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OPTIONS FOR RURAL POVERTY REDUCTION IN CENTRAL AMERICA

In the seven countries of Central America, about half the population now lives in urban areas. However, most of the poor still live in rural areas; and rural people are twice as likely to be poor as urban dwellers (Box 1). Migration from rural areas has made a big contribution to rural poverty reduction, up to 75% of the latter by some estimates. However, reducing rural poverty directly is essential if the Millennium Development Goals are to be met.

Reducing rural poverty means rural development (RD). Governments and donors in Central America, as elsewhere, have struggled to find paradigms and programmes that reduce rural poverty. An emphasis in the region in the 1970s and 1980s on agrarian reform, subsidies and strong intervention gave way to structural adjustment and state withdrawal in the 1990s. But conditions in rural areas have improved only slowly, and the rural poor have been further set back by natural disasters like Hurricane Mitch in 1998.

At the same time, aid for RD has suffered a dramatic decline in the last decade. Farming is the main livelihood of the rural poor, and agriculture has traditionally been a central focus of RD. Worldwide, aid for developing country agriculture fell by about 65% from 1988 to 1998. In Central America, USAID, an important regional donor, reduced its agricultural budget by 93% between 1991 and 2000.

What can be done to identify better RD strategies? This paper explores the options, focusing particularly on the two poorest countries in Central America, Honduras and Nicaragua. It draws on an international workshop (referred to hereafter as 'the Workshop') and a series of commissioned papers[1] (see www.ruta.org) funded by DFID-RUTA.*

Box 1 The rural poor in Central America

Central American countries are mostly middle or lower middle-income in world terms, but nevertheless contain large numbers of poor people. The World Bank estimates that up to 25% of the population lives below a dollar a day in Honduras, Nicaragua and El Salvador, and up to 15% in Costa Rica, Guatemala and Panama. For the region as a whole, 65% of poverty is rural.

Who are the rural poor? Surveys and participatory appraisals show they are more likely to: belong to an indigenous group; live in larger families; have little education or be illiterate; have limited access to land (much of it on eroding hillsides); and be highly vulnerable to increasing rural violence and natural disasters.

How are poverty levels changing? The evidence is contradictory. World Bank data and some poverty indicators, like those using a basic needs index which reflects better rural social infrastructure, indicate a reduction in rural poverty. However, national sources show declining purchasing power and nutritional status among the rural population.

Diagnostic analysis: what are the challenges for RD in Central America?

Agriculture: the engine of rural growth?

Although crop areas and volumes have increased significantly, yields and agricultural value-added have remained flat. This stems from the long-term fall in agricultural commodity prices, and especially basic grains and coffee. Exchange rate movements have contributed to agricultural terms of trade problems in both countries. Growing emigrant remittances and the flow of international reconstruction aid after Hurricane Mitch have prevented the exchange rate depreciation which would have helped local producers compete internationally. In Honduras, for example, there was a 50% appreciation in the real exchange rate from 1996 to 2001. It is notable that several countries in the region are now net food importers, despite their agricultural potential. In Nicaragua, for example, the agricultural trade surplus of $150 million reported in 1990 had dwindled to zero in 1998.

In addition, the productivity of both land and labour is relatively low. Basic grains accounted for two-thirds of cultivated area in Honduras in 1995 but only 20% of agricultural value-added. Meawhile, coffee and bananas together comprised 20% of the area and contributed 60% of value-added (however, the current share of coffee and bananas is much reduced; banana production has been severely affected by Hurricane Mitch and *sigakota* disease). Low land productivity can be explained by the highly skewed land distribution, still expanding agricultural frontier, growth of extensive cattle ranching and the livelihood diversification strategies of small farmers (Box 2).

The most worrying commodity is coffee, a vital crop for small hillside farmers in both countries. Coffee production in Nicaragua increased from 46,000 metric tonnes (mt) in 1993 to over 100,000 mt in 1999. But the collapse in the arabica coffee price (at mid-2002 it was a third of its 1997 value), together with the losses due to Hurricane Mitch, has had severe implications for rural poverty (Box 3).

Skewed land distribution continues to be a major problem. In Honduras almost half the farms are less than two hectares; and much of the best land is under pasture. The escape valve is an open-access broadleaf forest frontier. But this is a finite resource; in Nicaragua, it is estimated that remaining forest will be converted by 2030.

The main hope for agriculture as an engine for growth may lie with diversification. There have been some successes, such as export vegetable growing in the Guatemalan highlands, and cheese exports from Nicaragua. The value of Honduran non-traditional agro-exports, led by melons, pineapples, shrimps and lobsters, increased during the 1990s by 185% (and jobs by an estimated 100,000). But diversification is not straightforward. The markets, often small niche markets like

*RUTA is a multi-agency technical assistance project which works in partnership with Governments of the seven countries comprising Central America. It aims to strenghten institutional capacity in the region in sustainable rural development and poverty reduction. www.ruta.org

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Box 2 Livelihood diversification militates against higher agricultural productivity

Participatory livelihood appraisals in poor communities have asked people what they do to maintain or improve well-being. The most frequent responses were:

- Grow food for home consumption to minimise food purchase
- Diversify economic activities through non-farming activities
- Sell family labour to meet immediate cash needs
- Use informal credit mechanisms based on social networks
- Gain access to national or international remittances by enabling family members to migrate (short and long term).

Notably, no respondent mentioned trying to increase agricultural productivity as a means of creating larger saleable surpluses.

Don Alex Baca and his family in Pueblo Nuevo, Honduras, are a typical case. Two-thirds of their family income comes from Alex's work as a plumber and sales of firewood. Only one third of the family's nominal income is produced through agricultural production, but this is exclusively for home consumption. Use of purchased inputs is negligible and yields are low. Don Alex could substantially increase the volume of farm output, but has choosen not to do so.

organic or fair trade banana and coffee production, are difficult to access and increasingly demanding in terms of quality, phytosanitary standards, and continuity of supply. Non-traditional agro-export development also has high social and environmental costs.

In sum, apart from a few non-traditional export crops, the agricultural sector does not currently exhibit 'engine of growth' characteristics.

Can small farms survive?

Small farm or campesino households depend for most of their food and some of their cash on basic grains, especially maize, beans, rice and millet. Deteriorating terms of trade critically affect the cash value of the production surplus used to pay for food, clothing, health, education, etc. With trade liberalisation and subsidised northern competitors, even domestic markets have become difficult to access. Marketing problems have also helped drive the break-up of land reform cooperatives.

The poor have limited access to land. Credit is also scarce - but controversial. Some say the lack of institutional credit causes rural poverty, since it keeps yields low and prevents diversification, while others argue that credit for chemical inputs has fuelled indebtedness. A prominent Workshop observation was that when small farmers fall into debt they sell their land and other assets (including trees) to pay it off. This runs down household financial and natural capital, and has serious environmental consequences.

In sum, market forces and continuing policy failures weigh heavily against the small farm sector in Central America. But at the same time, the view from the Workshop and associated papers is that the survival of small family farms is essential for poverty reduction, at least in the short term.

Can the rural non-farm economy take up the slack?

In recent years, donors have been encouraging the growth of the rural non-farm economy (RNFE). The RNFE includes both productive enterprises (e.g., agro-industry), and locally-based services. As elsewhere, the RNFE has been growing rapidly – Nicaraguan census data show that non-farm income as a proportion of rural household incomes was 34% in1998.

The more commercial type of RNFE development depends on creating a comparative economic advantage for micro-enterprise or industrial location in rural areas. This depends on efforts to increase accessible credit, technical assistance and infrastructure to bring down transaction costs, as well as policy and institutional reforms which encourage the free flow of goods and labour. These are complementary investments, so that only a 'complete package' is likely to work.

Even when the RNFE is economically successful, benefits to the poor are not guaranteed. For example, the rural poor often lack the education and skills to benefit in the more knowledge and capital-intensive RNFE options. In practice, the more common type of RNFE development involves small grocery shops, domestic service and a range of other informal service activities, often involving part-time employment. These jobs often provide first or second incomes for the very poor (see Box 2), but are hardly 'engine of growth' activities.

Migration

In Nicaragua, at least 12% of the population works abroad. The exodus has been mainly to Costa Rica; 300,000 have moved there permanently, and 60,000 go each year - 63% of Costa Rica's peak-season agricultural workforce in 2000-2001 were Nicaraguans. An estimated 250-300,000 have emigrated from Honduras in the last decade. Remittances are reported to be the main source of foreign exchange in El Salvador. Domestically, the main migration flows are from hilly areas to the broadleaf forest frontiers and the cities.

A basic problem is that it is only the 'mobile' (usually slightly better educated young men with a little capital) who migrate to national and international labour markets; the poorest face mobility constraints related to literacy, education, age, ethnicity and language. Migration seems to be contributing to the virtual abandonment of remote areas like the Mosquitia Atlantic coast area of Honduras and Nicaragua to an increasingly 'uncivil' and lawless society involving illegal logging, drug smuggling and armed gangs of unemployed youth.

Social protection

Over the past decade, Honduras and Nicaragua have significantly increased their social investment programmes for the rural poor. For example, in Nicaragua the percentage of people with access to clean water, the number of schools and road length all doubled in the 1990s. But questions remain about the quality of rural education and health services, and whether the poorest are being effectively reached, e.g. in 'extremely poor' families in Nicaragua, a third of the children do not attend school and illiteracy is 40%.

Social 'safety net' protection is also significant, especially

Box 3 Hillside coffee and basic grains production in western Honduras

Don Juan, Doña Heriberta and their six children live in the village of San Jerónimo in the hilly Department of Santa Barbara. The family depends mainly on farming – especially coffee, basic grains on rented land, and a few pigs – and the sale of food cooked by Doña Heriberta. The family also receives educational support, partly from a Christian Fund, for the purchase of school equipment, school meals and sometimes medicines. Since he belongs to a community organisation, Don Juan has been able to obtain institutional credit for both basic grains and coffee; a community micro-credit loan has enabled him to rent some land. But the collapse of the coffee price has meant the family is unable to pay the credit back as in previous years and finds itself in debt - in fact the whole community credit scheme is in difficulty. The family will probably have to sell some assets to pay its debt.

Table 1 Strengths and weaknesses of exit paths and RD strategies

RD strategy	Strengths/advantages	Weaknesses/problems
A. Family farming	• Targets most of the rural poor • Food security • Reduces imports • Linkages to RNFE	• Terms of trade and economic viability problematic • Difficult to compete with subsidised imports • Only the better resourced households can diversify • Demanding of land (there are low returns from land reform) • Environmental and water constraints • The high cost for the state in remote areas • Many of the poorest are landless
B. Larger scale commercial agriculture	• Growth potential • Labour market approach • Trade liberalisation opportunities • Linkages to RNFE • Lower cost to state	• Indirect: the poor are not targeted • Inequitable expansion reduces poverty benefits • Less jobs for poor since more capital and knowledge-intensive • Very competitive markets, subsidised competitors • Environmental and social problems
C. Rural non-farm economy (RNFE)	• Growth potential • Labour market approach • Trade liberalisation opportunities • Reduced household risk • Gender benefits	• Indirect: the poor are not targeted • RNFE can be inequitable: the poor tend to get low paid jobs • The cost of establishing a comparative economic advantage: infrastructure, public good services, incentives, etc. • The high risk of failure
D. Urban migration	• Low direct cost and market-led • Remittances are vital for poor families • Complements human capital development approach	• Bad exits likely unless rural education, start-up capital available • Labour immobility: women, old and young, are left behind • Urban poverty: congestion and higher costs to the state • Social costs of abandonment to an increasing 'uncivil' society
E. Social protection	• Directly targets the poor • Moral: human rights basis • The potential exists to link sustainable livelihoods to humanitarian relief	• Cost and financial sustainability • Insurance schemes are problematic • Recipient criteria and measurement problems • Political and operational implementation problems
F. Regional development	• Inter-sectoral planning improved • Administrative efficiency improved • Local information used for planning • Encourages complementary social and economic investments	• The level of political will necessary • It needs an engine for growth (agriculture?) • High cost approach: infrastructure, public goods, etc. • Governance may still prove problematic
G. Governance and empowerment	• 'Voice of the poor' approach is needed to counter unjust governance • Similar benefits to decentralisation • Good governance is vital for all strategies	• Democratic decentralisation has proved less effective than thought due to the political economy problems • Needs rights-based approaches, information, accountability, etc. • The need and cost of increased human capital investment
H. Donor coordination	• Facilitates holistic national poverty strategies and funding	• Historical tendency for competition, not coordination • Donors tend to have different RD priorities

since Mitch, through FISE in Nicaragua and PRAF in Honduras. In Nicaragua, food aid could be reaching as many as 20% of rural households. But the case studies found that social provisioning, mainly carried out by NGOs and aid projects, is not always effective at reaching the poorest.

Other factors exacerbating poverty

Other factors cited at the workshop or well documented include a fast population growth rate of the poor; inadequate human capital development; natural disasters; slow recovery from the war in Nicaragua; corruption and weak governance; lack of empowerment and participation of the poor; over-complex or confusing regulations and legislation; poor inter-institutional and donor coordination; lack of, or poor quality, irrigation, rural infrastructure and public services; high cost of informal credit; and weak business capacity.

Prescriptive analysis: where do we go from here?

Eight 'RD strategies' have been identified as representing actual or potential responses to rural poverty in Central America (Table 1). Of these, five are classified as primary poverty exit paths: (A) Family farming; (B) Commercial agriculture; (C) The rural non-farm economy; (D) Urban migration; and (E) Social protection. Underpinning these are three supporting RD strategies, viz.: (F) Regional development; (G) Governance and empowerment; and (H) Donor coordination

Workshop farmers made it clear that in spite of low market values for basic grains their priority was still to produce food. This is rational as a risk minimising livelihood strategy in the absence of a reliable safety net. Beyond this, key objectives for small-scale agriculture were identified as (a) diversification from basic grains, and (b) releasing labour from agriculture so that a second non-farm income can be generated.

There is an important implication here for small-farm technology development: more labour-intensive farming technologies may not be attractive to farmers because of the need to pursue a second income. One way of releasing labour from farming is by using more agro-chemical inputs. But intensification raises problems of (a) an increased risk of indebtedness, and (b) lower ecological sustainability of the farming system. This places a premium on ecologically sustainable *labour-saving* farm technology, as for example in the FAO-supported '*Quesungal*' agro-forestry system in Lempira, Honduras, and the use of cover crops and minimum tillage techniques promoted by the *Campesino a Campesino* movement and several prominent NGOs.

In the specific case of coffee, the main hope for small farmers is to target niche markets (e.g. organic, shade-grown and bird-friendly coffee), and using branding and labelling techniques combined with quality control methods to take advantage of Central America's high quality arabica coffee.

Whatever the specific characteristics of the agricultural strategy, public investment in public goods is required. Some observers argue for production subsidies, e.g. on chemical inputs and seeds. To avoid a clash with efforts to develop

Box 5 Conceptual poverty x location matrix

Livelihood Assets (LOW → HIGH)	Connectedness/Market Access: LOW	Connectedness/Market Access: HIGH
HIGH	**Coping areas** Migration by choice Social capital for improved natural resource management Add value and reduce transaction costs	**Better-connected areas** Market-driven Competitive and profitable Job creating commercial agriculture Diversification
LOW	Family farms – subsistence Vulnerability reduction Social safety nets	Off-farm employment (RNFE) Public goods and services High-value agriculture

more ecologically sustainable farming, the subsidy element might be better directed to storage and marketing operations. This makes farmers less vulnerable to 'selling cheap' and 'buying expensive', and thus falling into debt. Workshop farmers also asserted that secure access to land and good organisation are key complementary conditions for tackling rural poverty; one without the other is ineffective.

Development of the RNFE implies working at the rural-urban interface. For example, RNFE projects need to target urban markets; and locating agricultural service provision in small towns is often desirable. As discussed above, this path depends on a series of complementary investments and being able to raise the level of human capital of the rural poor so that they can participate in the benefits of RNFE development. Pro-poor tourism is increasingly important in these countries, with their beaches, coral reefs, Mayan ruins, biodiversity, white-water rafting, etc. . .

Honduras and Nicaragua also have extensive and marketable forest resources, both in pine and broadleaf forests, which present a high potential for community-based management. The experiences of Guatemala and Mexico show how this potential can be developed. Both Honduras and Nicaragua have draft forest legislation with the potential to improve this situation, but vested timber interests remain strong.

Decentralisation is high on the agenda in both countries, and is favoured by donors. An important policy development, particularly in Honduras, is the empowerment of large urban municipalities with considerable rural 'catchment areas' – these municipalities can become important actors in tackling rural poverty. More poverty reduction resources could be placed in the hands of local government and community-based organisations as they are in a better position to target the poor and demand state services. At the same time, there is a need for increased transparency and accountability so that local élites or the 'less poor' do not cream off the benefits. Participatory monitoring and evaluation by the poor would help.

Empirical analysis has identified human capital as the most important explanatory factor of rural inequality in Central America; analysis of World Bank survey data from Honduras, Nicaragua, Panama and Guatemala found that human capital differences explained 13% of rural inequality; social capital explained 6.7%; and natural capital 6.3%. Education is also the best opportunity to develop 'civic, ethical, moral and democratic values' as called for in Honduras' PRSP (Poverty Reduction Stragegy Paper).

Finally, another opportunity is the potential to link the poverty and environmental agendas. It is now widely accepted that the impacts of natural disasters like hurricanes and droughts have deepened with increasing environmental degradation. This places a premium on such activities as watershed protection, natural forest management, reforestation of bare hillsides and degraded pastures, on-farm soil and water conservation, reduced burning, etc. These activities could be funded through humanitarian or disaster relief as opposed to more traditional hand-out or food-for-work responses. Payments to hillside farmers for environmental services like watershed protection, as carried out in Costa Rica (where it is funded by a 'polluter-pays' vehicle tax), could also be worth considering as a cost-effective poverty reduction option.

Conclusion

No single approach can possibly respond to the complex problem of rural poverty in Central America. But rural development can be achieved through a rational and complementary balance of economic growth and welfare-based social protection strategies, reflecting the assets and livelihood strategies of the rural poor, and the underlying geographical realities. Box 5 explores the options, on two axes, one capturing the level of livelihood assets, and the other the degree of 'connectedness' and market access.

In 'better-connected areas' a more market-based strategy is justified, with every effort being made to develop a comparative advantage that promotes diversification and RNFE development. Priorities are to invest in infrastructure, public goods and institutional development; build growth nodes around rural towns; and promote facilitating regulatory and fiscal policies. Privatisation of agricultural services to the commercial farming sector would allow state resources to be redirected to coping areas, where the priorities are support for family farming (as the main and possibly only production option available), vulnerability reduction, humanitarian or disaster relief, and broader social protection measures. This approach incorporates the 'regional development' strategy; it would be greatly facilitated by regional planning councils working with local government.

But in the final outcome it is much easier to diagnose the problems and suggest a comprehensive and multi-sectoral set of solutions, than to decide on priorities and sequencing in the use of scarce public/aid expenditure, and to effectively implement the resulting packages.

Endnote

[1] The DFID-RUTA-ODI 'Workshop on Rural Poverty Reduction Policies – Focusing the Dialogue on the Experiences of Nicaragua and Honduras' was held in Tegucigalpa 29-30 May 2002. ODI was comissioned as part of a DFID-RUTA initiative aimed at strengthening national consultative processes which contribute to more integrated and nationally owned RD strategies and to rekindle donor interest.

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