities in pursuit of particular projects (e.g., watershed management, delivery of a public service).
- Regions as larger administrative units: sub-national governments at the state, department, or province level.
- Regions as functional economic units: natural economic unit with shared comparative advantage, diversified employment basin, or social capital unit. These regions can be defined functionally through organizations such as a development bank (Banco do Nordeste for agro-industrial development), a cooperative (non-traditional exports in Guatemala), or a processing centers (milk production systems in Peru and Brazil). Key to these regions are the links between rural areas and urban centers.

In what follows, we assume that there are three administrative levels for territorial development:

- National level and state level if federal nations.
- Regional level: sub-national administrative unit, coalition of municipalities, or functional economic unit.
- Local level: municipality.

Dimension 2: Institutional transformation of the region

Element 1: Strengthen and modernize the capacity of local governments

- Greater economic capacity: Fiscal and financial (debt capacity) decentralization.
- Improved administrative capacity and accountability.
- Capacity of delivering basic services with high quality and efficiency.

Element 2: Strengthen the capacity of local organizations (social capital)

Strengthen local civil society and private sector representative organizations.

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

- Put in place institutions for consultation, coordination, and cooperation among public, private, and civil society sectors, in particular regional and local development councils.
- Capacity for regional strategic planning: conceptualization and operationalization of a strategic vision for the region, with broad participation of public, civil, and private sector agents (regional development agency). Definition of regional and local development projects.
- Capacity of local universities for innovations, training, and technical assistance.
- Regional institutions for promotion of the region (chambers of commerce and industry, labeling of products, quality certification, regional image building (branding house) and advertising)

- Coordination with national programs for infrastructure and promotion of competitiveness.

Dimension 3: Productive transformation of the region
Element 1: Regional projects for infrastructure and financial development (State-region contracts)
- Public investments in infrastructure, in particular to link the region to dynamic national and international markets. Industrial parks and other public investments in support of private investment.
- Development of local and regional financial institutions.

Element 2: Promote the competitiveness of the region and local entrepreneurs (Region-driven development projects)
- Investments in entrepreneurship training, technical assistance, and public business incubators.
- Subsidies to investments that generate local positive externalities (decentralization, clustering) through grants and/or tax exemptions.
- Support to investments in the region's comparative advantages:
    - Promote the "new agriculture" (local production systems for high value crops and animal products (milk, cheese), quality, labeling, value added through processing, contracts with supermarkets and agroindustries, food safety for exports).
    - Promote the non-agricultural rural economy: agriculture linkages, decentralization of manufacturing. New services (environmental services, tourism, eco-tourism, retirement), and economics of proximity (commuting, subcontracting).
    - Capitalize on transfers and remittances as sources of financing and investment (capitalization of local financial institutions).

Dimension 4: Social transformation of the region
Rural development programs (social and productive expenditures) in support of the social incorporation of the poor
- Improve the asset position of the rural poor:
  Access to land: redistributive land reform and subsidies to land purchase.
  Human capital formation: conditional cash ransfer programs for education and health (Progresa in Mexico, Bolsa Escola in Brazil)
  Social capital formation: promote membership to organizations.
- Combat the reproduction and deepening of social inequalities to insure broad sharing of the benefits of local/regional development.
- Safety net programs to support risk-taking by the poor.

Dimension 5: Implementation of territorial rural development as a national strategy: Accountability and learning
- Auditing and impact analysis for accountability.
- Results-based management for participatory learning and improvement based on monitoring and just-in-time impact analysis.
- Securing continuity beyond the political cycle and initial leadership (Cajamarca, Cuatro Pinos Guatemala): importance of broad social participation in the region and national/international visibility beyond the regional level.

V. Implications for Mexico's rural poverty reduction strategy

Mexico recently introduced a territorial approach for poverty reduction in its most marginal rural municipalities. This is known as the Microregions Strategy. In what follows, we explain the design of this strategy. We then use the lessons learned from international experiences in territorial approaches to rural development to explore the advantages and limitations on this strategy for rural poverty reduction.

5.1. Mexico's Microregions Strategy

The Microregions Strategy (MRS) aims at promoting the integral and sustainable development of the most marginal regions of Mexico (Soto Priante, 2003). Success of the strategy would lead to gradual convergence in living standards between marginal and non-marginal municipalities, resulting in both poverty and spatial inequality reduction. The instruments to implement the strategy consist in:

- Creating micro-regions that regroup a number of municipalities with very high and high marginality.
- Selecting in each municipality one or several localities, else than the municipality center, to serve as Strategic Community Centers (CEC). These localities are natural confluence points for the localities in their territorial vicinity or hinterland.
- In the Microregions Strategy, CECs will concentrate the delivery of basic infrastructure and social services, and the promotion of productive projects (11 areas of investment) to serve both the population of the CEC and of localities in their territory of influence.
- Over time, the population of poor households located in non-CEC localities will expectedly concentrate in CEC localities on a voluntary basis, as currently dispersed populations would be attracted by greater availability of social services in these localities.
- Defining a strategy to help CECs gain access to the full range of 11 categories of investments via:
    + Improved <u>coordination</u> among Federal, State, and Municipal governments and among 16 federal ministries (but particularly the Ministries of Social Development, Agriculture, and Education) in delivering projects to the CECs. This coordination is assisted by Sedesol's Microregions Program and by establishement of Microregional Councils that engage in participatory planning with representatives of CEC localities and Sedesol. In a particular microregion, the Council receives and ranks projects from CECs. Coplade (Comité de Planeación para el Desarrollo del Estado) verifies the conformity of projects submitted with Program rules and submits them to the state office of SEDESOL.
    + Improved <u>participation</u> of the CEC population through organization of a Local Development Agency (Agencia de Desarrollo Local, or CEC Council), assisted by a Local Development Agent, that can engage in participatory planning to define a local development strategy, elaborate projects, and establish priorities.
- The target population consists in some 20 million inhabitants located in 2,966 CEC localities and their hinterlands (some 97,000 small localities), belonging to 1,335 very high and high marginality municipalities (according to the Conapo marginality index), grouped into 263 Microregions.
- Instruments used by the program consist in investments to reach threshold levels in 11 areas of infrastructure, social services, and productive investments, namely electricity, health, telephone services, community training centers, hard floors, sanitation, roads, education, piped water, commercial outlets, and productive projects.

5.2. Appraising Mexico's microregions strategy in light of international experiences with territorial approaches to rural poverty reduction

Mexico's Microregions Strategy is highly innovative in many aspects (see Champetier, 2003). For this reason, it is important to learn from this experience. At the same time, deficiencies in the approach may be seen using lessons learned from international experiences with territorial development and early observations on implementation of the strategy. On that basis, we make five recommendations for the Microregions Strategy.

Recommendation 1: Recognize the heterogeneity of territorial conditions, requiring in each case local innovations to make the strategy work.

This is well intended in the MRS since it is based on the principles of decentralization, local governance, and participation of stakeholders. In this fashion, local specificities can be recognized and serve to guide demand for particular projects. Decentralization has been pursued through Ramo 33 and devolution of responsibilities to municipalities, but it remains incomplete in fiscal and financial capacity. Local governance in marginal municipalities is technically weak. And there has been a lag in putting into place local institutions for participation. Dealing effectively with heterogeneity will require addressing these three issues.

Recommendation 2: Organize local territories.

We have seen that a key principle of the territorial approach is to recognize the continuum between rural and urban areas, and to link unfavorable to favorable rural areas. In this sense, the MRS fails to follow this principle, regrouping marginal municipalities among each others instead of seeking to integrate them with urban centers and with FRAs. Broader economic regions could be designed to systematically integrate marginal microregions with urban centers and FRAs. As we have seen, this integration is essential to go beyond social development and implement significant productive projects. Dynamic urban employment centers and FRAs should be used as economic engines for the promotion of opportunities for residents of marginal microregions. Adequate infrastructure for transport and communication are thus needed to bring MRAs closer to FRAs and to urban employment centers.

Recommendation 3: Promote the institutional transformation of the region

Institutional transformation of a microregion is an important part of the MRS strategy. It requires reinforcement of municipal capacities, strengthening of civil society organizations, and local institutions for planning and project definition.

The three year cycle with no re-election for municipal authorities implies a very short run time horizon that is not favorable to the development of economic projects for the locality. In addition, putting into place mechanisms for consultation and participation has been lagging. The result is that much of the authority over implementation is currently in the hands of deconcentrated federal ministries. Local organizations have historically been put into place for control and public sector guidance, as opposed to the promotion of and support to entrepreneurship. Institutional transformation of the region will thus also require assistance to the reconversion of these organizations. Finally, the Local Development Agency will have a key role to play in the planning, coordination, and development of productive projects for the region. Complementary interventions for the construction of this institution by for example Indesol are also needed. Investing in productive projects (the 11th area of investment) is more difficult than transferring resources to assist social development. To break the observed drift toward social investments and neglect of productive investments, special assistance must be given to Local development Agencies for the formulation and implementation of significant productive projects.

Recommendation 4: Promote the productive transformation of the region

For the territorial approach to succeed in reducing poverty, productive projects should be as important as social projects. Capitalizing on the new agriculture, non-agricultural activities, and the productive use of remittances need to be part of income generation strategies. Due to the decline in prices for traditional commodities, the overall economic situation in rural areas is one of general stagnation of agriculture. Scoring success with the new agriculture for smallholders requires extensive institutional transformation to reach markets and organize production. By calling on broad participation of all ministries, the strategy has the advantage of providing opportunities for mutli-sectoral investments. Coordination of ministries, however, remains a challenge as they have historically operated in parallel more than complementary fashion. Designated funds should also be made available on a competitive basis to support the implementation of region-driven development (RDD) projects.

Recommendation 5: Promote the social transformation of the region

Improving the asset position of the rural poor is an important dimension of the strategy. However, 10 of the 11 areas of investment considered are focusing on human capital and consumption assets rather than on productive assets that can be used to generate income in the short/medium term. Hence, success in the income generation dimension of the strategy would require greater focus on access to productive assets for the rural poor, and on their ability to use them productively in the context of regional opportunities to which they can participate.

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	LEADER, EU	Community Empowerment Program, USDA	Petrolina, Brazil	Cajamarca, Peru	Central Highlands, Guatemala	Central Valley, Chile
Define region						
Definition	Rural communities	Poor rural communities	San Francisco Valley Irrigated district	Province and region administratively defined	Localized production system for NTX in Central Highlands	Agroecological region for fruits
Regional source of growth	Diversified	Diversified	Agro-exports fruits	Milk and mining	Non-traditional vegetable exports	Agro-exports fruits and vegetables
Institutional transformation of region						
Local government capacity	No	Technical assistance	Weak decentralization. Most work done by federal agencies and firms	Weak decentralization. Weak financial position	High decentralization	No
Local organizations capacity	Broad participation required	Broad participation required	Labor unions, medium sized firms	University	Cuatro Pinos Coop and private agroindustry	Agroindustries.
Regional institutions for planning, coordination, and promotion	Local Action Groups for planning and development projects. Links to broader region	Local plan and development projects. Area-wide approaches.	GEIDA-executive group for irrigation	Mesas de concertación. Plan de desarrollo sustentable. Chambers of commerce		Fundación Chile
Productive transformation of region						
Regional projects for infrastructure		USDA investments	Links to dynamic markets	Insufficient		Infrastructure Central Valley
Competitiveness of the region: entrepreneurship and resources	EU grants	Training and technical assistance. Grants. Tax exemptions.	Farmers' coop VALEXPORT and COTIA Japanese cooperative for marketing	PROMPYME, PROCOMPETIR	Cuatro Pinos cooperative and ALCOSA	Fundación Chile
Social transformation of region						
Improve asset position of poor	No	No	Land reform, labor unions	Role of NGOs: weak assistance	Cuatro Pinos and BANDESA	No
Assist participation of the poor	No	Target poor communities	Farmers' coop and labor unions	No	Assistance to participation of very small holders	Labor intensive field & processing operations