

CHAPTER 1

Structural and rural transformation in Latin America and the Caribbean



Summary

This chapter looks at the structural and rural transformations in Latin America and the Caribbean (LAC) during the first decade of the twenty-first century, focusing on the Spanish- and Portuguese-speaking countries,¹⁰ which account for 94 per cent of the rural population of LAC.

These countries underwent a vast rural transformation in the second half of the twentieth century, but most had four features in common: spatial integration as functional rural-urban territories formed¹¹ where the majority of the rural population lives, diversification of rural economies from agriculture, transformation of agrifood systems and value chains under the dominance of corporations, and a blurring of the cultural distance between rural and urban youth owing to rural roads and communications technologies (Berdegué et al. 2014).

These factors have influenced each other in multiple ways, and are both causes and consequences of the structural and rural shifts. The old rural and fundamentally agrarian societies have been replaced by new types of rural societies, in which agriculture is still important but no longer predominant.

By focusing on roughly the first decade of this century, we discuss the *advanced* stages of the two transformations of a still-developing region. Here, rural inequality remains extremely high, rural societies have already undergone tremendous change, and family farming has survived the shock of very rapid – and in some cases radical – liberalization, and yet keeps on contributing to the rural economy and to society at large.

Our findings are consistent with the main hypotheses of this report, namely that all countries (except Bolivia) that have reduced rural poverty faster than the region as a whole have also experienced rapid structural or rural transformation, or both, but that not all countries that undergo a transformation cut rural poverty rapidly. Every country with rapid rural poverty reduction has also narrowed rural income inequality faster than the regional average, except Chile.

These findings can be interpreted to suggest that it is very difficult to reduce rural poverty

quickly without rapid structural change in societies, but that such transformation by itself does not *guarantee* fast poverty reduction. Our findings do not support the oft-heard claim that the recent transformations of rural societies are anti-rural poor. Nor do they support the view that, if we transform the rural and national economies (and add social protection), poverty will automatically fall. What our analysis shows, instead, is that transformation and smart rural development policies are both needed if rapid rural poverty reduction is a national goal.

However, only three countries managed to do better than the regional average in all three dimensions of our analysis (structural and rural transformations and social inclusion). Why are they not doing better, as are countries in other regions that are less advanced along the transformation curve? Three proximate factors appear to be at play: in most countries, agriculture has not increased its productivity fast enough, other sectors of the economy have not generated enough high-productivity jobs, and rural economic growth and social-inclusion processes remain highly concentrated in certain territories, resulting in low rural poverty elasticities of growth.

The analysis of this region over this period is useful from an international perspective for at least two reasons: first, LAC allows us to see how structural changes in societies, at large, and in rural societies, in particular, can coexist with social exclusion, and that deep and rapid economic change does not always bring about development for all. Second, LAC can mirror the transitions in other developing regions, considering that over the past 30 years most of the LAC countries moved several steps up the scale towards becoming high-income and low rural poverty nations. As countries in other developing regions are undergoing the changes that LAC has already undergone, they may wish to review insights from LAC.

Patterns of transformation

Rural LAC in the late 1990s

At the start of the twenty-first century, Latin American rural societies were very different from those in the not too distant past. Around

2000, agriculture accounted for slightly more than 5 per cent of the region's economy, with a value of US\$100 billion. Thanks to productivity increases, agricultural value added in 2002 was 1.6 times higher than in 1980, and agricultural value added per worker was 2.2 times higher in 2002 than in 1980. These gains occurred even though agriculture as a share of regional GDP fell by 40 per cent over the period. Yet, in 2000, agricultural employment still accounted for 35 per cent of the regional total.¹²

In 1999, the region's rural poverty rate¹³ stood at 64 per cent (based on national poverty lines) – or 77 million poor rural people – a step *backward* from the 60 per cent in 1980 (73 million rural poor), at the start of the neoliberal cycle in the region. Nor did the proportion of rural poor living in conditions of extreme poverty over the period improve, either.

Income inequality in 1999 was extremely high. That year, the labour income (including all forms of employment) of the richest decile of the rural population was a staggering 40 times that of the poorest rural decile, and the difference in total income (including government cash transfers and other social subsidies) was 18 times higher. The Gini coefficient of total rural income for the region as a whole in 1999 was 0.52. In Brazil and Bolivia (Plurinational State of), "leaders" in inequality at that time, it was 0.58 and 0.64, respectively.

By the late 1990s, the rural economy was very diversified and rural non-farm income (RNFI) was growing fast in the region, approaching half of total rural income (Haggblade et al. 2007): 39 per cent in Brazil, 41 per cent in Chile, 50 per cent in Colombia and Peru, and 55 per cent in Mexico – and 22 per cent, 41 per cent and 42 per cent in the more agrarian countries of Honduras, Ecuador, and Nicaragua, respectively (Reardon et al. 2001). In the late 1990s, RNFI accounted for the majority of the income of rural women in 10 of the 12 countries reported by Reardon et al. (2001). Yet non-farm activities employed 10-30 per cent of the rural economically active population, a lower participation than the share in income, showing that on average this tended to be far more productive than agricultural waged

labour or self-employment (Reardon et al. 2001).

The region had crossed the 50 per cent urbanization threshold in the early 1960s, and in 2000, 75 per cent of the population lived in urban centres. Rural areas housed 121 million people and one third of all the people living in poverty.¹⁴ A large majority of rural people lived in territories characterized by close functional interactions between one or more small and medium-sized urban centres and numerous rural villages. Less than 10 per cent of the total rural population lived in places that were truly distant from a city (Barbier and Hochard 2014; Berdegue and Proctor 2014; Berdegue et al. 2015a).

A study commissioned by IFAD (Schneider and Cassol 2014) looked in depth at the family farm sector in eight countries,¹⁵ and found that in spite of the rising importance of RNFI many of these households relied on agricultural production to generate a significant share of their income, from 27 per cent in Chile to 38 per cent in Colombia, 47 per cent in Mexico, 58 per cent in Brazil and 75 per cent in Nicaragua. There is no evidence that the family farming sector is in danger of disappearing any time soon. In fact, the large fraction of family farm households specializing in agricultural production suggests that many smallholders have adjusted to the severe post-1980 shocks of economic liberalization, dismantled public agricultural services and vastly increased market competition.

The number of family farms was estimated at around 15 million in the late 1990s and early 2000s (Berdegue and Fuentealba 2014). This group is extremely diverse (figure 1.1) but can be sorted into three main categories. About 10 million households have little land and other assets and very often are in unfavourable territories, whose livelihood strategy relies heavily on non-farm income. About 4 million households over 200 million ha, whose livelihoods depend predominantly on their farms, are integrated in agricultural markets, but face onerous challenges due to difficult territories and a lack of farm and household assets. And about 1 million family farms over about 100 million hectares of highly productive land, in more favourable territories, are quite

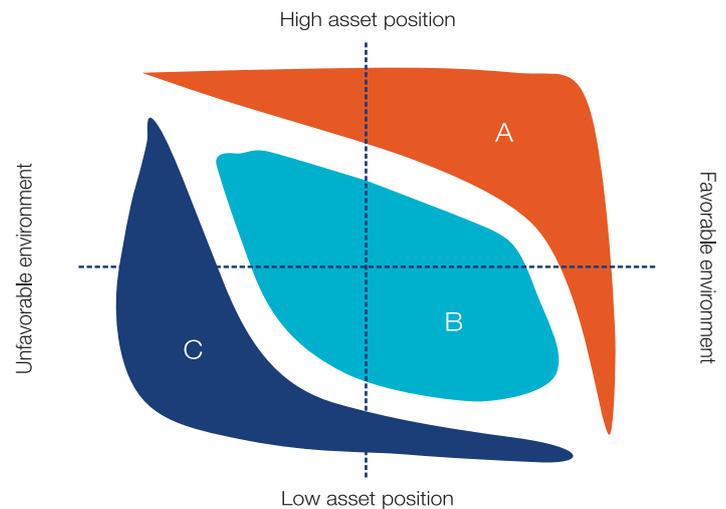
competitive even in demanding markets and value chains (Berdegué and Fuentealba 2014).

Over time, the large-farm sector has evolved from the hugely inefficient and unjust *hacienda* system to domination by corporations in most countries.¹⁶ Estimates of the size or economic importance of this corporate sector, which includes modern agrifood manufacturing and at least some specialized services, are lacking, but several points are not in doubt: the number of corporate farms is small, in some countries the sector is an important employer, and it is responsible for the largest share of agricultural GDP¹⁷ and almost all commercial agrifood processing. Even in countries where corporate agriculture or large-scale farms (or both) are very important, such as Brazil, the well-known dualist structure of Latin America (where a few large farms with landless hired labourers coexist with many smallholder farmers) remains a prominent feature of the countryside (box 1.1).

Brazil has recognized this dualism to such an extent that it has two agricultural ministries. The Ministry of Agriculture, Livestock and Food Supply is responsible for policies and regulations related to commercial agriculture and agribusinesses. The Ministry of Agrarian Development (MDA) is responsible for family farming and rural development. In 2015, the Ministry of Agriculture's budget was twice as large as that of the MDA. The MDA budget per family farm in 2015 was about US\$412, and that of the Ministry of Agriculture per corporate farmer US\$4,347 (the two agricultural ministries were in place in Brazil at the time of writing; since then the institutional structure has been reformed). Of course, family farms also benefit from programmes and services under the Ministry of Agriculture, such as the agricultural research of EMBRAPA (Brazilian Agricultural Research Corporation), just as agribusinesses benefit from family farmers – trained and organized with the support of MDA – who supply them with raw materials.

By establishing these two ministries, Brazil has tried to deal with a crucial challenge affecting *all* Latin American countries with their dual agrarian systems: the extreme difficulty in designing and implementing policies that

FIGURE 1.1 Types of family farms according to asset endowment and context



Note: type A includes about 1 million family farms, type B about 4 million households, type C about 10 million households.
Source: Berdegué and Escobar (2002).

meet the capabilities, needs and objectives of essentially distinct social and economic agents, even if they share the activity of agriculture. In highly unequal countries, like Brazil, budgets and politics tend to be allocated according to economic and political power rather than social need.

The Brazilian institutional solution to agrarian dualism also has to serve the top tier of the family farm sector – few in number but at least as productive as corporate farms. Politically and socially, it is vital that these farmers are firmly in the camp of the family farm sector. But their capabilities, economic objectives, and strategies differ from those of the large majority of poor family farmers, and are in many ways closer to those of the corporate farm sector.

Post-2000 changes in LAC as a whole

In the logic of structural transformation, agriculture should decrease its share in the economy, while manufacturing and services grow. Over 2000-2012 agriculture's share in the LAC economy did in fact decrease by 6 per cent, but some countries "re-agriculturalized" over the period, due in part to the commodities boom: El Salvador, Paraguay, Nicaragua and Uruguay.

BOX 1.1 Agrarian dualism in Brazil

Brazil is a global agricultural powerhouse. In 2012, its primary agricultural GDP was worth US\$112.7 billion, or 5 per cent of GDP, and absorbed 17 per cent of the country's labour. Agriculture, through its input and output linkages, accounts for an additional 17 per cent of GDP and 18 per cent of labour. In total, the wider agricultural and food sector and its related industries are thus responsible for over one fifth (US\$496 billion) of Brazil's economy and over one third of its labour (OECD 2015). This also means that in Brazil many farms are integrated into value chains, and that the options available to each individual farmer are increasingly dependent on decisions taken elsewhere in the agrifood system.

About 84 per cent of the 5 million farms (covering 330 million ha) meet the conditions defined in the Family Farming Law for being part of that sector. They control 24 per cent of the land (Schneider and Cassol 2014), from which they generate about 34 per cent of the gross value of the country's agricultural production (Vierha Filho and dos Santos 2011). Only 5 per cent of the family farms produce 64 per cent of the gross value of production of the family farm sector (Fornazier and Vieira Filho 2012). This is a classic example of what is called Latin America's "dualist" agrarian structure, but should be better known as a tripartite agrarian structure:

- 16 per cent of the farms (corporate farms) control 76 per cent of the land and produce 66 per cent of sectoral gross value.
- 4 per cent of the farms (the most productive of the family farms) control about 5 per cent of the land and produce about 22 per cent of sectoral gross value.
- 80 per cent of the farms (the least productive and poorest of the family farms) control about 19 per cent of the land and produce only 12 per cent of the sectoral gross value.

Sources: OECD (2015); Schneider and Cassol (2014); Vierha Filho and dos Santos (2011); Fornazier and Vieira Filho (2012).

Many authors have shown that agricultural development has a direct poverty reduction impact (World Bank 2007; Timmer 2009). However, the World Bank (2007) also showed that the agricultural growth elasticity of poverty in LAC was very low, even though the region was experiencing very positive agricultural development indicators at the time: "The paradox in Latin America is that while agriculture has been doing relatively well as a productive sector with a sustained 2.5 per cent annual growth in agricultural value added over the past 40 years, rural people have not fared well: rural poverty remains stuck at 58 million", (World Bank 2007, p. 239).

This "Latin American paradox"¹⁸ led to a project by the Food and Agriculture Organization of the United Nations to look at this relationship in the eight LAC countries with the largest agricultural economies (da Silva et al. 2009). The four key findings were: (1) Even

in countries with vigorous agricultural and smallholder policies and budgets, agricultural growth made a relatively small contribution to poverty reduction, and the significant improvements in headcount poverty in several of the countries were largely due to social policies, private remittances, and the growth of the non-farm economy. (2) The relationship between agricultural growth and rural poverty varied markedly by subnational region and, relatedly, by the composition of agricultural production in different places. (3) The labour demand and the labour productivity and wages associated with specific value chains also varied significantly. (4) Initial levels of inequality had a large detrimental effect on the agricultural growth elasticity of poverty.

The analysis of this paradox by the World Bank (2007) added another explanatory factor, the poor quality of the governance of agriculture and rural areas. The Independent Panel on

Agriculture for Development in Latin America (PIADAL 2013, p. 87-89; free translation from the original in Spanish) concluded that agricultural and rural development policies in the region are “a sum of partial and disparate agreements built in a policy process based on negotiations between the state and narrow-base actors [...] these negotiations are sometimes almost private [and] rural social actors with less power, like smallholders, the poor and other socially excluded sectors, are almost always under-represented in those negotiations.”

Manufacturing is an important engine of development due to its unconditional convergence in labour productivity (Rodrik 2013). Historically, manufacturing has absorbed large numbers of low-skilled labour from less productive sectors. However, in LAC, its importance has recently shrunk: from 2000 to 2013, its contribution to the economy fell by four percentage points (to 15 per cent) and its total product grew less than that of agriculture. This is just the latest instalment of a trend initiated at the end of the import-substitution strategy in the 1980s (Narula 2002; Mesquita Moreira 2006).

Labour informality is an important aspect of these economies. For this report, focused as it is on *inclusive* rural transformation, labour informality is highly problematic as, by definition, it is related to unregulated, unsafe and less productive jobs. Further, it is closely related to economic inequality (Arim and Amarante 2015). Informal labour – not connected to social security – accounted for 45 per cent of labour in the region in 2011, from 68 per cent in Bolivia to 85 per cent in Uruguay (ECLAC 2013). Defining informality as low-skilled employment and self-employment, informality varies from 40 per cent in Chile to 70 per cent in Bolivia (Gasparini and Tornarolli 2009). In the last decade there has been a small drop in labour informality, related to a modest but significant fall of income inequality (Amarante and Arim 2015), but 60 per cent of youth are employed in informal jobs and 27 million formal jobs would be needed now to correct this problem.

As with the relationship between agricultural growth and poverty reduction, there are

very large subnational differences in labour informality. The “Latin American Report of Poverty and Inequality 2013” (Rimisp 2014) estimates the labour formality rate for six LAC countries. The mean national formality rate varies from 5 per cent (Ecuador) to 61 per cent (Chile). However, among Ecuador’s departments, it varies between 2 per cent and 9 per cent, while for Chilean regions it ranges from 40 per cent to over 70 per cent. In Brazil, with a mean national rate of formality of 45 per cent, the range among municipalities is from 5 per cent to 90 per cent.

Urbanization is concomitant with structural transformation. LAC is a region where urbanization has reached maturity, stabilizing at slightly below 80 per cent of the total population. The absolute number of rural people in our 19 countries started to decline sometime between 1990 and 1995. During the period 2000-2015, the region will have lost 1.8 million rural dwellers.¹⁹

Our understanding of this trend is, however, very much influenced by the way in which “rural” is defined in official statistics. In LAC countries, it is defined as a residual – that which is not urban. “Urban” thus absurdly includes everything from villages with only 2,000 or 2,500 inhabitants²⁰ all the way to the metropolitan regions of Mexico City and São Paulo (around 21 million each). In 2000-2015, LAC had 123 large cities and urban agglomerations (of 500,000 or more) with a combined population of 267 million people, or 53 per cent of the urban population. The rest of “urban” is made up of an unknown number of small and medium-sized cities of up to 500,000 inhabitants, where 236 million urban people (47 per cent of the urban population) live in close functional interactions with their surrounding rural hinterlands. The population of these small and medium-sized urban centres in rural-urban territories is projected to increase by 11 per cent between 2015 and 2030, absorbing many of the people who will be leaving the “officially rural” areas.

In almost all the LAC countries, urbanization is high but urban concentration is low. The global average rate of “urban primacy”²¹ is

33 per cent. Most LAC countries, including most of the larger ones, are well below this. This prevalence of small and medium-sized cities is an undervalued factor that should feature much more prominently in LAC's rural development strategies and programmes. Christiansen and Todo (2014, p. 43) discussed this "missing middle" in rural transformation and concluded that countries with more decentralized patterns of urbanization show "more inclusive growth patterns and faster poverty reduction than agglomeration in mega cities."

Rural economies in all LAC countries are much diversified. Projecting from Dirven (2011), it is more than likely that, in 2015, the average share of rural non-farm employment (RNFE) for the region was already over 50 per cent. National statistics suffer from methodological issues in measuring individual participation in the labour market, but the trend is clear per estimates reported by Klein (1992) for the early 1980s (24 per cent RNFE), by Reardon et al. (2001) for the late 1990s (31 per cent RNFE) and by Dirven (2011) for 2008 (45 per cent RNFE).

Much of this RNFE is in low-productivity jobs, however, which Klein (1992) called "refuge" rural employment. Regions with greater agricultural dynamism also tend to have higher-quality and more productive RNFE (Reardon et al. 2001). Further, poorer households and individuals, with fewer assets, often engage in refuge RNFE rather than migrate from agriculture to jobs that are far more productive, frequently as part of diversified livelihood strategies at household level. This response may be a slight improvement over very small-scale subsistence agriculture, but it contributes little to sustained poverty reduction or to rural economic growth.

Even considering the low productivity of rural jobs, over 2002-2012 the 12 LAC countries with data reduced rural poverty by 26 per cent on average. The leaders in poverty reduction were Chile and Brazil, which cut rural poverty by 56 per cent and 42 per cent, respectively, followed by Peru and Bolivia with around 30 per cent each. Paraguay, the Dominican Republic and Mexico cut rural poverty by less than 20 per cent. While we do not have a complete and comparable data set for

Guatemala for the period, this country appears to be at the bottom of the region, with a rate of rural poverty reduction in 2002-2006 that, if projected over the full decade, would have come in at less than 6 per cent.

Further, for the first time since reliable statistics have become available, in the decade after 2000, rural LAC began to see a statistically significant decrease in income inequality: the ratio of total income of the top and bottom rural deciles went from 19 to 14 (2002-2013), a pattern very similar to that in urban areas. Bolivia, Colombia, Ecuador, Mexico and Uruguay did particularly well on this indicator, while the Central American countries, plus Paraguay, tended to see increased inequality.

The reduction in inequality is in part due to targeted government cash transfers, because the same ratio of rural *labour* income was much higher and showed almost no improvement, from 39 to 37 between 2002 and 2013.²² The countries that did well in improving the distribution of total income and labour income include Bolivia, Colombia and Ecuador, while Brazil, El Salvador, Mexico and Peru had significantly worse performance in improving the labour than the total income distribution. So, while it is possible that gains in rural poverty and rural income inequality were driven, in part, by more employment and higher wages in agriculture, it seems that social protection policies were important, too.

The decade saw great progress in extending basic social services (health, education, water and sanitation, and electricity) to much of the rural population. The gender gap in access to these services narrowed sharply, although very wide ethnic inequalities remain in access to services – and on other indicators (box 1.2) – in all countries where data were available.

Gender issues are also crucial. The poverty femininity index grew by 7 per cent from 107.5 in 2002 to 115.2 in 2012 for the rural areas of LAC, meaning that rural poverty has fallen more for men than for women. The trend is the same in the 19 LAC countries, although rates vary.²³ Some authors argue that agriculture is feminizing in the region (Deere 2005; Lastarria-Cornhiel 2008).

BOX 1.2 How indigenous peoples are marginalized

Indigenous peoples are to a great degree socially marginalized by the region's structural and rural transformations. Indigenous peoples in LAC have suffered territorial dispossession and social exclusion since the Spanish conquest in the sixteenth century. Until recently, their socio-economic conditions were almost invisible in official statistics in most countries (ECLAC 2014a). The countries with the highest indigenous populations as a share of the total are Bolivia (62 per cent), Guatemala (41 per cent), Peru (24 per cent), Mexico (15 per cent) and Panama (12 per cent). Poverty is higher among indigenous peoples than in the rest of the population (Cord et al. 2015). For example, in Ecuador, the poverty rate in 2012 was 30 per cent for the total population and 60 per cent for indigenous peoples (Cord et al. 2015). In Guatemala, the poverty rate for the non-indigenous rural population in 2011 was 61 per cent, and 81 per cent for the rural indigenous group. In Mexico, poverty among people who speak an indigenous language was, in 2014, almost twice the rate in the rest of the population (77 per cent and 43 per cent), and the difference in extreme poverty was almost five times the rate (38 per cent and 8 per cent) (CONEVAL 2014). However, poverty reduction policies have had a stronger effect on the indigenous population, reducing the poverty gap between the two groups. Still, a large gap persists, not just in income and assets, but in education and health.

The share of indigenous peoples living in urban centres in 2000 varied from a high of 65 per cent of the indigenous population in Chile to 56 per cent in Peru, 53 per cent in Bolivia and 40 per cent in Nicaragua. The table below shows that in Guatemala and Chile urban indigenous peoples are far better off than their rural counterparts in terms of income, which could mean the conditions of social exclusion are stronger in rural than urban areas.

Indigenous peoples' urban and rural incomes in Guatemala and Chile

Guatemala (current quetzals, total income)

Year	Urban			Rural		
	Non-indigenous	Indigenous	Indigenous/ non-ind. (%)	Non-indigenous	Indigenous	Indigenous/ non-ind. (%)
2000	489	293	60	243	174	72
2006	885	531	60	456	312	68
2011	1643	827	50	713	533	75

Chile (current pesos, labour income only)

Year	Urban			Rural		
	Non-indigenous	Indigenous	Indigenous/ non-ind. (%)	Non-indigenous	Indigenous	Indigenous/ non-ind. (%)
2006	178 610	120 363	67	112 338	68 543	61
2009	225 538	153 370	68	131 564	82 877	63
2011	247 707	166 344	67	161 331	99 977	62
2013	294 247	207 008	70	180 875	134 061	74



A legacy of historical conflict means that several indigenous peoples in countries face a real risk of disappearing. In Chile, for example, seven different indigenous peoples have been pushed to extinction, at least one group as recently as the 1980s. A more recent cycle of territorial dispossession stems from exploitation of oil, gas and other mineral resources. Throughout LAC, there are 200 indigenous groups in voluntary isolation due to the pressure they receive over resources on their territories, and all of them are in a situation of extreme demographic risk, facing violence, illness and human rights violations (ECLAC 2014a).

Note: in 2013, Chile's Ministry of Social Development changed the way housing costs are imputed, and stopped adjusting the survey results with data from the National Accounts. For comparability purposes, for 2013, we use the old definition of autonomous household income per capita.
Source: Casen (2006, 2009, 2011, 2013).

From 2002 to 2012, the share of agricultural employment in rural areas dropped by 6 per cent for the rural active population and for rural men, but for female workers it grew by 5 per cent.²⁴ The growing participation of women, mainly in temporary work (Lastarria-Cornhiel 2008; Soto Barquero and Klein 2012) may imply a correlation with poverty feminization. Rural territorial development has become a powerful idea in Latin America's rural development strategies. Modrego and Berdegué (2015) summarize the results of several national case studies covering around 9,000 municipalities, districts and provinces from nine countries representing over 80 per cent of the region's population.

In 42 per cent of these places, they found an indication of economic growth, in 36 per cent the growth was accompanied by poverty reduction, and in only 13 per cent was it also accompanied by improvements in income distribution. Of these locations, 29 per cent saw no growth and no gains in poverty or in income distribution. Significantly, in 29 per cent of these territories the authors report poverty or inequality reduction (or both) without localized economic growth, showing how social transfers and, in some places, private remittances from migrants have decoupled social from economic development.

Typology of transformation processes in LAC

As in the other regional chapters, we developed a typology to classify countries by their position

in three domains (see below). The position of each country is defined relative to the average for LAC countries with a complete data set (16 countries). A country could therefore be in a low position in the rural transformation in LAC but be well advanced in comparison to a country in another region. More importantly, a country could be making good progress against its own past, yet be lower than the regional average. The three sets of indicators used are (table 1.1):

- *Structural transformation: change in the share of non-agricultural activities in GDP.* The period of change is between, approximately 1990 and 2014. Countries with a share of non-agriculture in GDP higher than 90 per cent are automatically considered transformed. For the rest, a change in percentage points per year equal to or higher than the regional mean change indicates advanced structural transformation.
- *Rural transformation: change in share of agricultural labour productivity (agricultural value added per worker).* A change equal to or higher than the regional mean change indicates advanced rural transformation.
- *Social inclusion in rural areas: change in rural poverty headcount rate.* A decline per year equal to or higher than the regional mean change indicates fast poverty reduction. This gives a limited picture of social inclusion. To partly compensate, some analysis on economic inequality, measured by the Gini coefficient, is used.

TABLE 1.1 Data for classification of LAC countries on the typology, 16 countries

Country	Structural transformation		Rural transformation		Social inclusion in rural areas		GDP per capita		Rural Gini coefficient	
	Share of non-agriculture in GDP (%)		Agricultural labour productivity (%)		Rural poverty headcount rate at national poverty line (%)					
	c. 1990	c. 2014	c. 1990	c. 2012	c. 2000	c. 2012	c. 1990	c. 2014	c. 1999	c. 2012
Brazil	91.9	94.4	1 990	2 014	70.6	31.1	10 331	15 412	54.7	49.5
Chile	91.3	96.7	1 712	5 470	51.8	27.9	9 193	21 967	49.5	47.1
Colombia	83.3	93.3	3 224	6 638	61.7	42.8	7 752	12 447	50.6	47.1
Dominican Republic	85.5	93.8	3 654	3 982	47.4	51.2	5 278	12 505	48.0	39.2
Guatemala	84.9	88.5	2 460	8 181	74.5	71.4	5 315	7 181	47.9	44.6
Mexico	92.2	96.5	1 477	2 009	66.5	63.6	12 479	16 496	50.2	47.5
Nicaragua	79.0	79.5	2 712	4 416	70.3	63.3	3 025	4 574	51.4	44.7
Peru	91.1	92.6	1 623	3 973	78.4	48.0	5 280	11 514	45.0	42.8
Bolivia	83.3	86.7	1 025	1 949	84.0	61.3	3 740	6 153	64.0	54.3
Ecuador	78.6	90.6	594	658	82.2	35.3	7 542	10 774	62.7	45.2
Honduras	77.6	86.2	1 222	2 647	71.3	68.5	3 205	4 214	54.2	57.8
Paraguay	83.0	79.1	1 644	3 173	52.5	33.8	5 985	8 038	56.0	53.2
Uruguay	90.8	91.4	5 475	10 297	20.7	3.0	9 841	19 929	43.1	36.9
Costa Rica	87.7	94.4	3 199	6 813	26.3	30.3	7 333	13 713	46.2	46.8
El Salvador	82.6	89.2	2 344	4 187	42.4	36.0	4 454	7 613	48.9	37.6
Panama	90.2	96.5	2 133	3 489	64.4	49.4	7 463	19 637	57.2	50.1

Sources: World Bank's World Development Indicators (WDI) (non-Brazil); ECLAC (2014b) (Brazil). Poverty data: WDI (non-Brazil); CEPALSTAT database (ECLAC), with an alternative national poverty line calculated by this United Nations agency for monitoring the Millennium Development Goals (Brazil).

The analysis yielded six broad categories (table 1.2). Within each, we looked at changes to economic inequality among the rural population, based on the rural Gini coefficient.

The findings suggest that poverty reduction depends more on structural transformation than rural transformation.

TABLE 1.2 Distributions of countries' outcomes for transformation and inclusion in Latin America and the Caribbean – typology

Speed of structural and rural transformation		Rural poverty reduction	
		Fast	Slow
Fast structural transformation	Fast rural transformation	Type A Chile, Brazil*, Ecuador, Peru*, Uruguay*	Type B Costa Rica, Dominican Republic, Honduras
	Slow rural transformation	Type C Colombia, Panama	Type D El Salvador, Guatemala, Mexico*
Slow structural transformation	Fast rural transformation	Type E Paraguay, Nicaragua	
	Slow rural transformation	Type F Bolivia	

Notes: fast structural transformation refers to countries with above-average rates of structural transformation. Slow structural transformation countries are those with rates below average for their regions. Rural transformation and poverty reduction are also measured relative to averages for each region. Countries in bold show a reduction in inequality equal to or higher than the regional mean. * denotes the four countries in this region that, as described in the Introduction, are automatically classified as having fast structural transformation because their initial share of non-agriculture in GDP exceeds 90 per cent.
Source: Authors.

Explaining the observed patterns of transformation

Having seen how different LAC countries followed distinct patterns of structural and rural transformations, with very different implications for social inclusion in rural areas, we now contrast these patterns with those expected under differing development theories and policy approaches, to see if any shows much association with the trends just described.

Economic and trade liberalization

The most influential development theory since the 1980s is that free-market policies will accelerate structural and rural transformations and poverty reduction. However, the Heritage Foundation Index of Economic Freedom,²⁵ which measures trade openness, property rights and other aspects of free-market policies, shows only a weak correlation with our typology of

LAC countries (table 1.3). Three of the five type A countries (from table 1.2) are in the first positions of the regional ranking, but Brazil, also type A, is at the bottom. Costa Rica and Mexico – type B and type D, respectively, indicating slow poverty reduction – are high in the Heritage Index.

Nor do the changes in inequality show a particularly strong correlation with economic freedom. Despite the claims of many who argue that market liberalization promotes inequality, Colombia, Uruguay and Peru are among the leaders on economic freedom in the region (see table 1.3) and scored above average on reducing inequality. At the same time, Chile – the definitive leader in economic freedom – does not show as much of a reduction in rural inequality as other countries. Nicaragua, Brazil, Ecuador and Bolivia do well on this measure of social inclusion but are at the bottom of the

TABLE 1.3 Measures of economic liberalization versus country typology

Country	Heritage Index world rank	Trade openness (2011)	Type
Chile	7	64.6	A
Colombia	28	28.9	C
Uruguay	43	47.3	A
Peru	47	35.9	A
Costa Rica	51	84.3	B
Mexico	59	57.7	D
El Salvador	62	n.a.	D
Panama	68	79.0	C
Paraguay	83	58.8	E
Dominican Republic	86	31.5	B
Guatemala	87	51.8	D
Nicaragua	108	n.a.	E
Brazil	118	33.2	A
Ecuador	156	46.5	A
Bolivia	163	39.0	F

Notes: bold type denotes a reduction in rural inequality greater than the regional mean. Trade openness is measured as total imports plus total exports together as a share of GDP.

Source: Heritage Foundation (Heritage Index); Penn World Table 8.1 (trade openness); authors (last column).

Heritage Index. Perhaps the fairest conclusion is that while an open, market-oriented economy with a limited state – a “liberal” economy – can enhance economic growth, it does not, in itself, reduce rural poverty and inequality.

Most countries liberalized their trade policies from 2002 to 2012. Some countries, such as Paraguay, re-agriculturalized as a result. The countries with the most liberalized policies – Costa Rica and Chile – saw little reduction in inequality. Other countries, such as Brazil, which relied less on trade after 2000, did equally well or better than others such as Mexico, where trade became more important.

There is also a weak relationship between trade openness and the position of a country in our typology (see table 1.3, third data column). If the relationship was strong, one

would expect to see type A at the top of the table, but some are at the bottom. Thus, inequality reduction does not show any correlation with trade openness, either.

Inclusive institutions

Another prominent theory posits that the quality of institutions is crucial for inclusive development. Acemoglu and Robinson (2012) and other authors have argued that there is a strong relation between social organization and development, through inclusive economic and political institutions that stimulate innovation, while allowing broad participation and accountability. Conversely, “extractive institutions” constrain economic growth and overall development as they lead to policies that concentrate wealth and power among

elite groups. Inclusive institutions can be more important in countries with a large endowment of natural resources, like many in LAC. Gylfason and Zoega (2006) found an inverse relationship between natural resources on the one hand and civil liberties, economic growth, investment and secondary education on the other. Isham et al. (2005) found that countries dependent on localized natural resources have weaker institutions and more socio-economic divisions.

Mechanisms for distributing rents are important in nations with rent-seeking elites. LAC has fiscal policies, such as the *Sistema de Regalías* in Colombia and the *Canon minero* in Peru, that distribute considerable natural resource royalties to the regions that generated them, and to other disadvantaged places. At least in Colombia, the results are heterogeneous, and depend on the capacities of the regional and local governments, and society more widely, to use these resources in transparent and effective ways to promote development (Bonet et al. 2014). For Peru, Arreaza and Reuter (2012) find no evidence of better provision of public goods from the *Canon minero*, but they do find more public spending in region where it is applied, suggesting that the problem lies in inefficiencies of the local governments.

Using the World Bank's Worldwide Governance Indicators (2015a)²⁶ for 2012, we find no evidence that inclusive institutions affect structural or rural transformation indicators, but we do find a strong and statistically significant relationship between some quality of governance indicators and rural poverty reduction (table 1.4),²⁷ which shows a close fit with our earlier typology.

According to Acemoglu and Robinson's (2012) theory of inclusive institutions, there is a relationship between political and economic institutions (whether they are inclusive or extractive), and national prosperity, defined as economic growth that benefits the majority of society. In turn, many studies find societies with high levels of inequality of opportunity also have high levels of concentration of political and economic power (World Bank 2006). While the correlation is obviously not perfect,²⁸ a good case can be made for relationships that link trends

in inequality, the inclusiveness of political and economic institutions, and structural and rural transformation processes that lift large numbers of poor rural people out of poverty.

Labour productivity

The movement of labour from lower to higher productivity jobs is at the very heart of the theory of socially inclusive structural transformation (Timmer 2007). McMillan and Rodrik (2011) argue that, in the early stages of development, non-agricultural labour productivity grows faster than agricultural labour productivity, but that they converge once total labour productivity surpasses a certain threshold.

In LAC, however, we find that the countries classified as more transformed are not necessarily those with lower labour productivity gaps. For example, the ratio of an economy's overall labour productivity to its agricultural labour productivity in a type A country like Brazil went from 5.8 to 2.5 between 1990 and 2012. In the same period the Dominican Republic, a type B country, shows a trend from 2.4 to 1.7. Nicaragua, a type E country, interestingly shows a gap below 1 in 2010, that is, higher labour productivity in agriculture than in the economy as a whole.

The countries in table 1.5 with smaller gaps are not necessarily converging to some high-productivity equilibrium. This can be seen in Nicaragua, Paraguay and Honduras, which have low-productivity gaps and very low levels of labour productivity in the overall economy, particularly in agriculture. In fact, countries such as Honduras or Nicaragua which are quite poor, have high rates of employment in agriculture and very low agricultural labour productivity, and yet already have productivity gaps as low as or lower than those of the three developed countries in table 21.5 (added for comparison). Surely this is a kind of "convergence" very different from that implied by the theory of structural transformation?

In table 1.5, it is possible to see a general trend downwards in the productivity gap between agriculture and the economy as a whole, and this is generally good news. McMillan and Rodrik (2011) find that in LAC

TABLE 1.4 Correlation between Worldwide Governance Indicators and rural poverty

Independent variables	Dependent variable: rural poverty at national poverty line ^a					
	1	2	3	4	5	6
Control of corruption	-17.0***	-	-	-	-	-
	(1.9)	-	-	-	-	-
Government effectiveness	-	-17.7***	-	-	-	-
	-	(2.7)	-	-	-	-
Political stability	-	-	-16.0***	-	-	-
	-	-	(1.9)	-	-	-
Regulatory quality	-	-	-	-10.5***	-	-
	-	-	-	(2.7)	-	-
Rule of law	-	-	-	-	-18.8***	-
	-	-	-	-	(2.2)	-
Voice and accountability	-	-	-	-	-	-25.3***
	-	-	-	-	-	(2.7)
Constant	48.7***	49.8***	47.7***	54.3***	44.5***	56.5***
	(1.4)	(1.5)	(1.5)	(1.5)	(1.7)	(1.2)
R ²	0.4	0.3	0.4	0.1	0.4	0.4

Notes: a = ordinary least squares regression. ***p < 0.01, **p < 0.05, *p < 0.1. Standard errors in parentheses. Sources: authors' calculations from World Bank (2015) (non-Brazil); CEPALSTAT database (ECLAC) (Brazil).

productivity growth is mainly caused by within-sector labour productivity gains, with little structural shift between sectors. Since the 1990s, labour has moved between low-productivity jobs (agricultural to informal, low-quality urban or rural non-farm jobs) and not to manufacturing or to high-productivity services.

Territorial development

Territorial development has also been a much-discussed strategy. A recent special issue of *World Development* (Berdegué et al. 2015a) summarized the evidence and analysis. For our discussion, two findings are crucial:

- In LAC – a region with wide inequalities – national averages are very misleading. Each

country has rural territories that are transforming and not transforming, with different degrees of social inclusion.

- While geographical variables and national conditions, actors and policies are important determinants of territorial development, the structural features of each territory are critical in determining development at this level. These include the territory's social institutions related to resource access and control, economic structures (industrial organization and types of firms by size and origin of capital) and linkages to dynamic markets, linkages to intermediate cities, the degree to which public investment is directed towards public or private goods,

TABLE 1.5 Labour productivity in agriculture and the whole economy

Country	GDP per worker		Agricultural value added per worker		Agricultural productivity gap ^a	
	c. 1990	c. 2011	c. 1990	c. 2011	c. 1990	c. 2012
Chile	11 534	20 159	3 224	6 536	3.6	3.1
Mexico	18 827	20 624	2 663	3 809	7.1	5.4
Panama	10 317	16 181	2 369	3 862	4.4	4.2
Uruguay	9 667	15 111	5 475	9 559	1.8	1.6
Costa Rica	8 867	12 974	3 199	6 461	2.8	2.0
Dominican Republic	6 682	11 976	2 581	6 894	2.6	1.7
Brazil	9 939	11 964	1 712	4 770	5.8	2.5
Colombia	9 212	9 822	3 654	3 587	2.5	2.7
Peru	5 468	7 302	1 025	1 885	5.3	3.9
Ecuador	7 402	7 856	1 946	3 946	3.8	2.0
El Salvador	5 697	7 509	2 133	3 468	2.7	2.2
Guatemala	6 012	5 958	1 945	1 938	3.1	3.1
Paraguay	3 670	3 828	1 644	2 216	2.2	1.7
Honduras	3 681	4 060	1 222	2 237	3.0	1.8
Nicaragua	3 332	3 253	1 773	3 479	1.9	0.9
Bolivia	2 636	2 601	594	643	4.4	4.0
Comparison countries						
United States	75 482	95 535	31 577	62 957	2.4	1.5
Netherlands	72 630	86 981	31 040	61 026	2.3	1.4
Spain	62 477	67 001	16 048	33 198	3.9	2.0

a. Calculated as GDP per worker/agricultural value added per worker.
Source: authors' calculations using WDI data (World Bank 2015b) data.

Annual change in agricultural productivity gap (%)	Sectoral employment (% of total employment)					
	Agriculture		Industry		Services	
	c. 1990	c. 2011	c. 1990	c. 2011	c. 1990	c. 2012
-0.7	1.2	10.3	25.1	23.4	73.2	66.4
-1.5	26.9	13.4	22.0	24.1	51.0	61.9
-0.2	19.1	16.7	26.3	18.2	54.6	65.2
-0.5	1.4	10.9	30.9	21.1	67.7	68.0
-1.5	25.9	13.4	25.9	19.5	47.5	66.9
-2.0	20.3	14.5	22.9	17.8	56.6	67.8
-3.9	7.5	15.3	25.2	21.9	67.3	62.7
0.4	7.4	16.9	29.1	20.9	63.4	62.2
-1.5	12.9	25.8	29.8	17.4	57.2	56.8
-2.9	50.1	27.8	16.7	17.8	33.2	54.4
-0.9	22.6	21.0	27.8	21.1	46.1	57.9
0.0	39.8	32.3	22.5	19.5	37.7	48.2
-1.2	26.6	27.2	14.6	16.1	58.7	56.7
-2.4	2.1	35.3	27.6	19.8	70.3	44.9
-4.5	40.5	32.2	13.6	16.5	39.5	51.2
-0.5	1.2	32.1	25.1	20.0	73.2	47.9
-3.4	2.7	1.6	24.1	16.7	73.1	81.2
-2.3	4.5	2.5	25.9	15.3	68.6	71.5
-4.0	9.0	4.4	30.2	20.7	60.8	74.9

the participation of the population in deciding investment priorities, and “transformative coalitions”.²⁹

We can use this framework to look at the position of the different countries in our typology of rural transformation (see table 1.2). As expected, the national averages that inform the country typology do not correlate with the findings on territory-level development. Type A countries have many territories without (or only very little) transformation and with little or no social progress – 32 per cent of 4,200 municipalities analysed in Brazil and 42 per cent of 342 municipalities in Chile. Similarly, for type B and D countries, such as Mexico, although national rapid transformation does not appear to be lifting rural people out of poverty fast enough, 35 per cent of 2,400 municipalities show clear signs of improving their economic and social performance.

In fact, each country contains territories that in our country typology would be classified from A to F. National policies play out very differently when they “hit the road” in different places with particular histories and institutions.

Conclusions and implications for policy and investment

LAC countries have diverse patterns of structural and rural transformation, with different degrees of social inclusion. All feature substantial urbanization, relatively small agricultural sectors and rising rates of agricultural labour productivity. Yet these general features have little predictive power for social-inclusion trends, and simplistic narratives are inadequate to explain development patterns. Countries and regions can transform in many ways, with many variations on how a single structural trend translates into inclusion.

The core questions of this report as they apply to LAC are:

1. Why are some LAC countries undergoing significant and rapid processes of structural and rural transformation, while in others both growth and the transformation processes remain very limited?

2. Why does the rural transformation in some LAC countries lead to inclusive, broad-based development opportunities and improved standard of living, while in others the process leaves significant groups of people behind?

3. What can be done by governments, the private sector, civil society and development partners, including IFAD, to stimulate and support inclusive and sustainable rural transformation?

One answer to questions 1 and 2 could be that only three of the 16 LAC countries with a complete data set (Brazil, Chile and Uruguay) show a pattern of development that more or less resembles the one expected from a projection of the experience of the now-developed OECD countries. That is, structural and rural transformations moving forward hand in hand, leading to productivity convergence and to broad-based social inclusion. In these three countries, however, significant sectors of the rural population, such as indigenous peoples, and important numbers of rural regions and territories, are left far behind.

Three of the 10 LAC countries reducing rural poverty rapidly are doing so in the absence of rapid rural transformation. This probably reflects the high importance in the region of social protection policies, including conditional and unconditional cash transfers and non-contributory pension schemes (the region has, for example, 135 million beneficiaries of conditional cash transfers). The generation of social policies championed since the mid-1990s decoupled rural poverty reduction from economic inclusion.

Why are the majority of countries not transforming faster, and doing so in ways that lift more rural people out of poverty? A hypothesis from this chapter is that three factors are at play: agriculture has not increased its productivity enough in most countries,³⁰ other sectors of the economy have not generated enough high-productivity jobs in all countries, and rural economic growth and social-inclusion processes remain highly concentrated in certain territories and groups, resulting in low elasticities of growth.

More fundamental issues remain. Why has agricultural productivity not grown faster? Why have non-farm and non-rural jobs not been created in greater numbers? Why do positive outcomes tend to be so sharply concentrated?

One hypothesis is that the economic inequality that rose sharply in LAC with the boom in commodity exports of the late nineteenth century (Williamson 2015) consolidated the rent-seeking extractive institutions that govern these countries (Acemoglu and Robinson 2012), bequeathing two legacies: (1) *Long-term* economic growth has been quite modest in most countries since the 1940s,³¹ as the region depended more on commodity exports than on innovation, and (2) LAC missed the sharp decline in income inequality seen in North American and European countries after World War II, so that recent transformations took place in a context of record high inequality. In short, poor people never had a chance, as whatever growth there was tended to favour wealth concentration rather than inclusion.

If we accept this hypothesis, the answer to question 3 could be that a strategy for inclusive rural transformation cannot be decoupled from comprehensive efforts to promote more inclusive economic *and* political institutions – moving efforts from extractive, rent-seeking activities to productivity-enhancing, more socially inclusive ones. Chile, Brazil and Peru are making such efforts, and Colombia is designing a comprehensive and far-reaching set of rural policies that, if implemented, could go a long way to fostering socially inclusive rural transformation.

More specifically, it is very difficult to see how *any* rural agenda could have the needed impact unless other sectors of the economy can increase their capacity to generate millions of higher-quality and more productive jobs, which seems unlikely given that the region is “prematurely deindustrializing.”

Given these concerns, the inclusion agenda should have the following objectives:

1. *Concentrate on increasing agricultural competitiveness in the corporate and the family farm sectors, and on exploiting decentralized patterns of urbanization to stimulate rural economic diversification.*

This objective requires a major shift in agricultural and rural public budgets, which today are mainly allocated to private transfers to medium and large farmers and to agribusinesses in the more productive regions, and to infrastructure in those places. A major pro-rural poor and pro-smallholder policy shift in allocating and using public budgets is needed to counterbalance the accumulated and current effects of the dual agrarian structure.

A major emphasis should be to support the expansion of high-quality public goods, which will also demand a major effort to coordinate agricultural (and smallholder) policies and programmes with those related to public services, infrastructure, and broader economic development – something that probably can only be done on the basis of regional and territorial development approaches.

These policies will vary enormously by country. In most, but particularly types B and D, the impetus for change is unlikely to come from the agricultural sector itself, and a strategy for rural transformation with social inclusion will require the consolidation of policy coalitions with a substantial presence of non-rural stakeholders: consumers, social activists, environmentalists, and mid- and downstream private investors in agrifood systems.

IFAD and other international agencies can support this policy shift through policy dialogue and technical assistance. The private sector will naturally be a central – if not the main – actor in making the investments that lead to higher labour agricultural productivity and, in the countryside and in nearby small and medium-sized cities, to a greater number of more productive jobs in the non-farm economy. Much of this activity will be linked to the “quiet revolution” in food systems and value chains (see chapter 6).

2. Promote much faster reductions in rural economic inequality by taking advantage of many countries' gains of the past 15 years.

This development objective stands on its own ethical merits, but it is also essential for agricultural and rural economic growth to have a bigger impact on poverty reduction. This objective must include targeted policies and investments in support of lagging social groups (of which indigenous and Afro-descendant peoples, rural women and smallholder farmers are the top priorities) and lagging rural territories. This is an essential condition in a region that not only has high inequality but a dualist agrarian structure – non-targeted investments of public funds have disproportionately benefitted large landowners and agribusinesses.

In the past decade, conditional and unconditional cash transfers have been the main instruments improving social conditions in rural areas, but seem to have reached their fiscal and political limits. Generation of income by the poor themselves will have to play a bigger role. There are better structural conditions now than in the past,³² including better rural infrastructure, a more educated rural labour force, fast-growing provincial small and medium-sized cities and, in some countries, such as Brazil, Chile, Colombia and Peru, better-designed rural development policies. Civil society and the conventional media now have greater capacity and will to denounce the corrupt and clientelistic practices that have plagued LAC development programmes for decades.

Long-term and consistent efforts to improve rural labour markets and educational systems are also required. Progressive fiscal policies are needed to reach large agricultural corporations, agribusinesses and firms engaged in extractive industries in rural areas. Again, IFAD has a role to play – as do other development agencies – through regular work with poor and vulnerable rural groups. Additionally IFAD should support agricultural and non-agricultural private firms that wish to engage on new terms with smallholder producers and help with the long-term social and economic development of lagging rural territories.

3. Improving the social protection policies of the past two decades to increase their impact and long-term sustainability.

The new generation of social protection policies – as being tested in Brazil, Chile, Colombia, Mexico and Peru – will have to include government transfers, economic development programmes targeted at poor and vulnerable groups and territorial development. The aim is that the new or improved assets and capabilities of the poor and vulnerable can be capitalized in a better socio-economic environment. IFAD and other development agencies are engaging in this promising policy arena that grew in national capitals rather than international headquarters, and they should become even more active.

Informality is generally high in LAC – at least 60 per cent in Bolivia, Mexico and Paraguay. As Fox and Gaal (2008) explain in their analysis of sub-Saharan Africa, it can be more effective to accept such high informality as a temporarily unchangeable fact of economic life and to craft policies to foster it as a way out of poverty. This is particularly important for many women. Nevertheless, given that informality and inequality are correlated in LAC, informality-reducing policies have an important place in the region.

It is unthinkable that the strategy to promote an inclusive rural transformation will, as in the past, be an agriculture-led strategy. There are three reasons for this: the relatively small size of agriculture in LAC's national economies,³³ the majority of rural Latin Americans living in or very near small and medium-sized provincial cities and towns, and RNFE accounting for a growing share of income. Latin American rural societies can no longer be understood through an agrarian lens, nor further developed by means of an agrarian policy toolkit. Agriculture still has a central role to play and, indeed, in many territories of each country agriculture remains the activity around which economic and social life is organized, but cross-sectoral, place-based approaches, such as territorial development, are today probably more pertinent.

This brings us to another policy domain, decentralization. If tomorrow's actions must be increasingly implemented at territorial level,

there is a need to strengthen the capacity of social actors and subnational governments in those places. It is not only a matter of fostering the decentralization of the state, and so strengthening local governments. It is, above all, a question of developing the capacity of all public and private actors living and working in each rural territory (including in their small and medium-sized cities) to plan together, resolve conflicts and collaborate in carrying out comprehensive development agendas. IFAD is already doing this, mainly in the Andean countries and Brazil.

A final word is in order about the role of IFAD in the region, and particularly the six countries³⁴ with high numbers of rural people, per capita GDP above US\$4,000 and very large government budgets and other capacities to support development. These countries are spending several hundred dollars of their own resources on each inhabitant in rural areas every year, and have the qualified staff and organizational capacity to design policies and programmes as they see fit.

In these countries, IFAD and other development agencies, need to develop a business case that is focused on adding value through knowledge-based initiatives that promote improvements in the quality of national policies and programmes. This can be done through targeted loan-based projects with explicit innovation-seeking objectives and clear scaling-up strategies. However, it can be done more effectively by combining these loan-based projects with technical assistance, South-South learning, and policy dialogue projects.

References

- Acemoglu, D. and Robinson, J.A. 2012. *Why nations fail: the origins of power, prosperity and poverty*. London, Profile Books Ltd.
- Arim, R. and Amarante, V. 2015. Desigualdad de las remuneraciones e informalidad: breve revisión de la literatura y marco analítico. In *Desigualdad e Informalidad: un análisis de cinco experiencias latinoamericanas*, R. Amarante and V. Arim, eds. pp. 19-36. Santiago, Chile, Economic Commission for Latin America and the Caribbean.
- Arreaza, A. and Reuter, A. 2012. *Can a mining windfall improve welfare? Evidence from Peru with municipal level data*. Working paper No. 2012/04. Caracas, Venezuela, CAF.
- Barbier, E.B. and Horchard, J.P. 2014. *Poverty and the spatial distribution of rural population*. World Bank Policy Research Working Paper No. 7101. Washington, D.C., World Bank.
- Berdegú, J.A. and Fuentealba, R. 2014. The state of smallholders in agriculture in Latin America. In *New directions for smallholders agriculture*, P.B.R. Hazell and A. Rahman, eds. Chapter 5. Oxford, UK, Oxford University Press.
- Berdegú, J.A. and Proctor, F.J., with Cazzuffi, C. 2014. *Inclusive rural-urban linkages*. Working Paper Series No. 123. Working Group: Development with Territorial Cohesion. Territorial Cohesion for Development Program. Santiago, Chile, Rimisp.
- Berdegú, J.A., Franco, G., Gordillo, G., Robles, H., Scott, J., Soloaga, I., Toledo, C. and Yúnez-Naude, A. 2012. *Territorios Productivos: Un Programa Articulador para Reducir la Pobreza Rural a través del Incremento de la Productividad, la Producción y los Ingresos*. Working Paper Series No. 131. Working Group: Development with Territorial Cohesion. Territorial Cohesion for Development Program. Santiago, Chile, Rimisp.
- Berdegú, J.A., Rosada, T. and Bebbington, A.J. 2014. The rural transformation. In *International development. Ideas, experiences and prospects*, B. Currie-Adler, R. Kanbur, D.M. Malone and R. Medhora, eds. Chapter 27. Oxford, UK, Oxford University Press.
- Berdegú, J., Bebbington, A. and Escobar, J., eds. 2015a. Growth, poverty and inequality in sub-national development: learning from Latin America's territories. *World Development*, 73, 1-138.
- Berdegú, J.A., Carriazo, F., Jara, B., Modrego, F. and Soloaga, I. 2015b. Cities, territories, and inclusive growth: unraveling urban-rural linkages in Chile, Colombia, and Mexico. *World Development*, 73, 56-71.
- Berdegú, J.A. and Escobar, G. 2002. Rural diversity, agricultural innovation policies and

- poverty reduction. AgREN Network Paper No. 122. London, Overseas Development Institute.
- Bonet, J., Guzmán Finol, K., Urrego, J. and Villa, J.M. 2014. *Efectos del nuevo Sistema General de Regalías sobre el desempeño fiscal municipal: un análisis dosis-respuesta*. Documentos de trabajo sobre Economía Regional No. 203. Cartagena, Colombia, Banco de la República – Centro de Estudios Económicos Regionales.
- Casen (National Socio-Economic Characterization Survey). 2006, 2009, 2011, 2013. Chile, Ministry of Social Development. <http://www.ministeriodesarrollosocial.gob.cl/resultados-encuesta-casen-2013/>.
- Christiaensen, L., and Todo, Y. 2014. Poverty reduction during the rural–urban transformation – the role of the missing middle, *World Development*, 63(C), 43-58.
- CONEVAL (National Evaluation Council). 2014. *La pobreza en la población indígena de México, 2012*. Mexico City, CONEVAL.
- Cord, L., Genoni, M.E. and Rodríguez-Castelán, C. 2015. *Shared prosperity and poverty eradication in Latin America and the Caribbean*. Washington, D.C., World Bank.
- da Silva, J.G., Gómez, S. and Castañeda, R., eds. 2009. *Boom agrícola y persistencia de la pobreza rural: Estudio de ocho casos*. Santiago, Chile, FAO.
- Deere, C.D. 2005. *The feminization of agriculture? Economic restructuring in rural Latin America*. UNRISD Occasional Paper 1. Geneva, UNRISD.
- Dirven, M. 2011. *El Empleo rural no agrícola y la disminución de la pobreza rural. ¿Qué sabemos en América Latina en 2010?* Documento de trabajo No. 2. Proyecto Conocimiento y Cambio en Pobreza Rural y Desarrollo. Santiago, Chile, Rimisp.
- ECLAC (United Nations Economic Commission for Latin America and the Caribbean). 2013. *Social Panorama of Latin America*. Santiago, Chile, United Nations Publications.
- ECLAC (United Nations Economic Commission for Latin America and the Caribbean). 2014a. *Los pueblos indígenas en América Latina: Avances en el último decenio y retos pendientes para la garantía de sus derechos*. Santiago, Chile, ECLAC.
- ECLAC (United Nations Economic Commission for Latin America and the Caribbean). 2014b. *Social Panorama of Latin America*. Santiago, Chile, United Nations Publications.
- Fornazier, A. and Vieira Filho, J.E.R. 2012. *Heterogeneidade estrutural no setor agropecuário brasileiro: evidências a partir do censo agropecuário de 2006*. Discussion paper. Rio de Janeiro, IPEA.
- Fox, L., and Sekkel Gaal, M. 2008. *Working out of Poverty: Job Creation and the Quality of Growth in Africa*. Washington, D.C., World Bank.
- Gasparini, L. and Tornarolli, L. 2009. Labour informality in Latin America and the Caribbean: Patterns and trends from household survey microdata. *Desarrollo y Sociedad*, 63: 13-80.
- Gollin, D., Lagakos, D. and Waugh, M.E. 2013. *The agricultural productivity gap*. NBER Working Paper No. 19628. Cambridge, MA, NBER.
- Gylfason, T. and Zoega, G. 2006. Natural resources and economic growth: the role of investment. *The World Economy*, 29(8): 1091-1115.
- Haggblade, S., Hazell, P.B.R. and Reardon, T. 2007. Introduction. In *Transforming the rural nonfarm economy*, S. Haggblade, P. Hazell and T. Reardon, eds. pp. 3-24. Baltimore, MD, Johns Hopkins University Press.
- Heritage Foundation. 2016. *Index of economic freedom: Promoting economic opportunity and prosperity by country* (available at: <http://www.heritage.org/index/>).
- IADB (Inter-American Development Bank). 2008. *Outsiders? The changing patterns of exclusion in Latin America and the Caribbean*. Washington, D.C., Inter-American Development Bank.
- IFAD. 2014. *IFAD Post-2015 Policy Brief 1: Leveraging the rural-urban nexus for development*. Rome, IFAD.
- Isham, J., Woolcock, M. Pritchett, L. and Busby, G. 2005. The varieties of resource experience: Natural resource export structures and the political economy of economic growth. *World Bank Economic Review*, 19(2): 141-174.
- Klein, E. 1992. *El empleo rural no agrícola en América Latina*. Documento de Trabajo

- No. 364. Programa Regional de Empleo para América Latina y El Caribe. Santiago, Chile.
- Lastarria-Cornhiel, S. 2008. *Feminización de la agricultura en América Latina y África: Tendencias y fuerzas impulsoras*. Debates y Temas Rurales No. 11. Centro Latinoamericano para el Desarrollo Rural. Santiago, Chile, Rimisp.
- McGranahan, G. and Satterthwaite, D. 2014. *Urbanisation concepts and trends*. IIED Working Paper. London, IIED.
- McMillan, M. and Rodrik, D. 2011. *Globalization, structural change and productivity growth*. Working Paper No. 17143. Cambridge, MA, NBER.
- Mesquita Moreira, M. 2006. *Fear of China: Is there a future for manufacturing in Latin America?* Occasional Paper 36. Institute for Integration of Latin America and the Caribbean and Integration, Trade and Hemispheric Issues Division. Washington, D.C., Inter-American Development Bank.
- Modrego, F. and Berdegué, J.A. 2015. A large-scale mapping of territorial development dynamics in Latin America. *World Development*, 73: 11-31.
- Narula, R. 2002. *Switching from import substitution to the "new economic model" in Latin America: A case of not learning from Asia*. Working Paper Series 4. Washington, D.C., Latin America/Caribbean and Asia/Pacific Economics and Business Association, Inter-American Development Bank.
- OECD. 2015. *Innovation, agricultural productivity and sustainability in Brazil*. OECD Food and Agricultural Reviews. Paris, OECD.
- PIADAL (Panel Independiente sobre Agricultura para el Desarrollo de América Latina). 2013. *Agricultura y desarrollo en América Latina. Gobernanza y políticas públicas*. Buenos Aires, TESEO.
- Penn World Table, version 8.1. 2015. (available at: <http://www.rug.nl/research/ggdc/data/pwt/pwt-8.1>).
- Reardon, T., Berdegué, J.A. and Escobar, G. 2001. Rural nonfarm employment and incomes in Latin America: overview and policy implications. *World Development*, 29(3), 395-409.
- Rimisp. 2014. *Pobreza y Desigualdad, Informe Latinoamericano 2013: Empleo de Calidad y Territorio*. Santiago, Chile, Rimisp.
- Rodrik, D. 2013. Unconditional convergence in manufacturing. *Quarterly Journal of Economics*, 128(1): 165-204.
- Schneider, S. and Cassol, A. 2014. El perfil agrícola de la agricultura familiar en Brasil. In *La agricultura familiar en América Latina. Un nuevo análisis comparativo*, S. Schenider, ed. Rome, Fondo Internacional de Desarrollo Agrícola (FIDA) and Rimisp-Centro Latinoamericano para el Desarrollo Rural.
- Soto Barquero, F. and Klein, E. 2012. *Empleo y condiciones de trabajo de mujeres temporeras agrícolas, Tomo 1*. Santiago, Chile, ECLAC-FAO.
- Timmer, C.P. 2007. *The structural transformation and the changing role of agriculture in economic development: Empirics and implications*. Wendt Lecture. Washington D.C., American Enterprise Institute.
- Timmer, C.P. 2009. *A world without agriculture: The structural transformation in historical perspective*. Washington, D.C., American Enterprise Institute for Public Policy Research.
- Vieira Filho, J.E.R. and dos Santos, G.R. 2011. *Heterogeneidade no setor agropecuário brasileiro: contraste tecnológico*. Technical Report. Brazil, IPEA.
- Veiga, J.E. da. 2002. *Cidades imaginárias*. 2nd Edition. Campinas, Brazil, Editora Autores Associados.
- Williamson, J.G. 2015. *Latin American inequality: Colonial origins, commodity booms, or a missed 20th century leveling?* Working Paper No. 20915. Cambridge, MA, NBER.
- World Bank. 2005. *World Development Report 2006: Equity and Development*. Washington, D.C., World Bank.
- World Bank. 2007. *World development report 2008: agriculture for development*. Washington, D.C., World Bank.
- World Bank. 2015a. *Worldwide governance indicators*. Washington, D.C., World Bank (available at <http://info.worldbank.org/governance/wgi/index.aspx#home>).
- World Bank. 2015b. *World development indicators*. Washington, D.C., World Bank.