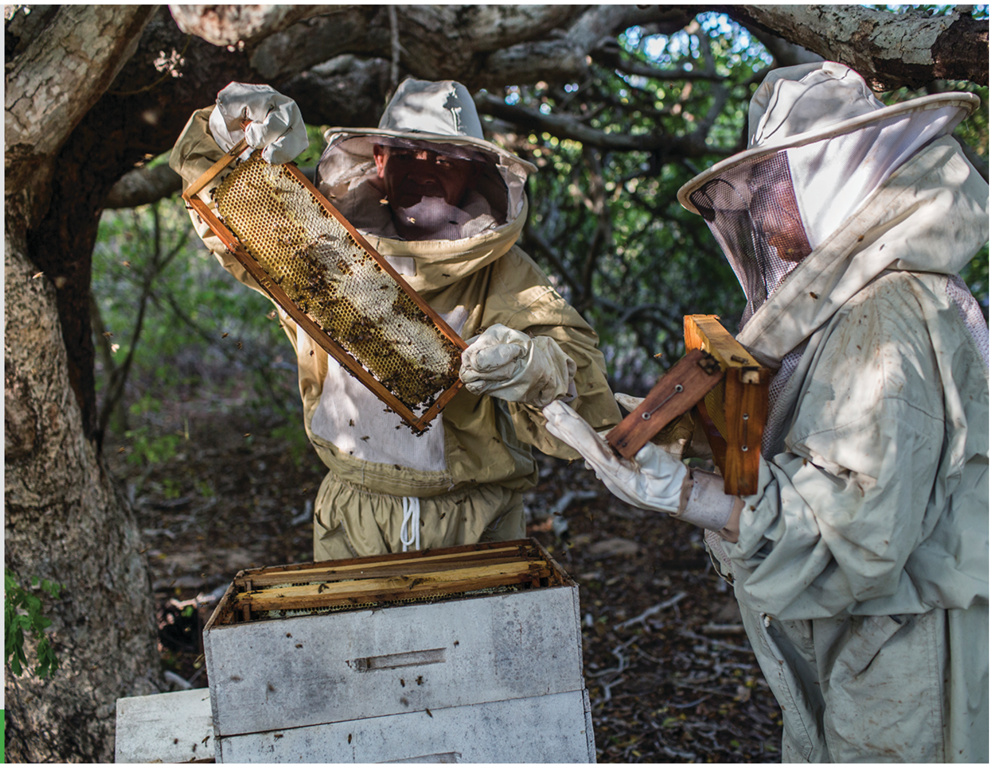
IFAD
Investing in rural people

THE OUTREACH PROJECT

Inclusive growth, rural industrial policy and participatory value chains in Latin America and the Caribbean

GRANT RESULTS SHEET



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The **project aimed** to promote a **more dynamic insertion of small rural producers into value chains** as a way to foster structural change in Latin America and the Caribbean.

Goals and objectives

The project aimed to promote the participation of small rural producers, enterprises and their organizations in inclusive value chains in Latin America and the Caribbean (LAC). Targeted social and industrial policies can promote structural change for equality, foster pro-poor innovation, and enhance the productive capacity of small rural firms, farmers and producers in rural areas of LAC. Thus, the project's main objectives were:

1. Generate strategies for value chain development (through policy dialogue processes) to increase incomes, reduce risks, and enhance the skills and sphere of influence of small producers, small rural firms and their organizations.
2. Strengthen the capabilities of national and local governments and stakeholders to formulate rural industrial policies to close income and productivity gaps for small rural firms.
3. Develop participatory methodologies and analytical tools for rural industrial policies aimed at closing income and productivity gaps.

Beneficiaries

The main beneficiaries of the project were: (i) small rural producers of goods and services in eight value chains; and (ii) government officers in charge of designing, implementing and evaluating public policies. Indirect target groups were other stakeholders in rural value chains (e.g. large firms, producers and workers associations, cooperatives, and financial services providers).

Facts at a glance

Name of agency

United Nations Economic Commission for Latin America and the Caribbean

Theme

Inclusive growth, rural industrial policy and participatory value chains

Benefiting countries

Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Panama.

Total programme cost

US$2,392,766
IFAD contribution: US$1,490,766

ECLAC contribution (in kind): US$902,000

Effectiveness and duration

2013-2017

Linkages to IFAD investment projects

Guatemala
Mexico

Main results

The project covered five components.

Strengthening value chains

Technical assistance was provided for eight value chains in five countries: vacuum-fried fruit chips in Costa Rica; tourism and dairy products in the Dominican Republic; tourism, dried fruit-based nutritional snacks, and tomatoes and green sweet peppers in El Salvador; tourism in Guatemala; and sausages and other cured pork products in Mexico. The main results were:

Design of participatory strategies for value chain strengthening. Strategy design was based on a diagnostic of the value chain's situation, and the identification of international good practices. Strengthening value chains fostered diversification and expanded participation in the segment of the production structure with the greatest knowledge intensity or highest demand growth, thus contributing to structural change.

Appropriation and methodological replicabilities. Public bodies in the subregion adopted the methodology of the Economic Commission for Latin America and the Caribbean (ECLAC), for example, the roundtable on the development of productive chains of Mexico's Business Coordinating Council for Economic Growth.

Improve public-private and private-public dialogue. The methodology focused on enriching public-private dialogue as a key element in developing industrial policy. When public and private sectors work together, they enhance their ability to resolve bottlenecks hindering economic and social upgrading.

Financial inclusion

This component focused on five countries: Costa Rica, Dominican Republic, El Salvador, Honduras and Mexico. The results were:

Common public policy challenges to foster financial inclusion were detected. At the macro level, the main challenge was to have clear effective leadership at the highest political level to ensure the articulation of relevant policy initiatives. At the intermediate level, the main obstacles were related to:
(i) improving the provision, quality and access to key financial infrastructure by the mostly small, non-bank financial institutions that serve rural areas;
(ii) strengthening the delivery of business development services to small rural producers; and (iii) streamlining public support mechanisms. At the micro level, the main difficulty was to strengthen the capacities of both the users and providers of financial services.

Best public policy practices were identified. Regarding policies at the macro level, while all five countries had a clearly defined leadership regarding financial inclusion, only Honduras and Mexico had the relevant coordination mechanisms across public agencies been defined. At the intermediate level, the main policy conclusion was that, given the weak penetration of commercial banks in rural areas and the multiple challenges facing the cooperative and microfinance sectors in meeting the needs of small-scale rural producers, development banks could play a key role in fostering financial inclusion.

Dialogue between stakeholders was supported. The country-level dialogue tables between stakeholders reinforced communication mechanisms between financial regulatory and supervisory authorities, as well as between authorities and formal financial institutions. They also fostered the inclusion of new stakeholders, such as unregulated non-bank financial institutions, as well as telecommunications providers.

Agricultural insurance from a comprehensive climate risk management perspective

This component supported an initiative to develop concrete instruments for national-level agricultural insurance (in Costa Rica, El Salvador, Guatemala and Panama) and an inclusive regional community of practice.

In countries with traditional agricultural insurance in place, incentives for an adverse selection of producers were created, that is, the most inefficient producers, with lower yields and higher production costs, have the highest probability of being insured. The virtue of agricultural insurance based on climate indices is that it minimizes moral hazard (i.e. a behaviour by insurance holders of taking excessive risk and not reducing vulnerabilities).

Indexed insurance uses statistic-actuarial models to correlate crop yield with indices associated with climate variables. In order to adopt a climate index for agricultural insurance, it is necessary to have an independent, objective system for the free dissemination of information on agricultural variables and on georeferenced climate variables.

Massive insurance products for reducing climate risk and other extreme events would be designed to support micro and small agricultural producers. The financial analysis performed for some countries leads to the conclusion that state participation in the form of subventions on policy premiums is necessary.

Therefore, in some countries, it may be necessary to sign cooperation agreements between institutions that produce hydro-meteorological variables and institutions responsible for the agriculture sector and agricultural insurance, with the aim of creating climate variables and indicators related to insurance instruments.

Input-output matrix analysis

Technical assistance and quantitative analysis focused on four countries: Costa Rica, the Dominican Republic, Nicaragua and Panama. The main outcomes of the studies can be summarized in five groups:

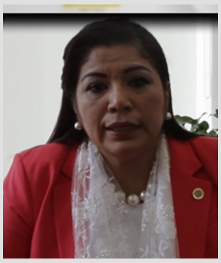
1. The impact of demand expansion on employment.
2. Structural heterogeneity, the functional distribution of income, and employment.
3. Employment and external sector performance.
4. Employment-generating factors in the export sector.
5. The impact of the export sector on the generation of value added and employment.

Agricultural employment

This component permitted the identification of the dominant trends in agricultural employment and productivity. Overall regional trends belied a great variety of national experiences. To explore this heterogeneity of outcomes, four case studies were conducted for countries with differing recent trends in agricultural employment and productivity (Chile, Colombia, Guatemala and Mexico). These studies presented not only more detailed information on agricultural employment and productivity, but also a thorough analysis of key policies (macroeconomic, sector-specific, labour market and social) that influenced these trends. The studies underlined the heterogeneity of recent trends in agricultural employment and productivity in LAC. They also highlighted the great variety of factors that have had an impact in this regard. For example, in some countries, currency appreciation counteracted the favourable evolution of international agricultural prices and created challenges for the competitiveness of local production of tradable products. Unfavourable climate events also affected agricultural production, employment and productivity. However, in some cases, policies in support of agricultural productive development played a significant role in the observed productivity increases, for example, through trade policies, infrastructure support, and technology transfer.

Regional meetings were organized to disseminate the main lessons learned throughout the project. High-level government officers attended such meetings.

Merlin Barrera, Vice-Minister of Trade and Industry in El Salvador, said:



"*All these efforts we have performed with ECLAC have consolidated in sectors like tourism, dried fruits, vegetables, textiles and apparel. (…) We would like to develop or apply this methodology to other chains, such as fishery, agro-industry and other specific sectors.*"

Ignacio Méndez, Vice-Minister of Support for Small and Medium-sized Enterprises in the Dominican Republic, said:

"*The value chain methodology is not only helpful for working with sectors, but also inside governments, because one of the big issues we have with governments from the region is coordination in the inside. I believe that understanding this value chain approach is one of the biggest discoveries we have made in the last years.*"

Knowledge generated

ECLAC put particular emphasis on systematizing the main outputs of the project. As a result, 33 documents were published, including toolkits (2), books (4) and working papers (27). All are available at: www.cepal.org/es/proyectos/cepal-fida.

Lessons learned

The project yielded three main lessons.

1. It is important to engage a variety of public organizations in rural development initiatives. In addition to ministries of agriculture, the active participation of, for example, ministries of economy, industry and trade, and organizations in charge of supervising the financial sector, is crucial. The constant transformation of the rural space demands increasing collaboration within the public sector.
2. The project showed the importance of adopting an innovative approach to design public policies. For example, a proposal to develop a new rural industrial policy approach came to the fore. Similarly, innovative policy recommendations were drafted for agricultural insurance, rural financial inclusion and labour productivity.
3. New areas to foster rural development were identified, for example: the use of remittances to strengthen rural value chains; transnational value chains as a tool to promote regional integration and productive development; the role of professional and specialized services for strengthening value chains; the use of technological tools to promote rural financial inclusion; and the development of new statistics to analyse the rural space.

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