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UNDERSTANDING THE DRIVERS OF SUSTAINABLE RURAL GROWTH AND POVERTY REDUCTION IN GUATEMALA

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With over 11 million people, Guatemala is the most populous country in Central America. It also has the highest proportion of rural residents and indigenous populations. Nationally, about 56 percent of the population is poor and 16 percent is extremely poor. The rural poor account for 81 and 93 percent of all poor and extreme poor, respectively.

Although per capita income is relatively high compared to other Central American countries, malnutrition rates are among the worst in the world; life expectancy, infant, and maternal mortality rates are the worst in the Latin America and Caribbean region; and educational attainment is very low—average education is 4.3 years and illiteracy exceeds 30 percent. Major social indicators more closely resemble those of Nicaragua and Haiti, where average incomes are far below those in Guatemala.

The combination of relatively high per capita income together with low social indicators in Guatemala is attributable to high inequality in the distribution of wealth. Twenty percent of the population controls 62 percent of income, and less than 1 percent of farmers own about 70 percent of the land. Because of this inequality, the country faces major obstacles to stimulating broad-based economic growth and reducing poverty, even though the 1996 Peace Accords have provided a more stable context to facilitate progress toward poverty reduction (see Box 1). Even though economic growth has been relatively steady for the past half-century (averaging 3.9 percent annually between 1950 and 2000), it has not produced a substantial decline in poverty. National growth rates mask sectoral differences, problems in lagging rural areas and areas affected by conflict prior to 1996.

Box 1 - Rural Poverty in Guatemala

Poverty in rural Guatemala is generally related to insufficient access to high-quality productive assets, and is characterized by three important features:

First, geographic isolation, caused by varied topography and inadequate road networks, is an important correlate of poverty. Rural poverty rates increase with isolation. Poverty-reducing income-generating opportunities are more readily found in densely populated areas near urban centers. Many of these income-generating opportunities are found outside of agriculture in the formal and informal sectors.

The second dominant feature of rural poverty is ethnic exclusion. Poverty rates are far higher among indigenous groups and groups whose primary language is not Spanish. The 23 ethno-indigenous groups in Guatemala suffer from historical exclusion from public services and economic opportunities, and are frequently geographically isolated. Exclusion results in weak asset bases, uncertain property rights, and limited ability to exploit economic opportunities. Access to land is a particularly serious problem of the indigenous in the Western Altiplano.

Third, rural poverty has a particularly strong spatial dimension and is concentrated in particular areas. The “poverty belt” of Guatemala, spanning the Western Altiplano and the Northern region, contains approximately three-quarters of the country’s poor.

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The regional study "Drivers of Sustainable Rural Growth and Poverty Reduction in Central America," carried out by the Environmentally and Socially Sustainable Development Department of the Latin America and Caribbean Region, uses an asset-based conceptual approach to investigate how broad-based economic growth can be stimulated and sustained in rural Guatemala. Drivers are defined as the assets and combinations of assets needed by different types of households in different geographical areas to take advantage of economic opportunities and improve their well-being.

The study does not identify particular enterprises or subsectors that might stimulate growth and poverty reduction. Instead, it analyzes the quantity, quality, and productivity of assets needed by households to improve long-term growth and well-being under a particular enterprise or development path. Specifically, it looks at how households deploy their assets—natural, physical, financial, human, social, political, institutional, and location-specific assets—within the context of policies, institutions, and risks, to generate a set of opportunities. Households respond to opportunities, allocating their assets and selecting livelihood strategies that ultimately determine well-being outcomes.

The study's focus on assets is appropriate for understanding the drivers of rural growth and poverty reduction given the historically stark inequalities in the distribution of productive, social, and location-specific assets among households and geographical areas in the country. Such inequalities are likely to constrain how the poor share in the benefits of growth, even under appropriate policy regimes. Because of these inequalities, policy and market-based reforms alone cannot quickly level the playing field between the asset poor and those who possess the complementary assets necessary to exploit economic opportunity. By examining the role of assets in achieving development objectives, we can help ensure that policy has a sustainable impact on poverty reduction.

To address these objectives, the authors combine graphical mapping techniques, quantitative household analysis and qualitative analyses of the relationship between assets, livelihood strategies, levels of well-being and growth potential. The household-level analyses draw heavily upon the nationally representative 2000 ENCOVI sample survey of households, along with data from the recent Population and Housing Census and Agricultural Census. The qualitative exercises contributed to understanding the role of assets in generating community and household well-being, perceptions of obstacles to adoption of successful livelihood strategies, and priorities for investments.

The main conclusions and operational implications of the study suggest the need for greater spatial differentiation in the development of rural strategies (one rural strategy does not fit all) and the importance of asset complementarity and investments with increased cross-sectoral cooperation. These are all necessary to realize project impacts and bridge the gap between conceptual strategies and their timely implementation, to obtain tangible and sustainable results.

Findings

Economic potential has a strong spatial pattern (see Figure 1). Well-defined areas of higher economic potential exist, with good agricultural potential, relatively good access to infrastructure, and high population densities. In Guatemala, this combination is found in zones in the South Coast, scattered areas of the Western Altiplano, near Guatemala City and along the Salvadoran border. In all countries in the region, growth has been concentrated in areas where agro-ecological conditions favor export agricultural production. Road networks and other infrastructure were built to serve coffee and banana-producing areas of Guatemala and Honduras, coffee and cattle-producing areas of Nicaragua, and other high export-potential areas around the region.

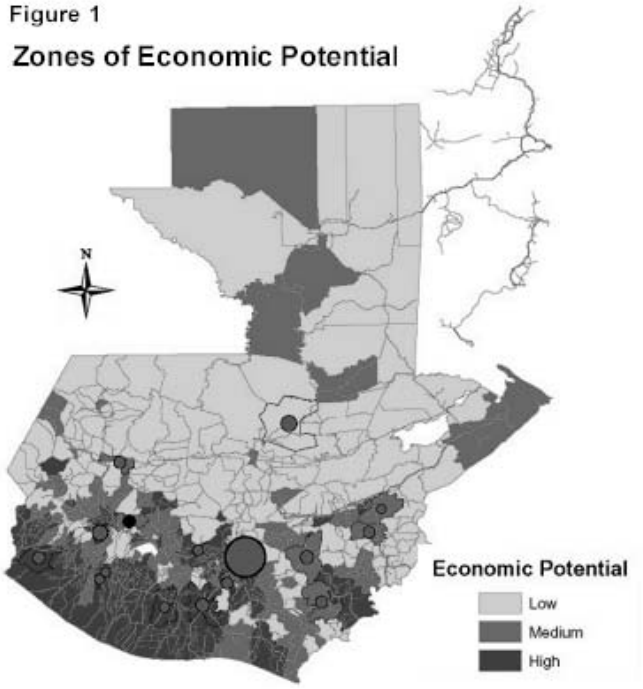
Economic potential does not automatically translate into improved well-being outcomes for all households. Despite good economic potential in parts of the Western Altiplano, measures of well-being there lag far behind potential. Persistent high rates of poverty show that this potential is not being fully realized—and even where it is, the poor are not participating because of missing assets, poorly functioning institutions, and policy shortcomings. An important issue for targeting public investments is to identify the combinations of productive, social, and location-specific assets that best enable households to take advantage of an area's growth potential and contribute to improvements in their well-being.

The high degree of overlap between high poverty rates and high poverty densities in areas such as the Western Altiplano means that investments there should reach significant proportions of the country's rural poor. Poverty densities are highest in the Western Altiplano, in the areas around Quetzaltenango and Huehuetenango moving west toward the Mexican border. These areas have high proportions of indigenous populations and are also among the poorest regions in Central America. Conditions for growth often include better agricultural potential, higher population densities, proximity to intermediate and final markets, and relatively good access to transportation. The geographic correspondence between high poverty rates and high poverty density in parts of the Western Altiplano indicates little or no tradeoff in targeting high poverty areas for poverty-reducing interventions. Investments targeted to such areas will reach many poor people and leakages to the non-poor will be minimal.

To generate substantial gains in poverty reduction and broad-based growth, complementarities between productive, social, and location-specific assets must be realized. Education, infrastructure (especially access to roads), social capital, landholding size, and other location assets are most important for poverty reduction, but other productive assets also play key roles. For example, lack of information about markets and opportunities, and limited access to public services can constrain broad-based growth. Not all assets are equally important; some are effective only in combination with other assets. As a result, public investment strategies should be coordinated across sectors. Returns to assets vary substan-

Figure 1

Zones of Economic Potential



tially depending on the household's location, suggesting that a spatially differentiated "territorial" rural investment strategy is appropriate.

Access to land affects well-being in rural Guatemala, but land quality and location are also important. Landless households experience higher rates of poverty, but landholding is not necessarily associated with lower poverty. Livelihood strategies, especially if they include rural non-agricultural activities, also matter. The relationship between landholding size and economic well-being also depends on land quality, proximity to markets, and availability of complementary assets, especially education and infrastructure. Education leads to increased productivity of land, and better-educated farmers are able to reap benefits from larger holdings. The amount of land under irrigation and use of modern seed and chemical inputs were also associated with higher levels of household well-being, holding all else constant.

Assets complement and substitute for one another. No unique minimum or optimal asset bundle applies to every household or region. For example, road access can substitute for landholding size in remote areas, and distance from services makes education even more important. Infrastructure investments are more effective in areas with better land security and widespread access to land.

Strong local institutions and social capital can compensate for lack of physical assets. Strong local institutions enable better management of community affairs such as basic service provision, conflict mediation, regulation of natural resource use, and coordination of community development. Water committees, school committees, credit associations, and churches are commonly found throughout rural Guatemala. In the absence of formal institutions in isolated rural areas, these organizations fill critical roles for growth. Strong communities make greater and more intensive use of natural capital, have higher productivity and cope better with crises. They are better able to innovate, participate and interact with external agents and coordinate demands to the government.

Recommendations

1. Move from geographically untargeted investments in single assets to an integrated, geographically based approach of asset enhancement. Investments in single assets (e.g. roads, education) need to be complemented by provision of other assets. Otherwise their benefits can bypass households who lack these complementary assets. Investments in education, roads, and other infrastructure related to access to markets intensify the positive effects of investments in agriculture and other land-based production strategies, which by themselves have limited impacts on growth and poverty reduction. A multisectoral and spatially differentiated investment program is needed. The appropriate roles of the public and private sectors should be carefully considered. At a minimum, public actions should address market failures and information asymmetries and identify barriers to asset accumulation.

2. To reach the largest number of poor, invest in a variety of social and productive household assets in high potential areas with high rural poverty densities. Policymakers in Guatemala have the opportunity to invest where rural poverty rates and densities are high in parts of the Western Altiplano and other areas with relatively good agricultural potential and access to infrastructure. However, asset bases of the poor need to be strengthened so they can benefit from growth-related spillovers. For example, feeder roads are needed in many mountainous municipios of the Western Altiplano to enable poor households to participate in the market economy. Access to technical assistance and productivity-enhancing technologies could boost agricultural growth.

3. Strategies are needed to address exclusion of indigenous people and their low levels of productive assets and returns on assets. Mean consumption levels of indigenous rural households are 30 percent lower than non-indigenous households, controlling for education, language ability, land and other productive assets. This holds across all regions of Guatemala; an indication of persistent economic and social disadvantages of indigenous households. It underscores their longstanding exclusion from public services and economic opportunities. Some efforts, such as strengthening property rights and providing more transparent rules of access to institutions, will benefit all, but will have a particularly strong impact on excluded groups. Other efforts should be targeted to excluded groups to overcome entrenched structural problems. Peace and a revitalized sense of cultural identity give former conflict areas potential for developing ecologically and culturally sensitive tourism. This could be an important source of jobs and markets.

4. In areas with higher agricultural potential and population density and access to infrastructure, agriculture should form an integral part of the rural growth strategy. High reliance of rural households on agricultural and related

income means that any rural strategy should build upon the economic base created by agriculture. For agricultural growth to lower rural poverty, critical shortcomings must be addressed: unequal access to land, degradation of natural capital, absence of technologies that enhance productivity, and weak institutions for technical assistance and market information. Despite erratic past performance of the agricultural sector, bright spots exist, including non-traditional exports. If agricultural growth is broad-based, forward and backward linkages to agriculture can be strong catalysts of growth.

5. Highly differentiated spatial distribution of economic potential implies a need for differentiated rural strategies according to an area's specific assets, markets and institutions (see Box 2). Investment strategies should be formulated on a broad regional basis, but within regions should be tailored to local asset bases and other conditions. This implies a strong role for local decision-making. The central government should guide investments and national priorities, but seek local input and analysis before deciding on the final form of investments. Public investment programs should offer alternatives for each area to choose from, depending on local assets and regional conditions.

6. Investments and projects backed by the World Bank and other donors in diverse regions of the country need better strategic linking and convergence. Specific investments for environmentally and socially sustainable development have limited growth and poverty reduction impact unless they build on complementary assets, especially in education, roads and other market-related infrastructure. Greater complementarity and cross-sectoral cooperation of Bank-supported investments could improve the impact on poverty, especially if leveraged by policy, regulatory, and institutional reforms.

Box 2 - Spatially Differentiated Development Strategies

In the Western Altiplano, the focus should be on land access and productivity enhancements such as forestry and water management, improved market and technical information, and diversification into high value-added activities. Improving feeder roads rather than constructing primary or secondary ones should also be a priority. To reduce constraints to broader participation in the market economy, public interventions should enhance the effectiveness of public services, reduce transactions costs associated with low-quality and scarce transport and communication infrastructure, increase access to technical assistance, and reduce market-related risk (also associated with poor information).

In the isolated areas of the Northern and Peten regions, access to basic education, water and sanitation, transportation, and electricity should be expanded. Investments should be focused around market towns and areas where population densities are highest. The quality of the natural resource base should be sustained and programs to enhance economic returns from environmental resources should be explored.

In the highly indigenous areas which include much of the Western Altiplano and some areas of the isolated Northern region, programs are needed to lower barriers to access basic services and economic opportunities created by discrimination. Investments in basic literacy and language skills are needed. Productive investments should be delivered through existing community groups, building upon the richness of their social fabric. Access to key assets such as land and public services should be promoted through aggressive public action.

In the higher potential areas of the Southern Coast, Central and East regions, agriculture should form the backbone of a broad-based growth effort. Small- and medium-scale exporters will benefit from macroeconomic stability, exchange rate stability, and improved access to market-related information. Traditional large-scale exporters can self-finance technical assistance, finance and group organizations. Public efforts should address problems of small- and medium-scale producers, who need producer groups, technical and market information, and support for value-added innovations (such as dairy production and non-traditional

For more details, see:

Siegel, P.B. (2005) "Using an Asset Base Approach to Identify Drivers of Sustainable Rural Growth and Poverty Reduction in Central America: Conceptual Framework." Policy Research Working Paper Series No. WPS 3475. The World Bank. www.worldbank.org/research or http://econ.worldbank.org/

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