



Over time, the rural reality in Latin America has changed, with family farmers now more integrated in markets and significantly less dependent on agriculture for income. What does this mean for family farmers today?

# LATIN AMERICA'S RURAL FAMILY FARMERS: EVOLUTIONS IN ACCESS TO MARKETS AND RURAL INCOME STRUCTURE



## SUMMARY

In order to understand Latin America's current experience with small-holder farming, it is helpful to understand two key changes in the region's rural areas that have been evolving mainly over the past two decades: farmers' increased access to markets and diversification of their income sources. This Brief takes a closer look at these two key evolutions, assessing the impact on small farmers and some of the driving forces, in particular by analysing the liberalisation policies of the 1990s and 2000s that played a strong role in driving forward these changes. It concludes by presenting some of the present policy priorities as well as some lessons learned based on the Latin American experience.

## INTRODUCTION

In Latin America, the share of family farming in both domestic and external markets has increased since the 1990s. Changes took place in land and labour productivity, total production, physical infrastructure and institutional settings, induced by macro and sectorial policy changes. International trade increased along with globalisation, regionalisation and trade agreements among countries. Domestic markets have experienced incremental consumption increases stemming from income changes and gains in wages. Rapid urbanisation, modifications in food demand and effects of supermarket fusion changed market conditions for family farmers.

The Latin American rural sector has experienced several changes associated with agricultural technology and labour use. Non-farm rural activities have multiplied and income from those activities tends to be higher than agricultural wages, but rural dynamism and labour skills are associated with non-farm employment. Additional income sources from remittances and transfers to vulnerable rural groups have contributed to changing rural income composition.

In this Brief's next two sections, we describe the two key changes that took place in Latin America's rural areas: family farming's increased access to markets, and diversification of rural families' income sources. The Brief then continues by looking deeper into some of the policies over the last two decades that have led to these changes, and some of the continent's current policy preferences and characteristics.



## INTEGRATING FAMILY FARMING INTO AN OPEN ECONOMY

Economic liberalisation and policy formulation to insert the family farming subsector into markets are seen as strategic elements to promote family farming development in Latin America, Africa and Asia,<sup>1</sup> with the World Bank arguing that market access, export subsidies and domestic support are the three main types of instruments distorting trade.<sup>2</sup> Insertion of family farming into local and external markets has been viewed as a significant bottleneck. The challenge is seen to come from problems of competitiveness, production infrastructure services, physical infrastructure, policy stimuli and restrictions, and the general national and regional development strategies in place in most Latin American countries.

In the 1990s and 2000s, deregulation of wholesale markets gained momentum in Latin America in order to allow greater entry and competition. In the 1990s, private, small- and medium-sized processing companies grew due to liberalisation in the processing sector and a rapid increase in consumption of processed foods associated with rising incomes, urbanisation and an increase in the number of women working outside their homes. At the same time, a transformation of the agro-food industry, including processing, wholesale and retail, took place.<sup>3</sup>

Some family farming products had a competitive advantage before the deregulation, enabling participation in international markets fostered by a number of trade agreements signed by Latin American countries or through regional country blocks. Their comparative advantage came from either the labour-intensity required, or the efficiency of their small-scale fields, such as berries, others fruits, structural small farming products such as coffee or cocoa, vegetables, flowers and ornamental plants. Programmes to provide production and commercialisation services, both public and private, were developed and put into operation.

At the same time, a number of macroeconomic policies were implemented in order to: control inflation, stabilise

exchange rates, promote the construction industry, distribute credit for medium- and large-scale industry, provide public services development and introduce technological change. These policies created attractive urban spaces, increased employment opportunities, improved real salaries and drove economic flows in national economies. Consequently, demand for family farming shifted for both tradable and non-tradable goods, opening opportunities to increase productivity and production, and facilitating integration in national and international markets.

## CHANGES IN COMPOSITION OF RURAL INCOMES

Between 45% and 60% of the rural labour force is engaged in both the agricultural labour market and the rural non-farm economy in Latin America. Simultaneously, agricultural wages and labour use have experienced significant changes.<sup>4</sup>

In Latin America, the segment of the population in which poverty reduction has been most widespread benefits is the same one earning both agricultural and non-agricultural sources of labour income. The poverty trend in this group of households is notable: producers in seven of the nine countries in which poverty declined in the 2000s (Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador and Uruguay) adopted diversification of income into agricultural and non-agricultural sources as a strategy to reduce poverty. Most income diversifiers were able to do so either because of their socio-demographic composition, meaning they had more than one income earner, or because the rural labour market offered non-agricultural job alternatives.

Though agriculture remains the pillar of most rural economies, rural employment is diversifying out of agriculture. Rural non-agricultural activities in some Latin American countries grew at more than 10% per year between 1980 and the early 2000s. In Chile, for example, non-agricultural work rose from 25% of total rural employment in 1960 to 49% by 2002, and in Brazil from 14% to 31%.<sup>5</sup> In large part, these changes across the region were inspired by rapid urbanisation, amplifying of social networks, diversifying production activities and the introduction of technical change in product transformation.

<sup>1</sup> Livingstone, G., Schonberger, S., Delaney, S. 2011. *Sub-Saharan Africa: The State of Smallholders in Agriculture*. Proceedings of the Conference on New Directions for Smallholder Agriculture, Session 3: The State of Small Scale Farming in the Developing World, January 2011. IFAD, Rome.

<sup>2</sup> World Bank. 2007. *World Development Report 2008: Agriculture for Development*. World Bank, Washington, DC.

<sup>3</sup> Thapa, G. 2010. *Smallholder or Family Farming in Transforming Economies of Asia and Latin America: Challenges, and Opportunities*. Paper presented at the International Conference on Dynamics of Rural Transformation in Emerging Economies, April 14-16, 2010, IFAD, New Delhi.

<sup>4</sup> World Bank. 2007, above n 2.

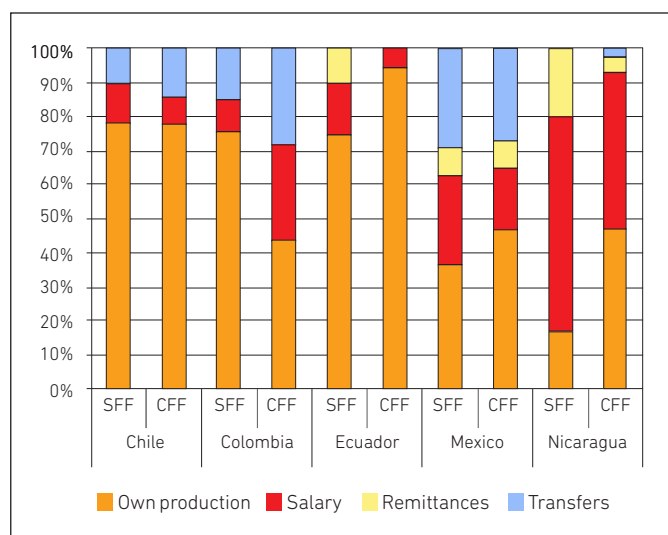
<sup>5</sup> Ibid.



Currently, wages are higher in the rural non-farm sector than in agriculture, mostly because of skill differences. In Mexico, the average wage in non-agriculture is 56% higher than in agriculture. Both sectors frequently exhibit a bimodal wage distribution, revealing dualism. At the same time, there is evidence that agricultural wages have been declining across many Latin American countries. Temporary workers in Brazil, for example, have lost a third of their income over the last 30 years. In Mexico, between 1988 and 1996, temporary workers lost 30% of their purchasing power and have not recovered it.<sup>6</sup>

Overall, the diversity of activities in rural areas has led to a corresponding diversification in income sources. The composition of rural family income has changed, moving away from dependency on agricultural earnings from revenues and wages, to diversified income sources in which non-farm rural wages, rural non-farm activities, remittances and transfers, at least for specific low-income groups, have a share. Off-farm work in agriculture and non-agriculture currently employs 47% to 49% of adult males in Latin America and the Caribbean.<sup>7</sup> The following graph illustrates the cases of Mexico, Chile, Ecuador and Nicaragua, grouped by subsistence family farming (SFF) and consolidated family farming (CFF), using data for 2007.

**Table 1: Composition of Income by Type of Family Farming**



Source: Schejtman, A. 2008. *Alcances Sobre la Agricultura Familiar en América Latina (Scope of Family Farming in Latin America)*. Rimisp, San Salvador.  
 Note: Author translation of chart.

## KEY POLICY DRIVER OF CHANGING RURAL REALITIES

During the 1990s, most countries in Latin America experienced profound social and economic transformations. Perhaps the most significant driver of these two key changes experienced by Latin America's family farmers comes from the package of policies largely linked with the region's efforts at economic liberalisation. With International Monetary Fund and World Bank assistance, countries in Latin America - as in most developing country regions - designed austerity programmes, which included large reductions in central government expenditures; government budget deficits fell from a continental average of 5.5% of GDP in 1988 to 1.8% in 1995. These programmes also included decreases in the growth of the money supply, exchange rate devaluation and wage repression. Structural adjustment loans were tied to economic reforms that included the removal of trade barriers and impediments to foreign investment, financial liberalisation, privatisation of state enterprises, deregulation, and reforms of the tax system and property rights laws. Because of the Washington consensus, the neoliberal export-orientated approach to development translated into a widespread adoption of free market-free trade policies in Latin America.<sup>8</sup>

The influence of these policies on the Latin American agricultural sector can be broken down into four trends:

- Market liberalisation brought significant changes in relative prices, which affected production costs of different agricultural products in a variety of ways.
- Development of private sector activities across the economy, including a significant expansion of commercial agriculture.
- A significant flow of external direct investments in a number of economic activities, including the agro-industry in larger and better endowed countries such as Brazil and Argentina.
- In a number of countries, but not all, an explicit policy of reducing the size and cost of the public sector in general and the rural sector in particular. This included the privatisation

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

<sup>8</sup> De Janvry, A., Key, N., Sadoulet, E. 1997. *Agricultural and Rural Development Policy in Latin America: New Directions and New Challenges*. Agricultural Policy and Economic Development Series – 2. FAO, Rome.



of services and indirectly, in many cases, the weakening of public sector institutions and a deterioration of their ability to provide necessary public goods like research, extension services, and sanitary and quality control.<sup>9</sup>

To make the incursion in external markets competitive, policymakers implemented regional grade and standard policies that govern the quality of agricultural products, as well as mitigation policies to deal with the effects of liberalization. In particular, policies aimed to reduce risk through the development of agricultural stock exchange and markets for agricultural insurance. Instruments and institutions of credit, research and technical assistance, which had been eliminated, were reintroduced. At the same time, efforts were made to avoid perverse incentives and unintended consequences, like patronage.<sup>10</sup>

Independently from the specific context of each country, institutional reorganisation in Latin America in the 1990s generally added economic resources for R&D; improved interest and coordination between public and private sectors; changed promotion objectives towards market promotion and incentives schemes; and promoted human capital formation through investment in graduate studies and innovations.<sup>11</sup>

Reforms in the service sector also played a critical role. Deregulation and privatisation had a significant and positive impact on the availability in the marketplace of more reliable and lower-cost services for agriculture such as ports, airlines and shipping transport.<sup>12</sup>

Alongside the reforms, public and private institutions have built initiatives to stimulate productive collaboration and business partnerships to develop competitiveness since the 1990s. The main strategies have been: subsidies for plans to improve enterprises; technical support for better linkages; financial support to develop collective projects; and credits for developing assets.

## CURRENT VIEW

This Brief focused on illuminating some of the key changes over the past two decades that have influenced the context in

which Latin America's rural farmers operate. So where have these changes brought the region today?

Current development of policies is orientated to achieving a better international integration, focusing on strengthening sanitary and phytosanitary measures, but also on mitigating the consequences of liberalisation, including reducing risks by developing agricultural exchanges, prospective markets and agricultural insurance, and the reintroduction of credit instruments and institutions. Countries are making efforts to avoid perverse incentives, clientelism and other unintended consequences.<sup>13</sup>

In most Latin American countries, the current policy priority is to create more jobs in both agriculture and the rural non-farm economy. A dynamic rural non-farm economy requires rapidly growing agriculture and a good investment climate. Linking the local economy to broader markets by reducing transaction costs, investing in infrastructure, and providing business services and market intelligence are critical. Agro-based clusters have been effective, with well-documented experiences for non-traditional exports in the San Francisco Valley of Brazil and for dairy production in Peru and Ecuador. The challenge is to assist the transition of the rural population into higher-paying jobs, which requires labour regulations, education, skills and entrepreneurship.<sup>14</sup>

Rising incomes, urbanisation, greater female participation in the workforce and wider media penetration are drivers of the demand for higher-value products, semi-processed and processed products. They are also increasing consumer attention to food quality and safety. Changing consumer demand is also driving the growth of the food processing and food service industries. Although spending on processed foods is still low in developing countries (\$143 per capita per year in lower-middle-income countries and \$63 per capita in low-income countries), it is growing fastest in these countries, at a rate of 28% a year in lower-middle-income countries and 13% in low-income countries.<sup>15</sup>

The process of policy changes, promising results and yet negative effects on poverty and concentration of assets helped put the family farming sector onto countries' agendas. The

<sup>9</sup> Ibid.

<sup>10</sup> ECLAC's Productive and Business Development Division. 2007. *Cinco Piezas de Política de Desarrollo Productivo (Five Aspects of Productive Development Policies)*. Serie Desarrollo Productivo No 176. ECLAC, Santiago de Chile.

<sup>11</sup> ECLAC's Productive and Business Development Division 2007, above n 10.

<sup>12</sup> Anderson, K., Valenzuela, E. 2010. *América Latina: ¿Cómo Repercuten en los Mercados y el Bienestar las Reformas de la Política Agraria y del Comercio? (Latin America: How Did Agricultural and Trade Policy Reforms Impact on Markets and Well-being?)*. Revista CEPAL 100. ECLAC, Santiago de Chile.

<sup>13</sup> Ibid.

<sup>14</sup> World Bank. 2007, above n 2, 4.

<sup>15</sup> Ibid.



aim was mainly to make family farming more productive and to use it as the catalyst for integrated rural development and poverty reduction. It was understood that with appropriate government investment, many small-scale farmers could increase their productivity, meeting critical domestic food needs while reducing poverty. With government support, smallholders benefit from new demand in niche markets and from the growing supermarket sector. The globalised economy offers opportunities for small-scale farmers, but they need sustained public support and organisation to take advantage of them.<sup>16</sup>

Efforts to insert family farming into international markets, and Latin America’s growing domestic markets, have created opportunities and real earnings increases for a number of rural families, while amplifying rural income sources and producing food products to feed an increasing population. That being said, a consumer surplus should have been produced

which would have kept inflation under control in almost every Latin American country, while also increasing participation in external markets. Poverty, inequality and asymmetry of opportunities remain major unsolved challenges affecting family farmers and landless subsectors.

At the same time, formal and informal institutional development to promote inclusion of family farming into markets experienced changes, particularly due to the role of private institutions and firms devoted to exporting agricultural products. An analysis of these changes, combined with recognition of the urgency of finding viable solutions to the persistent challenges of poverty and inequality remaining in the Latin American rural sector, together have motivated the development of a new vision of rural development with a territorial approach. To learn more, see the [ELLA Policy Brief: Territorial Rural Development: A New Latin American Paradigm for Rural Development](#).

<sup>16</sup> Pérez, M., Schlesinger, S., Wise, T. 2008. *The Promise and the Perils of Agricultural Trade Liberalization: Lessons from Latin America*. Washington Office on Latin America, Washington, DC.

LESSONS LEARNED

**1** Integrating family labour into national economies in Latin America via agricultural production requires formulating policies and programmes to improve rural production structures, and promoting production innovations to make the rural production-consumption cycle competitive. This implies an institutional setting and public-private coordination strong enough to actively involve family farming in the process, and requires macroeconomic and social stability.

**2** Reasonable harmonisation between macroeconomic and agricultural-orientated policies must exist to guarantee market operation, regardless of the regulations introduced to make family farm participation possible within the

Latin American context. Family farming is a private operation that requires particular public institutional support.

**3** Agricultural-orientated policies and implementation of institutional initiatives are potent instruments, if properly designed and focused on targeted populations. Latin American experience demonstrates some of the factors required to attain viable access to markets and real increases in earning and labour demand: incentives and services to ensure that production and productivity increase; information to ensure quality product specification and reduce transaction costs; access to financial services and production inputs; physical infrastructure to keep

costs competitive; and better national innovation systems.

**4** The rapid expansion of product-transformation activities in the rural sector, the increasing integration of rural-urban exchange and the introduction of technical change in agricultural production - among other factors - boosted the diversification of activities and income sources in the rural sector. Adding to the former, changes in transfer programmes to alleviate poverty as well as remittances in some countries, has caused a modification of the rural income structure, which is consolidating in Latin America due to increasing non-agricultural wages in those regions where non-agricultural rural production is dynamic.

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