

**BEST PRACTICES AND STRATEGIES FOR PROMOTING
NON FARM EMPLOYMENT CREATION IN RURAL DEVELOPMENT
IN LATIN AMERICA: SYNTHESIS OF CASE STUDIES**

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1. INTRODUCTION

This document reports on the findings of the DFID-RIMISP project's first phase, wherein were done six case studies of field projects/programs exhibiting best practices and strategies for development projects in Latin America to incorporate the promotion of rural nonfarm employment (RNFE).

The six field projects/programs were selected by "reasoned sampling" to be examples of best strategies and practices in the promotion of RNFE. In most of the countries studied, there have been a number of non-traditional projects starting in the mid-1990s, after liberalization. The projects tend to focus on helping rural associations to supply to markets perceived as dynamic (clothing, processed foods, tourism, light nonfood manufactures) somewhat in rural areas but especially to towns and foreign markets. The projects move beyond the supply-side traditional projects and incorporate a number of innovations and best practices that we describe here. It is from this universe of new generation projects that we selected our sample.

We started with a set of assumptions about what constitutes best practices and strategies in this domain and then consulted expert opinion to pick the field projects. Our budget did not allow a random sampling of projects from which to infer best practices. The corollary is that we did not select projects known beforehand to not fit in a general way the assumptions of best practices.

The assumptions of what generally constitute "best practices and strategies" of the intervention are as follows. Note that by "intervention" we do not mean only public

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intervention, but also private intervention, as most of the projects involve a mix of government and non-government interventions.

- (1) There is a vision that the outcome of the intervention is to have RNF activity linked to growing demand driven by growth motors either inside or outside the zone of intervention.
- (2) There is a vision that the outcome of the intervention leads to multipliers from RNF activity that spurs local economic development (LED) in the zone. LED includes growth, inclusion of the poor, and diversification of activities. This vision also embraces non-local sources of demand for local RNF products.
- (3) There is a vision that intervention-design should feature a mix of public and private investments and actions to promote market-sustainable RNF activity in which the poor participate.
- (4) There is a vision that intervention-design should pay attention both to the overall enabling environment (such as policies and infrastructure and social-capital based organizations) -- as well as the specific requirements of levels of the RNF chain (from input access, to production, to marketing, to the link to final demand either inside or outside the local zone). That means the intervenors and the participants think beyond the supply side. As the Peru study puts it, “produce what sells” instead of “sell what is produced.”
- (5) There is a vision that project-design pay explicit attention to the investment-poverty of the poor and find ways for the poor to have access to assets to participate
- (6) There is a vision that RNF activity promotion needs to include RNF wage employment (and not just enterprise development) and the service sector (not just manufactures).

We chose the assumptions (1) and (2) (about the vision of outcomes) because LED and poverty alleviation requires that RNF activity be linked to growing markets and the overall development of the zone.

We chose assumptions (3)-(6) (about the vision of intervention design) because there is a growing consensus of the weakness of traditional RNF projects that focused on micro enterprise, in manufactures, on supply side interventions, targeting only the local market. That approach was not necessarily bad two decades ago, but the context has changed in the past decade, with policy reform, improvements in rural infrastructure, and globalization. These latter have spelled the de facto de-protection of rural areas in LAC and the vast increase in competition in the nonfarm economy. Rural nonfarm firms now have to compete with urban and foreign manufactures, and conform to cost and quality requirements of the new markets. The context has also changed with the rapid rise in importance in the RNF economy of the service sector and of wage employment as rural towns have developed. The means that the rural world where interventions take place today is vastly different from the one of just a decade ago.

The field research method used was to send two-person teams to the six projects' field sites and, for a week, interview project personnel and clients, and other key informants in the region. The main focus of the questions was to find out what the project did to incorporate promotion of RNFE, and how it did it (general strategies and specific practices), and secondarily to understand the economic and policy context of the broad rural space (countryside plus rur-urban space), the general importance of RNFE activities, and a general approximation of the impact on RNFE promotion that the project has. In general, the teams used the case study, rapid-reconnaissance method rather than a survey approach and thus the empirical results are approximate and qualitative.

The case studies tend to confirm the appropriateness of the best-practice assumptions and provide specifics (that were rare in the literature) of how a full-fledged field development project can adapt the general principles to the LED context. We tend not to discover brand new practices, but rather discover appropriate design and adaptation of these general strategies, and we present a framework here to report on those results.

2. PROJECTS STUDIED

The following projects/programs were studied. For simplicity, the name used for a project from here on is indicated by the place of the project, as in "the Mexico project".

Summaries of the case studies are presented in an annex here and the case studies themselves are under separate cover.

(a) The "Mexico project" is in the Chiapas region, and was started by the Catholic Church and supported by them and the Mexican government. The large cooperative produces organic coffee and processes and markets it in national urban centers and in Europe. It started in 1985. The project also has broader goals related to the health and socioeconomic conditions of the indigenous people of the zone.

(b) The "Peru project" studied is one project under an umbrella project called "Poverty Alleviation Program" started in 1998 by the main private sector association in Peru (the National Confederation of Private Sector Managers) and USAID. The umbrella project has a LED (local economic development) strategy that covers then Economic Corridors (intermediate cities and their surrounding rural areas) in the mountain and jungle areas of the country. Economic Service Centers (essentially business development centers that provide technical and market information) are developed to promote private sector investment in the local areas in agriculture and non-agricultural activities. Moreover, the umbrella project lobbies the Peruvian government for policies and infrastructure that provide an enabling environment for private investment. The study focuses on the Huancayo Economic Corridor Project, and in particular on the component promoting trout production and processing and marketing for national urban and export markets. That project involves business linkages between a private trout-processing firm and a farmer association. The project facilitated the strategic alliance, embodied in a contract, where the processing firm provides loans for investments to improve the farmer association's trout-

farm capital as well as technical and managerial assistance, and the association supplies the firm with trout. The project only helped by cofinancing market and investment studies that were crucial to encourage the business relationship.

(c) The “Chile Project” is a national program of INDAP, the government rural development agency. The project began by promoting the start of such activity among small farmers (it did not exist commonly before the project, becoming only an “incipient” activity among rural households by the second half of the 1990s). The project mainly supplies technical and financial assistance to a range of rural tourism activities undertaken by small firms and households. The project operates at the national level with studies, conferences, bulletins, technical courses, and publicity; at the regional level, the project coordinates its support activities over projects, and at the local level, supports specific groups. The consumers are mainly national urban and foreign. It started operations in 1996.

(d) The “Southeast (SE) Brazil Project” is located in Parana, and undertaken by the regional government and municipal councils, and is partially funded by the World Bank. It focuses on vegetable and fruit processing for the local and regional urban markets. It was started in 2000.

(e) The “Northeast (NE) Brazil Project” is located in Rio Grande do Norte, and is undertaken by the regional and municipal governments with support from the national government and donors. It focuses on clothing manufacture by cooperatives under contract to large private-sector clothing manufactures aiming their sales at the national urban markets mainly in the dynamic south. It was started in 1997.

(f) The “Honduras Project” is located in the Lempira region, and is undertaken by FAO and the Honduras government. It began and continues to be a rural development project focuses primarily on agriculture and natural resource management, starting in 1988, but has in the past half decade added a secondary focus on RNFE promotion linked to the farm sector (silos, farm implements, cheese processing) and to local rur-urban development (construction materials and household-related metalworking).

Following are some generalizations about the case study projects.

(a) All the projects focus primarily on RNF activity promotion, with the exception of the Honduras project in which RNF promotion is an important but secondary focus of the project (with farming and natural resource management as the initial and main focus).

(b) All the projects have important effects on particular RNF subsectors in their project areas (coffee processing in Mexico, trout processing in Peru, tourism in Chile, vegetable processing in SE Brazil, clothing manufacture in NE Brazil, and metalworking, cheesemaking, and handicrafts in Honduras). In terms of local employment impact, all but the Honduras project have fairly large impacts because they are relatively large projects relative to the local economies and are focused on local activities with substantial numbers of firms and persons involved. The

Honduras project has important local impacts on the subsectors on which it focuses its RNFE efforts, but the development of those subsectors is nascent and does not yet involve large numbers of firms and persons employed.

- (c) Most of the projects have wage-employment as well as self-employment impacts, both in the nonfarm sector and in the farm sector linked to the nonfarm activities in question. All involve self-employment in small enterprises and household activities either in individual firms or cooperatives but one explicitly includes wage-employment focus (that of Peru);
- (d) All are in poor/marginal areas except the SE Brazil project; the latter involves those just above the poorest in a dynamic farming region. Most of the projects have heavy involvement of women, small farmers, and minority ethnic groups. All of the projects have an explicit rural development, poverty alleviation focus.
- (e) The Chile project focuses on tourism services and the Honduras project includes several service sector activities; the rest focus on manufactures (clothing in Northeast Brazil, agroprocessed products in Southeast Brazil, Peru, Mexico, and Honduras has a variety of manufactures);
- (f) All have substantial national government funding/participation; foreign donors are acting in all indirectly (through donations or loans to the national governments), and in the case of Honduras/Lempira, directly. All involve substantial explicit or implicit subsidization at various levels.
- (g) All are of recent origin -- started roughly in the past decade or a bit more.

3. KEY CONCEPTS RELATED TO RNFE-PROMOTING PROJECTS

There are four sets of key concepts and definitions that underlay our subsequent discussion of the practices and strategies of the projects. They are as follows.

3.1. Rural nonfarm employment

The most basic classification of activities follows the sectoral distinctions of national accounting systems: primary (agriculture, mining, and other extractive), secondary (manufacturing), and tertiary (services). This leads directly to the distinction between (a) farm sector income, derived from the production or gathering of unprocessed crops or livestock or forest or fish products from natural resources; and (b) nonfarm sector income, derived manufactures and services; manufactures include inter alia, processing of farm sector products.

Thus, the sectoral (farm/nonfarm) categorization of an activity concerns only the nature of the product and the types of factors used in the production process. It does not matter where the activity takes place (in the domicile, on the farm premises, in town, abroad), at what scale (in a huge factory or by a single person), with what technology, or whether the participant earns profit or labor income (wages or salary) from the activity. Note that agricultural wage employment income is farm sector income (with location specified as off-farm).

3.2. The Spatial Context of RNFE Promotion

By “local” we mean the rural space or “territory” of the region. The referential space is composed of these parts:

- (a) The “countryside” (or “campo)
- (b) The “rur-urban areas” (villages and rural towns);
- (c) Some authors include in a broader definition of the rural space or territory the “intermediate cities” that are closely linked economically to a given rural area
- (d) National cities
- (e) Foreign countries

One can see this as concentric circles, with the countryside as the first circle, and outside of that the rur-urban areas, then intermediate cities in the region, and then national cities and other regions, and then foreign countries. The first two concentric circles are what we refer to as the rural space or territory.

These distinctions are important to our subject for the following reasons. If one thinks of the clientele of the traditional rural development project as in the “countryside”, then a non-traditional (or best practices, as we are defining this) project takes into account in its planning if not also its activities, the other part of the rural space, the second concentric circle, the rur-urban areas, as well as the extra-rural space (d-e above).

The vision of different spaces in which the project can act or take into account, leads us to the key concept of growth “motors.”

3.3. Motors of RNFE

An (economic) “motor” is an economic activity that creates growing demand for other economic activities, by two routes: (1) it raises incomes which then are the source of growing consumer demand for the products of the other activities; (2) it creates derived demand on the input (upstream) side for inputs to it from other activities, and creates derived demand for processing and commerce downstream from it.

The motor can be anywhere at all, just so that the demand that it creates calls for a supply response from the particular area one is looking at. So the motor can be in the countryside itself, but it can also be in the rur-urban area or in the extra-rural area and potentially induce RNFE growth in the rural space in question. This is crucial for our vision of the “best practices” project, because it keeps a keen lookout for where the motors of RNF product demand are, and what kind of RNF product demand is being created (for what products, with what quality and safety characteristics, at what cost), and tries to steer the supply side and marketing assistance actions of the project in such a way that the RNF activity thus created or promoted will be “linked in” to the growing demand, rather than

irrelevant to it. The former is the case of an economically sustainable effort, and the latter, an unsustainable one.

The classic example that was used in the Green Revolution discussions was of course agriculture. Those promoting the Green Revolution felt that "getting agriculture moving" (Moser, 1969) would be the "motor" (via the two paths above) to induce local economic development outside of the farm sector.

But the motor can be other than local agriculture. Growing urban economy from let's say a boom in the financial sector or mining increases incomes in Chile, which induces demand for tourism services in Southern Chile. The motor for tourism in Chile is the growing economy of Santiago, and the motor for the latter is the booming mining sector or the financial services sector and agro-exports boom. That is an external motor, defining "external" as outside the local area whose RNFE we are interested in and the motors for the demand for which we are looking.

The motor can also of course be in the local area. Ignore the ag motor for the moment, and look at the motor in our Honduras study: a booming California economy is the motor (via remittances) for rur-urban economic growth, manifested in a construction increase in Lempira. That boom is the motor (via the two paths above) for the growth in the RNFE demand in rur-urban area and in the countryside.

3.4 Applying the above concepts in a conceptual framework for a project that promotes RNFE

First, note that the rural development project is located in and its participants are of the rural space, the countryside, the rur-urban areas, or both. Most common of course is that the participants are located in the countryside, such as small rural firms and farms.

Second, the project can be seen as a link or intermediary between the suppliers (the project participants in the rural space) with the consumers, the demand that is in the rural space as well as outside it (in other rural regions, in national urban centers, and in the foreign export market). The demand for RNF products is growing in each of these "markets" (defined by the location of the consumer) if they are driven by growth motors, as discussed above. The project thus, ideally (as a best strategy), focuses on the types of products that are demanded by consumers in markets where demand is dynamic, is growing. That implies that the project would identify growth motors and link, via identification of products that would fit into production -and expenditure- linkages, with the demand from the growth motors. The corollary is that if the project does not aim at spurring supply of a product that has dynamic demand because linked to growth motors, then the demand for the product will be stagnant and limited. One can thus say that the latter would be less apt to meet poverty alleviation goals.

Third, the "linkage" or intermediation operation of the project is accomplished both by identifying (and sometimes directly promoting, such as in subsidies at the consumer level to

buy handicrafts or by government procurement programs) demand for the RNF product, and then increasing the supply of the product by the project participants. The latter raises their incomes and employment. As we have discussed identification of the market or demand, we now turn to how the project (ideally) promotes the supply of the RNF product.

Start by seeing the supply by an RNF sector producer as a function of the incentives that he/she faces and his/her capacity to supply: (a) incentives are the net profitability and riskiness of the production and the market; (b) capacity include the set of assets the RNF producer possesses organizational and social and political capital, human capital such as education, information capital such as market information systems, physical capital such as equipment at the firm level and infrastructure at the local level (note that infrastructure can be “hard” such as roads or “soft” such as institutions offering business support services and regulations), financial capital, and natural capital such as the proximity of a forest that facilitates tourism.

A given project has a number of options as to how to increase the incentives and/or capacity of the RNF producers.

On the one hand, regarding incentives, the project managers have to decide how much to “let the market work” and “privatize” the operation; for instance, how much and how long to subsidize inputs and marketing, implicitly (by undertaking or helping with various operations such as transport of inputs to the site) or explicitly (with cash incentives or subsidized prices for credit and inputs). Projects often use a variation on the “infant industry” argument used in international trade, where nations protect and subsidize young industries until they can “get on their feet” and function in a liberalized market, with time to learn the business and build efficiency. That has to be weighed against “economic sustainability” of the supply, which involves weaning the RNF producers from implicit and explicit subsidies before the project ends so that they can continue profitably in the market.

On the other hand, regarding capacity, the project managers have to decide at what level and how to build assets. The key distinction is between building at the meso or the micro level building associations, local infrastructure, local credit systems, and so on, and building assets of individual firms say through equipment transfers. While these are distinct conceptually, in practice it is a “best strategy” to combine the actions, as weak meso level assets can stymie a firm with strong private assets, and vice versa.

Moreover, in building capacity one can distinguish between: (a) assets that serve various levels of the product chain (such as improvement of a road increasing access to inputs as well as efficiency of marketing of outputs); (b) assets that are specific to a level of the chain, such as an input acquisition association, or machines for production, or market information services. As we show below, most projects do well to combine the promotion of the type assets that serve various levels of the chain, which we term “meta actions” with the promotion of assets specific to the different levels of the chain. These two types are complementary.

Fourth, one can distinguish types of projects according to the sequence of actions and division of labor between the local community and the project as an entity. On the one hand, there are project situations which one can term “endogenous”, where the local community organizes itself say into an association or cooperatives, and these identify sources of growing demand for RNF products based on growth motors, and the project comes in to help that process started locally by increasing incentives and capacity for supply and developing better links to the market. On the other hand, there project situations which one can term “exogenous,” where the government or donor identifies a social problem (such as unemployment), comes in, identifies growth motors and the derived demand for RNF products, and then designs the specifics of the project needed to spur the supply of those products for those markets.

We now turn to a synthesis of the best practices/strategies of the six projects studied. The logic of the synthesis is as follows. We start with what we call “meta-actions” (not specific to level of the chain) and then discuss project actions specific to levels of the chain, starting with input access, then production, and then marketing.

4. SYNTHESIS OF FINDINGS CONCERNING BEST PRACTICES AND STRATEGIES AT THE “META-ACTION” LEVEL

Recall that we define a “meta-action” as a project action that is not specific to a particular level of the product chain, but cuts across them or is overarching. We have divided these into several categories. Each general category is a “best strategy,” such as “building organizational and social capital,” and then the subsections below it are good practices that are the building blocks of the best strategy.

4.1. Promote Local Economic Development and Economic Diversification

Most of the projects the teams examined have as their planning and operational perspective the local rural space, including the countryside, the rur-urban areas, and the commons or open-access areas. This means that they think and work beyond the immediate countryside in which their participants reside.

- (a) The Honduras project promotes RNF activities by both countryside and rur-urban participants, aimed specifically at the rur-urban rather than the countryside market, such as for high-grade processed cheeses and modern construction materials and metalworking items;
- (b) The Southeast Brazil project is designed to use the whole zone or territory as the market area for the project participants: it promotes agro-processing both for the small stores in the countryside markets as well as for the larger stores in the rur-urban areas and the supermarkets in the nearby cities;
- (c) The Chile project promotes rural tourism with a vision of the market for local services being tourist “corridors” (new highways or secondary roads that connect cities and major tourist destinations), the countryside near major tourist areas (e.g., camping

spots inland from beach areas), and tourist zones connected to natural areas and indigenous zones. The approach is thus explicitly “territory-based”.

- (d) The Peru project promotes “economic corridors”, which are economic networks that link countryside areas with local intermediate cities and national cities. The project reinforces and initiates development processes within the corridors. Moreover, the project seeks to diversify manufacturing away from its narrow base that is in most of the region linked to mining, and encourage private sector investment in agro-processing activities in the economy of the region. The project studied is a corridor dominated by the Mantaro Valley, the main valley in the Sierra. It is linked to Lima by a highway.

4.2. Link to Local and National Government Investment/Policy Initiatives

- (a) The strongest examples are in the two Brazil projects, where the regional and local governments are sponsors of the projects. In both, local and state governments were involved in the projects with technical assistance, training, financial assistance, and in the SE Brazil case, coordination of regulatory bodies at the state level in order to facilitate certification of the project quality label on processed horticultural products. The project worked closely with the regional government to simplify regulations and consolidate and link agencies (in Regional Executive Commissions) related to human and agricultural health, food processing, and product safety so that more rural entrepreneurs could obtain legal status and thus expand their markets to urban areas. They also then provided “kits” to participants to help them move through the business registration process.

Moreover, the project was based in existing Municipal Councils. These councils had been set up under a watersheds program in Parana (sponsored by the World Bank). The councils sponsors forums where the community recommends areas of agroprocessing production and marketing that they want to improve, and that becomes the basis of the project’s actions in that area. Those demands are funneled to the Regional Executive Commission. The latter then analyzes and approves the proposal of the Municipal Council, and works the proposal through regional government agencies and orients the producers concerning needed administrative/regulatory actions.

The project thus combines two kinds of “demand-led” – the participants’ demand, and the market demand, seeking the overlap of the two.

- (b) In Peru, there are several actions of the project relative to enabling conditions: (1) The Project has promoted Regional Support Committees consisting of representatives from Regional Government, local public organisms, municipal governments, business associations, farmer associations, and universities. The Business Services Center of the umbrella project promotes dialogue within the Committees for better regional coordination of policies and public investments. (2) the government has an Experiment Station that has turned into a (subsidized) competitor with local trout farmers; the project is lobbying to have it privatized (and thus de-subsidized); (3) The Project is

working with the Regional Government (CTAR), the Ministry of Fisheries, and the Business Development Services Network to coordinate promotional actions and to sponsor Management Training Workshops.

- (c) The Chile project of INDAP is part of a general policy to promote rural tourism that involves a number of other national agencies (The National Tourism Service, The Fund for Social Solidarity and Investment; the Fund for Agrarian Innovation of the Ministry of Agriculture, the Service for Technical Cooperation, and the Development Corporation), plus funding by regional governments, NGOs, and foreign donors. In 1999 there were around 100 national agrotourism or rural tourism projects. The project also coordinates the provision of services in the local area from other INDAP divisions.

4.3. Link RNF supply to market-demand driven by growth “motors”

- a) The Peru project links local trout production and processing to foreign markets (the local market for these products is extremely limited). Note that this business opportunity was identified by a local consortium that won the competition sponsored by the Project. The consortium was led by the Universidad Cayetano Heredia, the Rural Support Center, and a private firm, Inform@ccion. They did studies of market potential and identified the processed trout market as a promising opportunity (among others). It also identified the private firm (Piscifactoria los Andes, S.A.) as a leader in the market (with technology, market intelligence, brand, and HACCP certification for export to Europe) as a motor in the market.
- b) The Chile project links rural tourism services to demand arising from growing urban economies and demand from foreigners;
- c) The Mexico project links processed and organic coffee supply to growing demand from urban and export economies;
- d) The NE Brazil project links clothing supply to growing demand in Southern Brazil;
- e) The SE Brazil project links agro-processed products supply to demand based on farm incomes and intermediate city economies in the area;
- f) The Honduras project links supply of construction materials, metalwork items, and cheeses to demand arising from growth of rur-urban economies (driven by the motor of migration remittances from the U.S., and of coffee production).

It is interesting to note that all of the projects promote supply of RNF products for extra-country side markets. Most of these are national urban and foreign markets, the motors of which are at least once removed from agriculture. Two other projects (SE Brazil and Honduras) explicitly aim at local rur-urban and urban markets, only partially driven by local agriculture. The importance of this is that the projects are tapping into demand driven by motors that are not linked to the vicissitudes and the stagnation of local agriculture, and thus constitute true external levers to get the RNF sector moving in the project areas.

However, several of the projects use local farm products as inputs to the RNF activity, such as local milk for cheese in Honduras and local cotton for clothing in SE Brazil and local vegetables for processed vegetables in SE Brazil. In all three, local agriculture and these

particular RNF activities are linked by both production linkages, and by expenditure linkages (arising from growing farm sector incomes).

Moreover, in one case, that of the Honduras project, to reinforce the important farm sector activities of the project, the project undertakes substantial promotion of RNF activity that is production-linked to local agriculture with the goal of helping the latter. Examples are the production of silos and farm implements. In addition, the processing activities increase the profitability of farm production.

4.4. Promote private-public links and encourage private investment

The Peru project is the best example of this. It was born of the joint action of a national private sector association and USAID. It focuses on encouraging private investment, and on linking private firms in the nonfarm sector (in this case, with trout processing firms) with local farmers associations.

It encourages private investment through Economic Service Centers that provide the following to private firms and local producers: (a) market contacts inside and outside the region; (b) technical and market-information assistance for business in the region; (c) information about laws, insurance, transport and other business regulations and services; (d) formulate and submit specific proposals for policies to create an enabling environment for private investment in the region.

In the case studied, the project identified a private processing/exporting firm that wanted to expand its throughput in processing but lacked the funds for an investment in more trout farming capacity. The project helped the local farmers' association to improve its capacity (expansion and improvement of farm infrastructure) and quality in order to supply the trout to the private firm. The project acted basically as a facilitator of conversations between the two entities for them to form a "strategic alliance." The project also financed a market study and an investment study to inform the negotiations. 80% of the latter was co-financed by the two private parties.

The result is a renewable two-year contract where the farmer association supplies the processing firm with trout, and the latter loans the farmer association the funds needed for the capital improvements, and also provided technical and managerial assistance to the farmer association.

4.5. Build organizational assets

The projects in Honduras, Mexico, Peru, and NE Brazil work mainly with associations, and those in SE Brazil and Chile work partly with associations and partly with individuals. The projects explicitly or implicitly justify this focus with several reasons.

- a) Spread fix costs over more units and create economies of scale
- b) Create critical mass for investment

- c) Build capacity in existing local organizations as part of philosophical commitment of project
- d) Better connect to local financing that requires that only groups borrow
- e) Create critical mass of supply to the market; there is an implicit belief that only groups but not individuals have a chance in globalized markets
- f) Associations promote social capital, which lowers transactions costs and increases information transfer

The projects tend to either work with groups that existed when these recent projects started (such as in Honduras) or to set up new ones (such as in NE Brazil).

The projects tend to plan jointly with the associations rather than to impose plans. The Honduras project worked with the livestock association in the rur-urban Guarita to plan a value added enterprise in cheese for sale in the region. In Peru the project works with the community to formulate a strategic plan with respect to production and investment and accord with the trout products exporter.

4.6. Building access to other assets (other than organizations)

We noted above the managers of the projects studied in general believe that it is crucial that organizational capacity and social capital be built among the project participants if their RNF activities are to be competitive and successful. But most of the projects place very heavy priority on also building up the assets and thus the capacity for response to new incentives and markets of the project participants. Several types of action stand out.

- *Training*

This is of course true of most traditional projects as well. But several relatively innovative aspects of the training in these projects are to be noted.

- (a) The training is often in both production and marketing, not just the traditional training in production. The marketing training is usually done in “hands on” group trips to meet with buyers, such as trips by Honduras cheese makers over the border to meet with buyers in El Salvador markets.
- (b) The training is not confined to being undertaken by the project; rather, the project builds links with other entities that can do a better job of training in certain aspects. An example includes the Honduras project using INFOP, the National Professional Training Institute, and the NE Brazil and SE Brazil using the small business development agencies for training. In some cases the projects “privatize” the training such as the NE Brazil project turning over training to an independent cooperative in the area.
- (c) Training is done both in a “canned” manner as well as an adaptive, flexible, hands-on training in strategic planning and market discovery. There is an incipient recognition in most of the projects that the market is changing very rapidly and flexibility rather than rote learning need to be staples of survival strategies.

- (d) The project encourages inter-participant training, such as group exchanges and the participation of experienced workers in the groups.
- (e) In two cases the projects used basic skills already available in the area and added capacity to them (in terms of the metalworkers in Honduras and the persons using traditional vegetable processing skills in SE Brazil), as well as trained workers from the trout products export company to train community workers in trout breeding techniques in Peru.
- (f) Most of the projects use external, national resources for training, thus “leveraging” their project resources and improving the quality and quantity of training. Examples include use of INFOP training for metalworker training in Honduras, INDAP conferences and workshops for tourism in Chile, and small business training services of the federal government in both NE Brazil and SE Brazil projects.

- *Market Information*

- (a) The Peru project co-finances market and investment studies.
- (b) The Chile project finances local and region-level analyses of tourism;

- *Hard infrastructure*

None of the projects has a mandate to build basic infrastructure such as roads. But several of the projects explicitly encouraged other agencies to improve infrastructure that would facilitate the RNF activities.

In Peru, the Rural Roads Program was started in 1995 by the Ministry of Transport, Communication, Housing, and Construction with funding from the World Bank and IADB. Roads were improved by 800 construction firms, and are being maintained by 400 microenterprises (23 in the Huancaya Economic Corridor). Some of these are now linked to the trout production activities of the two parties.

Examples include the Honduras project lobbying for government road improvement, and the Chile project working with other government agencies to coordinate road improvement in tourism areas.

- *Soft infrastructure*

These practices were among the most innovative of the projects studied. For example, the SE Brazil project worked at the state government level to improve the coordination of regulatory agencies (health, food safety, worker safety, etc.) to deliver certification services to the project participants. The Peru project lobbied the national government to stop the anti-competitive practices of a public sector trout-breeding firm; it appears the pressures are paying off because the company will soon be privatized.

Financial institutions usually figure as “soft infrastructure.” Every project studied had an important activity of providing subsidized credit (replacing missing financial institutions), facilitating the access to credit from non-subsidized sources such as local banks and cooperatives, or directly building financial institutions such as cooperatives.

- *Credit*

Most of the projects have some system of financial assistance. Some help their clients to obtain credit such as from financial cooperatives in the area (Honduras) or give various direct loans (the Chile project).

4.7. Targeting Women, Small Farmers, and Poor Rural Workers

Most of the projects selected target small farmers (e.g. the Chile, Honduras, Mexico, and Southern Brazil Projects), women (the Chilean and Brazil projects focus de facto on women because they are the main providers of agro-tourism and clothing and processed foods), poor rural workers, as laborers (the northern Brazil project focused on displaced sugarcane workers), and the indigenous (in the Mexico project). The Peru project actually works with medium-scale trout-farmers and a medium-large processing firm, but spurs wage employment in both and opens a space in the local trout market for small farmers.

4.8. Working with a vision of the product chain or system

We noted in the introduction that a key characteristic of these “best practices” projects is that they work beyond the traditional parameters of supply-side focus. Above we noted that the choice of their supply side strategies is heavily influenced by the characteristics of demand (where is it, why and how is it growing, what does it imply for what types and qualities of RNF products should be developed).

A crucial part of the projects’ success in linking to the identified demand is that most of the projects studied pay careful attention to the various aspects or levels of the product chain from improving access to inputs to RNF activity, to improving the production processes themselves, to improving the marketing and distribution of the product. This is such a successful practice because initial success at one level of the chain can be undermined by bottlenecks at other levels. For example, excellent production practices but poor marketing means unsold product.

Several examples stand out. The NE Brazil, SE Brazil, the Honduras, and the Mexico projects all have explicit components of marketing in the projects, making contacts with buyers, improving labels and packaging, increasing market information, while at the same time promoting good production practices that give rise to an RNF product that has the quality and cost desired by the market. As specific examples of the latter, the Honduras project improves pasture technologies used, improves animal husbandry practices that improve milk yields, promotes cheese production, and works with the cheese producers to market their product. The Honduras project organizes metal input cooperatives,

metalworking production, and marketing efforts and training. The Peru project promotes trout breeding, processing, and exporting.

Interventions specific to the different levels of the chain are discussed below.

5. FIRST LEVEL OF THE CHAIN: ASSURING THE ACCESS TO “APPROPRIATE” INTERMEDIATE INPUTS FOR RNF ACTIVITY

In section 4 we discussed the attention paid by the projects to the building of various types of assets human, social, organizational, physical, financial capital that build capacity of suppliers at every level of the chain, from getting inputs, to production, to marketing. Those assets, as elements of capital, can be thought of as inputs, affecting the quantity and quality of labor and capital, the key factors of production. Here we add the other key input, intermediate inputs or raw materials.

5.1. Pay Close Attention to the Availability of Intermediate Inputs

This action is, in the domain of promoting RNFE, the parallel to providing seed in an agricultural project. Just as the right kind of seed (both to fit the production process and to produce the attributes of the final product desired by the market, and at a cost that keeps farming profitable, all else equal) is crucial in a farm sector project, so intermediate inputs of the right quality and cost are needed in RNF projects. The right “quality” in practice implies a set of attributes appropriate quality, timing, and safety of the inputs. It also implies access to inputs in the right quantities and timing, and sustainable access. A key point is that both “quality” and “appropriate” can only be defined in relation to the requirements for the characteristics of the final product as defined by the market.

The need for a combination of quality and low cost creates a challenge and a dilemma for RNF projects. The dilemma is that it requires the project to either find a cheap source of inputs for the participants to buy, or it involves development of the primary sector activities of the participants, thus often adding an agricultural component to the project or encouraging close links between the project and primary sector projects in the area.

The challenge is to get primary production “up to speed” quickly enough and with high enough quality to not have lack of access to intermediate inputs create a bottleneck to RNF production. Often there is no choice because high transaction costs make it difficult to “import” from another zone or country the needed intermediate inputs. This was the case with most of the projects we studied:

- (a) the Mexico project promotes sustainable, organic production of high quality coffee as an input to their processing;
- (b) the Honduras project promoted livestock husbandry and milk production for the cheese processing, and promoted indigo production to tint the matwork handicrafts;

- (c) the Peru project promoted trout breeding and production, although it “imported” other intermediate inputs, see below;
- (d) the SE Brazil and the Chile projects linked with farm sector projects to promote the production of the farm inputs to their processing and service activities, respectively.

Projects are not always able to or want to “home produce” the intermediate inputs. This has good precedent, in fact. Saith (1986) notes that the foundation of Japan’s industrialization was laid in a rural industry that used only imported intermediate inputs the textile industry using imported cotton. A century before, Britain used exactly the same strategy, importing cotton from its colonies and producing textiles in rural as well as urban workshops and mills. In the projects we studied, two examples stand out:

- (a) the Honduras project organized, via buying cooperatives, sheet metal purchases from Guatemala for the metalworkers in the project group;
- (b) the Peru project organized the “import” of trout feed from feed processors in Lima that use imported grains as well as domestic inputs. The lesson is that the projects were not necessarily “local focused” if it did not make economic sense, either on the input or the marketing side.

5.2 Collective organization of input access

In all cases, the projects helped the participants to organize into collectives to buy or produce the intermediate inputs, for the same reasons that we note above that they chose to promote the formation of associations for the production and marketing of the RNF products. Usually they were the same groups (the metalworker association members also belong to the sheet metal buying cooperative in Honduras, the trout and coffee producers in Peru and Mexico are also members of the associations processing the raw materials they produce).

6. SECOND LEVEL OF THE CHAIN: FINDINGS CONCERNING BEST PRACTICES AND STRATEGIES AT THE “PRODUCTION” LEVEL IN THE CHAIN

6.1. Formulate RNF production development strategies to meet market requirements.

It has become a commonplace observation to note that it is still common for projects to focus on the supply side without sufficient reference to what the market requires, what the consumer wants. The result is the extremely high failure rate of small enterprises that emerge from the typical development project.

The new type of project that we focus on in these case studies goes beyond business as usual to both identify motors of growing demand (as discussed above), and to painstakingly adjust production promotion strategies and practices to the set of requirements of those growing markets. Those requirements include quality, safety, timing, volumes, costs, and product types.

Several examples stand out.

- a) The NE Brazil project promotes subcontracted clothing production by producer cooperatives for big clothing firms that operate in the dynamic consumer markets of southern Brazil. These big firms stay in close touch with consumer trends and communicate the derived requirements in the contracts with the cooperatives.
- b) The Honduras project takes groups of cheese and furniture producers on “giras” or tours of the markets over the border in El Salvador, in the city of San Pedro Sula and other regional intermediate centers.
- c) The Mexico project stays in touch with consumer needs in national urban centers and abroad through its distributors.
- d) The Peru project, via a consultant’s report, discovered that substantial improvements in small trout-farmers production were needed (to improve quality and consistency that was necessary to sell to the private processing/exporting firm that had high quality standards for the export market and the supermarket/hotel/restaurant market in Lima).

In each case, the projects adapted and re-adapted packaging, labeling, product type and quality to changing consumer needs. That is important in the hyper-competitive market that is faced by these RNF producers. The fact that they are so exposed to the market and its competition is in fact the key distinguishing feature of the context of the development project of the 1990s-2000s relative to that of the 1970s-1980s.

6.2. Adapt production technology to the needs of the market

All of the projects implicitly reject the dictum from the 1970s and 1980s among development projects that “small and traditional is beautiful”. Rather, wherever the projects can and must, they encourage a shift from traditional methods to improved and even capital-intensive methods. That is spurred by the need for sufficient volumes and quality to compete in the market.

Examples include the current shift (with help in finance and design) from individual traditional labor-intensive workshops for the metalworkers in the Honduras project to larger, collective machine shops. This is illustrated also in the upgrading of sewing machines in the NE Brazil project. Just as in businesses everywhere in the newly competitive global market climate, the projects have to weigh efficiency and equity considerations.

7. THIRD LEVEL OF THE CHAINS: FINDINGS CONCERNING BEST PRACTICES AND STRATEGIES AT THE “MARKETING” LEVEL IN THE CHAIN

Above we noted that most of the projects studied take into account the market and its requirements when devising their supply side actions. Here we focus on project activities aimed specifically at marketing actions per se.

7.1. Include marketing as explicit action of the project

Several of the projects contact and establish links with buyers. This reduces search and transaction costs for market participants, and increases leverage in negotiation of initial contracts. Examples include:

- (a) the Mexico project where the association and the Catholic Church make contacts with buyers in Europe; the project has marketing offices in the regional capitals and the capital city of Mexico. The system is not perfect however, as the study asserts that the processed coffee production capacity exceeds market demand and has difficulties competing in the international market; the study sets forth the hypothesis that this error was due to insufficient market analysis.
- (b) the Peru and the NE Brazil projects that created the business linkage via subcontract with a processed-trout exporting firm and a national clothing manufacturer, respectively;
- (c) the Honduras project took project participants on tours and buyer-seller contact trips to various parts of the region and over the border to El Salvador to establish informal links and contacts for sales.
- (d) The Southeast Brazil project recognized, as part of the design process, that local entrepreneurs in agro-processing were relatively ignorant of urban markets, quality standards in different markets, food safety regulations, and technologies available to meet the quality, cost, and packaging requirements of the urban market. It was perceived that this lack of knowledge, and thus ability to obtain legal status for their firms and certification for their products, was barring small-scale agro-processors from expanding their markets. Training participants in these, as well as gaining knowledge of those markets, is a major part of the project. The training includes participation in food trade fairs in the region and visits to supermarkets.

In some cases the projects act more directly in marketing, beyond facilitation to direct participation. This is the case of the Mexico project that has distributors in the major Mexican cities.

In each case above, there is a strong initial element of subsidizing market contact, using project resources to lower transaction costs (making calls, giving transport, etc.) and risk. The expectation in each case is that in the medium run the market links will be self-sustaining and self-multiplying.

7.2. Reduce market risk by promoting subcontracting between supplier and buyer

It is common throughout the world that spot markets are giving way to contracts so that buyers can assure timing and quality and suppliers can lower risk in a liberalized market. The projects studied have wisely followed this trend for the same reasons, and to attract buyers.

Examples include the clothing manufacture subcontracts in the NE Brazil project, and trout processing contracts between the exporting firm and the community in Peru.

An interesting and potentially troubling exception concerns the lack of contracts for processed vegetables between project participants and supermarkets in SE Brazil. Reardon and Berdegue (2001) show that in Brazil as elsewhere in much of Latin America, in just one decade supermarkets have risen to dominate retail trade. Supermarket chains, with substantial buying power, prefer to not work with contracts but rather exercise the option to reject product. This increases risk for producers and a challenge and dilemma for projects: increasingly supermarkets are the sole or main buyers, but selling to them can be risky.

7.3. Develop market intelligence

This is one of the most challenging “best strategies” of the new projects. It is no longer adequate for market information to consist of prices alone. Rather, useful information now strategic information, going well beyond prices to include specific potential buyers (often chains and large firms), terms of potential contracts, quality and safety standards, cost, timing, and volume requirements, and design. Gone are the days of producing general commodities for local markets with little market information necessary.

The projects studied have addressed this difficult challenge in several interesting and innovative ways.

The first and most direct is simply to link, by subcontract, the suppliers to the large firms that buy and who possess detailed and strategic information about sophisticated and dynamic markets. This is the case of the NE Brazil project (clothing) and the Peru processed trout project.

The second, and more indirect but still effective method is the “direct informal contact” provided and facilitated by the projects in Honduras and in SE Brazil (organizing product demonstration events and the project advertising the products to local stores and organizing supplier trips to the towns) as well as in Chile (with INDAP organizing nationwide tourism conferences and fairs where producers meet buyers and showcase their services, as well as provide websites with tourism locations and guest houses and campsites).

The third is the market diagnosis with the results made known to the producers. This is done in a general way for tourism demand by the Chile project, and in a specific way for the trout processing market by the Peru project, and of the furniture market in a national city by the Honduras project.

The second and third methods are sometimes combined, as in the Mexico and the Peru cases.

An issue that faces all the projects is to have adequately trained staff (in marketing) to handle these new and crucial activities.

7.4 Develop brands and labels and standards to improve buyer acceptance

This is a crucial and innovative “best practice”.

The first is the use of labels, increasingly required by supermarkets and demanding consumers. Two of the projects are emphasizing this, including the Mexico project with quality and organic standard labels and beautiful packaging, and project quality and safety certification labels (accorded by the state government) to the processed vegetable products in SE Brazil.

The second is the formation and use of standards of quality and safety. In the case of the NE Brazil project, there is incorporation into the contracts of the private standards of the national clothing market. In the case of organic coffee standards, the Mexico project obtained certification of the implementation of these standards from three foreign certification firms. INDAP in Chile is forming national rural tourism standards such as for cleanliness and facilities.

8. Build Market-Sustainability

While there is not a lot written on the subject, most readers will immediately recall cases of projects that appeared successful during the life of the project, but were found wanting in two aspects: (a) they achieved success only by inordinate expenditure; (b) the success did not last longer than the project, and activities started in the cocoon of the project were not able to live in the open, unsubsidized, competitive market after the project stopped. We asked whether the projects studied here are in the same boat. Below are the responses.

8.1. Project/Program Cost versus Benefits to Employment

The DFID-RIMISP case studies show the following costs (project operating costs plus investments) to create one job in the nonfarm sector, ranked from the least to the most expensive. The details of calculation are under separate cover; due to differences in projects and data availability, the methods of calculation are only roughly similar across studies.

- (a) the Honduras project, with a range of nonfarm activities, for an average of 765 USD (with variation from 1115 USD for a carpenter to only 50 for a smith or 240 for a clay figurine maker); that is about half the yearly average income (of 1500 USD per job);
- (b) The Northeast Brazil project focusing on clothing manufacture, 1100 USD (that is five times the estimated 200 USD yearly income per job);
- (c) The Southeast Brazil project focusing on food processing, 3050 USD;
- (d) The Peru project focusing on raising and processing trout, 5900 USD (about three times the yearly estimated income of 1750 USD per job).
- (e) The Chile project focusing on agrotourism, 11,400 USD (with a yearly income of nearly 1000 USD per job).

There are several reasons to find these numbers plausible (and thus not “inordinate” expenditure) at least in their patterns and their relation to the very scant evidence available from other countries and projects. That does not indicate whether they are in an absolute sense high or low, which we cannot analyze.

First, with the exception of southeast Brazil, the cost of creating a rural nonfarm job is roughly correlated with GDP per capita, as one would expect.

Second, the figures are roughly correlated with overhead, startup, and investment costs of the projects. The Honduras project spends the least to promote nonfarm jobs because the nonfarm component of the project is an appendage to a large and established agricultural project so these costs are merely incremental. The Chile project had heavy local infrastructure and training costs and is at an early stage of project life (as are the others except for Honduras). We should note the caveat that we are not able to show a figure of cost divided by the years of duration of the employment, as the projects are relatively new and so have little track record. We do not even know if the jobs created will be there in a decade. So we have abstracted from duration issues.

Third, the costs per job are in line with the (very scant evidence) available in the international literature. Harper and Finnegan (1998) find (we are selecting a few examples from their list) that the cost per job in ITDG’s project focusing on manufacture of improved stoves in Kenya was 3500 USD; mining project in Zimbabwe, 4300 USD. World Bank experience as reviewed by Webster (1990) lists investment costs per job (not World Bank bank subsidy or promotional costs, but rather investor's investment per employee) as 9850 USD in Africa and 3171 USD in Asia. Finally, Levitsky (2000) finds that the cost per job created by business incubators in Brazil is 3258 USD.

8.2.Subsidizing and de-Subsidizing/’Privatizing’

The general approach of the projects is to offer fully subsidized services to the project participants, without an explicit plan to reduce the share of subsidy and increase the share of the participants’ co-payment over time. But there are some important and interesting exceptions, as discussed below. Moreover, most of the projects have an explicit strategy for the medium term of reducing subsidies and increase co-payment and project withdrawal of support.

- (a) The Chile project has a seven-year limit on credit to a given participant; they also require co-payment for technical assistance (although this is seldom implemented).
- (b) The Peru project requires co-payment for investment studies and relies fully on private investment funds for capital investments.
- (c) The Honduras project is implementing gradual withdrawal from direct support for the input (sheet metal) cooperative supplying metalworkers.
- (d) In the Northeast Brazil Project, an independent cooperative (Coopervale) is being progressively relied on to supply training and organizational services to the cooperatives supported by the project.

- (e) Although credit is provided at subsidized interest rates, the Southeast Brazil project requires full repayment of credit.

9. PROJECT DESIGN IMPLICATIONS

The purpose of this section is to highlight a few key points.

First, the essence of the contribution of the new type of projects that we studied, beside adding the nonfarm component to rural development projects, is to think and work beyond the local and the supply sides to think and work in the full rural space and thereby spur local economic development and intersectoral linkages, and aiming supply at growing demand spurred by growth motors.

Second, the implication the price as well as the advantage of going beyond the local market and linking RNF strategies to demand spurred by growth motors, is that one has a “tiger by the tail.” The dynamic markets are more competitive and far more demanding than the traditional local rural markets. Explicit strategies of quality assurance, strategic market information, labels and packaging, contracts and organization are needed. These are big challenges for development projects as they are far from using the traditional skill sets of local governments, extension agents, and project managers. They thus require additions to budget, training and search for new kinds of personnel, and flexible and innovative project planning and management.

Third, the new projects recognize as fundamental that the new competitive context requires a range of new assets for the participants, with major additions to organizational and social capital, to human capital, to financial, and to physical capital. A major challenge is that the whole set is needed as they are complements, not substitutes. One cannot educate without improving the roads, build social capital without increasing access to credit. These are costly commitments for projects. The projects studied undertook many innovative ways to leverage their resources by tapping into municipal and state governments, national training and technical assistance agencies, other projects, and the resources of the communities in which they work. Such savvy leveraging must be the wave of the future.

Finally, the rural nonfarm sector is largely uncharted territory for the world of rural development projects. The projects studied are innovative and bold, but recent in origin. Many of the practices that we identified as innovative and useful are also largely unevaluated in a rigorous cost-benefit way. In particular, the projects are heavy on subsidies; it appears to cost a lot to create new RNF jobs, perhaps more than farm sector jobs. But the demand for RNF products is growing faster than that of farm products as Engel’s Law predicts, and this means that moving into the RNF promotion area for projects will require either more efficiency or more budget or both, and certainly a keen eye to building economic sustainability of the private activity initially promoted by the public projects.

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Annex, Summaries of Six Case Studies

Brazil: Textile Manufactures Center in Ceará-Mirim, Rio Grande do Norte, Brazil

Ceará-Mirim is a small county (population circa 60,000) of the Metropolitan Region of Natal, capital of the State of Rio Grande do Norte in Brazil.

In 1985, 61% of the rural population in Ceará-Mirim was employed in sugar cane production and processing. The figure dropped to 31% by 1995. The sugar cane production that is left has become highly mechanized, creating substantial rural unemployment. The situation of Ceará-Mirim is not unique in Rio Grande do Norte, and to this technological change has been added drought.

The government of the State of Rio Grande do Norte thus decided to attract factories and investors to develop an industrial regional center to employ those expelled by the sugar sector. As a result, in 1999 sixty new companies initiated activities in the State, for an investment of US\$ 147 million and the creation of 8400 jobs.

The government of Rio Grande do Norte attracted these industrial investors with a favorable fiscal policy (a 90% tax exemption on goods and services), an attraction to investors added to the advantage of low labor costs of the Northeast in comparison to the populated Southeast of Brazil (where urban centers and consumer goods markets concentrate).

The municipal governments have also put investor-attraction programs into place. For example, Ceará-Mirim municipality exempted new factories from municipal taxes for 15 years and is willing to subsidize rent and equipment for dress-making enterprises as long as they demonstrate creation of local jobs. Most of these create permanent sewing jobs for rural women with limited training, who can work either in their homes, or in small or large sewing groups under piecework subcontracts.

In 1997, the Ceará-Mirim Project (C-MP) was formalized by an agreement signed by the Municipal Government, the State Government (the Labor Secretariat which operates the Support Program for Small Farmers), the National Employment System (SINE), the Bank of the Northeast, the National Industrial Training Service (SENAI), the Micro and Small Enterprise Support Service (SEBRAE), and FAMA (a clothing factory that issues subcontracts for the sewing of clothing parts).

These participating agencies played a crucial role in the implementation of C-MP. Particular importance is the provision of training activities (by SENAI and SINE) and social organization (by SEBRAE). The local government was the initial promoter of the project. Contracts to get the project running were provided by FAMA.

The C-MP started with a promotion campaign and the formation of sewing associations. Although 13 associations were announced, only two were implemented and legalized in

1997-1999: (a) The Rios Dos Indios (ACRI) with 51 women and 12 men working in two turns of 8 hours, who make, on the average, US\$ 75/month plus social benefits and produce 12-15 thousand pieces/month; (b) the 30th of July Association with 47 women and 6 men, who produce about 10,000/month.

In 1999, 20 women formerly devoted to sugar cane harvesting created the Sewing Producers of Mato Grande Cooperative (COOPERVALE). The group grew to 60 members and has initiated its own clothing product lines. Today only 30% of total production is contracted and the remaining is marketed as final products through its own Marketing Division. This dynamism has allowed it to become partially independent from C-MP, up to the point that COOPERVALE has undertaken leadership when the local Vice Prefect - who was the major actor in the project - was removed from his position last year. This is a case of true local ownership of a project.

COOPERVALE has signed a new project protocol with the newly elected local and State governments, integrating 8 sewing associations that have been trained by the cooperative. The State Government will be the co-signer for COOPERVALE to obtain credit to buy sewing machines, since presently it is renting equipment. It is expected that an increment in production will allow COOPERVALE to launch its own trademark in the near future. Other production phases such as design, cutting, modeling, and quality control are being introduced into COOPERVALE production processes in order to access the market directly and contract other associations for specific dress part assembling.

The wages of new contracts provided by COOPERVALE are around US\$ 90/month plus legal social benefits. This is possible due to the local municipal subsidies represented in energy and water costs and rent (as it is allowed to operated in a former rural training center).

There are several issues that should be highlighted from C-MP experiences:

- The project used a market-demand driven approach that used public policy (mainly fiscal incentives) to attract major dressmaking firms to set up their factories or contracting centers in the State of Rio Grande do Norte.
- The project used social organization that evolved from simple associations toward a cooperative. In spite of the importance of the social capital, it is also one of the weaknesses of the project since contractors are using associations to make contracts that do not recognize social benefits in full. Actually, the Ministry of Labor is dealing with the institutionalization of a different legal system to avoid this kind of contracting in the future. The final resolution of this matter could change the legal conditions faced by new dressmaking firm investors.
- Note that the major dressmaking firms contract work that requires low mechanization. Clothing parts that demand more intricate work aided by machinery are not contracted out so that the seamstress associations cannot access that technology.

- Direct and indirect public subsidies seem decisive factors for the implementation of this type of manufacturing development project.

Brazil: “Farmer Factories” in Southeast Brazil

This project is an activity of the government of the State of Paraná, Brazil. The State Agricultural Secretariat coordinates the project. The responsible agency is CODAPAR and it is implemented by EMATER, which is the State Rural Extension Agency. It was started in 2000.

The objective of the project is adding value to agricultural products, and increasing rural family income through the creation, implementation, and improvement of small and sustainable agro-processing units that can sell in competitive markets.

This project is funded from three public sources: The State Development Agency, PRONAF (National Family Support Program), and the PARANA 12 MONTHS project, supported by the World Bank.

Although the rural population in Southern Brazil decreased during the 1990s, the share of income from nonfarm activity was increasing, particularly from services and agro-processing. The agro-processing industry in Paraná employs 18% of those working in nonfarm activities.

The project target population is formed by 21 ethnic groups among whom agro-processing is a common practice, particularly for home-consumption. In recent years these products have been sold in local, artisanal and informal markets, and most of the products have no formal quality certification or the firms, formal licensing. Production and marketing are individual activities and collective or organized enterprises are the exception. There are circa 300,000 family enterprises that qualify as the target population.

An initial survey of 1730 producers was used to identify types and forms of farm (crops and livestock products) products processing. The project thus targeted existing firms. The survey showed that there were various bureaucratic/administrative hurdles that impeded the registration of processing firms to receive legal status. The survey also showed a general lack of understanding of marketing strategies, product presentation, and consumer tastes and preferences.

The project used the survey information to design its actions. It undertook to ease the steps to legalize/register the businesses and help existing firms to produce better their existing products and to market them to formal markets. The target population is defined as producers using family labor (no more than two permanent wage employees), with 80% of total income generated at the farm level, provided that such an income is less than US\$ 13,700/year. Estimates indicate that each supported agro-processing unit could create about 20 jobs (directly and indirectly), which means that approximately 20,000 new jobs would be created by the end of 2001.

On the other hand, due to a very heterogeneous target population in terms of products, technology, access to markets, marketing strategies and legal status, the project does not have strict rules for participation. Individual assistance is provided to each agro-processing unit or organization, via four instruments:

(1) Legalization Kit. This is a package designed to reduce time and steps to legalize products. In many cases, health licenses and tax forms are required to legally sell processed agricultural products. Legalization processes that used to take several months, with the consolidation of requirements and the cooperation of a number of government institutions, can be presently finalized in 15 days.

(2) Technological component. An aggressive training program for technicians and producers has been designed as a means to introduce technology and assist production units in applying it. Both generic and specifically applied courses are organized where needed, and three training sites were opened in the State of Paraná.

(3) Marketing component. This component constitutes a bridge between producers and selected market segments (supermarkets, small retail stores, natural food stores, etc.) and final consumers. Several actions are performed by this component: dissemination campaigns to explain to consumers facts about available products, their origin and characteristics; design of logos, packing, bar coding, etc., in order to improve product presentation to final consumers. These services are paid by producers at reasonable prices; participation in fairs (Ferias de sabores) where buyers and final consumers are exposed to the production process and can taste final products. 'Business tables' are organized in these fairs in order to promote a direct producer-buyer interaction. These events are organized and paid by the State and the project.

(4) Incentives component. These incentives refer to credit, tax breaks, and physical infrastructure. The State Fund provides small credits to small producers to be used in agro-processing. In 2000, 1.2 million reals were used for these credits that, on the average, are US\$ 5000 each. It is expected that 5 million reals will be spent in 2001. PRONAF (federal program) has credit lines available to complement or enlarge present agro-processing units. Training and introduction of new technology is funded through the PARANA 12 MONTHS project. Incentives through tax exemptions are very variable since they are defined and granted by each municipal (local) governmental system.

The project is implemented through existing Municipal Councils that are created as a regular organizing activity by the State Extension Service in each Municipality. These Councils are recipients of all demands for agro-processing assistance. Public debates take place in those Councils before investment and priority for production units are set. This participatory process precludes, however, a regional development plan that would enable attention to marginal areas or attention to those (new) factors that the State may have comparative advantage to develop.

One of the most important contributions of the project is, perhaps, the training of both technicians involved in implementing the project and the agro-processors themselves. This is a direct subsidy that allows the introduction of both technology and management capacity improvements. It involves regional and federal institutions and is usually linked to the credit lines available for producers.

Chile: The Rural Tourism Program

The national rural tourism program (RTP) was created in 1995 as part of INDAP, the Chilean National Rural Development Institute. The program is INDAP's first initiative in rural tourism, and is part of a general initiative to promote income diversification among small farmers.

Rural tourism in Chile is relatively new and has not come into the purview of public policy until recently. It is expected that rural tourism will grow very rapidly in coming years (around 20% a year). Nevertheless, there is a dearth of regulations on the quality and cost of services supplied, and so rural tourists tend to have varied experiences. That tends to dampen demand. To address this challenge, the RTP acts at three levels: (a) country-level studies and promotion; (b) region-level, providing coordination and technical assistance to tourism providers; (c) local-level projects to support local entrepreneurs. The latter receives the bulk of the RTP budget.

There are four categories of RTP services to support rural tourism: (a) studies evaluating specific investments (with the studies fully funded by INDAP); (b) technical assistance to entrepreneurs, through the use of private consultants paid by INDAP; the typical expenditure is from \$300 to \$500 per tourism firm; (c) Short-term (up to a year) and long-term loans to finance investments (such as improvements in a driveway or house). There is a limit of \$6,700 for individual projects but there is no limit for group projects, thus encouraging group projects. Long-term loans cover 75% of project cost, and 15% of the project cost is given as a grant; (d) training tourism entrepreneurs (funded fully by INDAP).

The program is targeted to small farmers (hence there are land and capital restrictions to receiving support). That means that all beneficiaries also farm. Participants are mainly couples aged 40 to 70 whose children have left home. Women are the main actors in the provision of tourism services, cooking the meals, making the beds, checking in the guests, and so on. These households usually provide the service in their own home, and the activity is seasonal. The workers are from the family itself.

The tourism activities range from guest houses to rural camping to restaurants. In some cases, projects have a 'cultural content', linked to ethnic identity. In most locales, the RTP projects cover a mix of services, landscapes and specific tourist attractions.

Projects can be individual, associative or communal. Associative projects include individuals providing the tourist services but those individuals are members of an association that provides various services collectively, such as marketing, publicity, legal

and administrative tasks, and training. This is the most common type of RTP project, and is much more common than communal projects, which undertake truly collective provision of the tourism service, or individual projects.

Earnings from tourism vary greatly, depending on the type and size of the business and the location and attractions. The most successful appear to be near major roads that link to non-rural tourism circuits. Rural tourism firms benefit from spinoff-demand from large-scale tourism, serving tourists who want to see the countryside near the lake, touristic city, or beach area around which the tourists planned their trip.

There are two final important aspects to note. (1) The RTP program focuses on the supply side, but could do more to identify and promote market demand, for example by working more with tourism agencies in urban areas. (2) The RTP works mainly through heavy subsidization and direct assistance. At present there is no clear plan to phase-out the assistance to make the program less dependent on subsidies. There also does not appear to be research on whether the tourism activities would survive in the event the subsidies were withdrawn.

Honduras: The case of South Lempira Project (FAO)

The South Lempira Project (SLP) started in 1988 as an institutional response to an extended drought that had a disastrous effect on smallholder agriculture in the Lempira Department of Honduras.

The project is supported by FAO. The first phase (1988-1990) was oriented toward building farm productivity, emphasizing land and water management for food security objectives. The second phase (1992-1995) continued with a natural resource management (NRM) and farm production focus, but added activities related to rural nonfarm employment (RNFE), especially activities production-linked to the farm sector, such as building grain silos. In the third phase (1995-1999), the rural family and community replaced the farm and the micro-watershed as the principal project focus, and RNFE promotion became an important complement to farm sector and NRM activities in the project. Moreover, the project adopted an explicit Local Economic Development (LED) approach, with the project coverage extending beyond the countryside to small rural towns in the area.

SLP uses a decentralized and participatory approach through which rural communities develop strategic plans based on diagnoses. There exist Local Development Committees that negotiate these plans with the local governments, state agencies, and NGOs that operate in the zone. This mechanism has proven useful to identify problems and opportunities such as milk production in the dry season and processing of milk into cheese for the local market, or the need for grain storage silos to handle the greater maize output resulting from increased farm productivity. The project promotes the creation of small firms or collective enterprises. SLP contributes with feasibility studies and, in most cases, follow-up technical and marketing information assistance.

Strategically, SLP supports RNFE generating activities from both the supply and the demand sides within a LED approach. From the supply side, the SLP facilitates access to inputs through the promotion and backing of communal banks and revolving funds, which are handled by small producers and allow micro-entrepreneurs access to inputs and capital goods. Likewise, SLP facilitates training to small firm entrepreneurs either directly or through other allied institutions capable of providing specialized training.

From the demand side, the PSL has supported marketing studies of RNFE products, especially metalware, cheeses, mats, and processed vegetables. Additionally, PLS has facilitated buyers-sellers negotiation round-tables, trade promotion trips, and market identification for the micro-enterprises to focus their marketing strategies and adapt their RNFE product to the market.

PLS has developed institutional strategies to assist RNFE activities. Strategic alliances with public and NGO institutions have been successfully used to provide training, technical, management assistance, access to physical infrastructure, contact with potential buyers and participation of communities through the Local Development Committees.

SLP has been able to assist small producers to develop the following micro-enterprises:

- Milk processing (cheese production) to take advantage of technological change introduced by the project into milk production that resulted in higher productivity, particularly during the dry season. Currently there are small plants producing cream, fresh cheese and milk cream.
- Metalware and related products. Increments in basic grain production introduced by the PLS created demand for tin silos (to replace old storage systems in the kitchen that resulted in losses of 40% and food contamination), sprinklers, buckets, broilers, funnels and other tools. There are 26 small producers in the region organized in two groups: the Regional Artisan Association of Lempira, which works in Candelaria (a small rural town), and the Regional Artisan Association of South Lempira, which operates in Guarita (a small rural town). PLS has contributed with technical and organizational assistance to the design of these micro-enterprises, access to imported inputs, training and market entry and strategic information.
- Construction material. As a consequence of income increases and international migration remittances, demand for new building and house improvement has increased rapidly. Utilizing the same strategies PLS has supported production of blocks and tiles for the local urban market.
- Handmade pottery and fabrics have been also promoted by PLS. La Campa cooperative (created prior to the project) has been strengthened, and a new organization has been promoted in Santo Domingo (a large village) with the

cooperation of an NGO. Today, better quality products are going to the local and national market, with possibilities to produce for export.

- Sawmill and woodwork. These are new activities, taking place mainly in Central Lempira, with an incipient local market and an established market in the city of San Pedro Sula and surrounding towns. The project is linking this activity to resin production in pine forests (as another way to use the pinewood in the managed forests, hence linking NRM and RNFE promotion). Moreover, the project is using national public services for training in vocations, and adapting the teaching to the local market needs.

Mexico: ISMAM Project in Chiapas

The Sociedad de Solidaridad Social Indígenas de la Sierra Madre de Motozintla San Isidro Labrador, ISMAM, is located in Chiapas State, which is one of the less developed areas of Mexico. Chiapas has a serious lack of infrastructure relative to the states of northern Mexico, despite its rich natural resources (forest, water, oil, minerals) and tourist attractions. Chiapas' population of 3.5 million is 30% Indian; 40% of the population is rural. 56% of Chiapas' workers are in the primary sector (versus 23% for all Mexico). The 1999 GDP per capita of Chiapas was \$ 1,800 -- 40% of the national average.

The San Isidro Workers Society, ISMAM was founded by Mayan Indians in 1985, part of a process started in 1970 by the Catholic Church in the area to address socioeconomic problems of Indians in the region, starting with social assistance and eventually become a cooperativist movement. In 1986, ISMAM created its first board and approved a set of bylaws that specified that a member of the cooperative must use only organic inputs in his/her farming, and undertake community collective labor during six months of the year. ISMAM also addresses issues outside of farming, such as health, human rights, food security, migration, family integration and gender discrimination.

Today, ISMAM comprises 196 rural communities and groups, with over 1500 members, of which 98% are communal farmers (ejidatarios) and 2% are small landholders. In all, the members have 4500 ha devoted mainly to coffee, although maize, vegetables, honey, and cocoa are also produced in significant amounts.

Organic coffee production and processing are the most important activities of ISMAM. Coffee is produced in individual farms although the cooperative operates a 300 ha coffee farm that was partially subsidized by the Mexican Federal State. Cleaning and drying are performed on farm. The dried coffee is taken to the processing plant at Tapachula (an intermediate city), where classification and packing take place.

Some of the dried coffee is processed into soluble coffee, for which ISMAM acquired a modern machine with a capacity that exceeds present demand for processed coffee. ISMAM has registered 'Café Mam' as a gourmet mountain coffee. ISMAM also has a

laboratory for *Stephanoderis cephalonomia* production that is utilized for the coffee BROCA biological control.

Over the past 15 years, ISMAM has exported 450,000 hundredweight of coffee worth 50 million dollars. The average annual production is 80,000 hundredweight. ISMAM exports organic coffee to 14 countries. The product is certified by OCIA (www.ocia.org) in the US, Naturland in Germany (www.naturland-markt.de/NL_Web_english/) and OIA in Argentina (www.oia.com.ar/info.htm). ISMAM trades through the fair price movement in Europe obtaining an extra price of about \$ 15 per hundredweight.

The production and processing for the entire coffee harvest require about 12,000 mandays/year. The processing plant employs 65 permanent workers. ISMAM is organized in five different enterprises for the various parts of the chain, from production to processing to transport to marketing. The study made no estimate of indirect employment creation.

The study estimates that family income has increased 30% due to production and marketing of organic coffee (over the life of the cooperative). The increase is due to higher producer prices (than for conventional coffee production sold outside the cooperative system). There are also environmental benefits, as about 30,000 tons of cast-offs are no longer going into local rivers each year, due to a recycling system to maintain organic production

Lessons of Mexico Project

- Social organization plays an important role in the creation, diversification of activities, and functioning of ISMAM. The Catholic Church had played an important role in inducing this process. That organization extends beyond the purely economic to address social issues of Indian communities.
- Government participation has been a key factor. The acquisition of the processing plant, the coffee farm, and various loans at subsidized interest rates are some of the government actions that helped ISMAM.
- Dried coffee export is the central activity that has produced enough profit to keep other ISMAM enterprises running in spite of some unwise decisions to make sizable investments.
- The identification of market niches and the ability to obtain a preferred price has had a large influence in the cooperative consolidation
- The constitution of a strong professional team to technically direct the cooperative's enterprises constitute a positive asset, even though there is instability in the group of producer representatives (they are all removed after each election).

Peru: The PRA-Huancayo Project for Trout Processing

The trout-processing project is part of the Poverty Reduction and Alleviation project (PRA) which started in 1998 through an agreement between the National Private Institutions Confederation (CONFIEP) and USAID. PRA is an umbrella project aimed at raising income through the creation of long-term employment, and increasing opportunities for private business in poor zones. PRA promotes the creation of Economic Service Centers (ESC), which provides market contacts and information, and technical and marketing assistance. The project also works with policymakers to encourage policies that create enabling conditions for productive private investment.

Huancayo (with a population of 431,000) is in the Junin Department. Agricultural production is the most important economic activity (24% of the regional GDP). Potatoes, maize, plantains, barley, cassava, coffee, oranges, cocoa, and avocado are the main products. Commerce in agricultural inputs, transport, and automobile repairshops are major service sector activities that make up to 18% of the regional GDP. The La Oroya oil refinery is the main industry, and there are a number of small industries (textiles, dressmaking, metalworking) with high labor utilization and low productivity. The 'Huancayo Economic Corridor' was identified as a geographic unit with infrastructure that links the Mantaro and the La Merced Valleys. Mantaro is an important valley with irrigated commercial (potato, horticulture, and milk) and rainfed subsistence agriculture. Huancayo is a commercial regional center, although agroindustry development is limited.

Some small farmer communities formed associative enterprises since the land reform. The average landholding is about 6 ha. 24% of farm households carry on non-farm activities, particularly those with less land. Handcraft and retail commerce are the most important non-agricultural activities. Non-agricultural wage employment is also an important source of income.

The Huancayo ESC comprises several projects, with associative and individual activities pertaining to trout production and processing, eco-tourism, textile production, spice production, farm machinery production, among others. The trout project is a joint venture between Piscigranja (fishfarm) Pachacayo, Tupac Amaru, and Piscifactoria (fish processing plant) Los Andes. This project is based on Junin trout production that accounts for 50% of Peruvian trout production, approximately 2,000 mt. These two enterprises are responsible for more than 75% of regional production. Piscificadora Los Andes produces 700 mt/year and SAIS Tupac Amaru 70 mt/year. Their product is oriented to national (Lima) and international markets.

Two background analyses were done for the project, regarding international market potential and national trout production. The world trout market is expected to grow at 9% a year, reaching a total consumption of 2.7 million tons by 2010. National trout production only grows at 1.8% per year due to a lack of production technology, good quality feed, marketing channels, and investment – all this despite excellent production potential.

Piscificadora Los Andes exports about 70% of its trout products (fresh and processed) to Europe, Canada, and some Latin American countries. The remainder goes to the national market (Lima). This enterprise generates permanent employment for 100 persons in fish production and processing and seasonal employment for 20 persons, depending on the year. Labor represents 30% of total production costs and feed about 50% of total cost.

SAIS Tupac Amaru is formed by 16 peasant communities and has 16 production units. It has 75 production ponds and generates employment for 14 to 16 persons. It is expected that the project will increase permanent employment to 50-60. Available water and land have a potential trout production of 1000 mt/year. More than 3000 poor rural families are involved in this enterprise.

The program has developed a strategic alliance between the two enterprises that allows Piscificadora Los Andes to increase exports in the short run. In the long run, it is expected that the alliance will translate into a new enterprise, in which SAIS will fully develop its production potential. SAIS participates with its available infrastructure and labor force while Los Andes contributes with management, technology, and working capital. One technological element is the change in fish feed through a contract with the major national producer (ALICORP) that maintains feed on the water surface and makes a difference in production. The extra investment required for SAIS to increase production is expected to come from private investment – from international firms that have been already contacted by PRA.

The State is an important actor in this project. On the one hand, it operates an experiment station (Ingenio) to improve trout production, which itself has become a major competitor in the national trout market. Incorporating direct subsidies, Ingenio has managed to set its trout price under the private production cost. On the other hand, the Regional Administration Council is promoting a Consortium of Small Trout Producers, in which private producers, Ingenio, the Ministry of Fisheries, the ESC network, and PRA are all participating. This consortium is pooling demand for production inputs in order to negotiate favorable prices.

Additionally, both PRA and ESC-Huancayo provide technical assistance to strengthen management, solve marketing bottlenecks, and bring in new production technology and other non-financial support to increase product supply. PRA co-sponsored the profile analysis to link production and processing of both enterprises. PRA and ESC actually are a substitute for the lack of business development services in the Huancayo area.

The design of this project is market-demand driven. The idea of promoting the strategic alliance between Los Andes and SAIS was to respond to an identified market demand for fresh and processed trout that is unsatisfied. An additional characteristic is the promotion of clusters and linked enterprises in the so-called Economic Corridors through the ESC. In this sense, PRA behaves as a facilitator between producers and buyers, as dictated by the market. For this reason, PRA has been designed as a temporary project (with a “sunset

clause” of four years) that works on several production possibilities in selected geographical areas.