

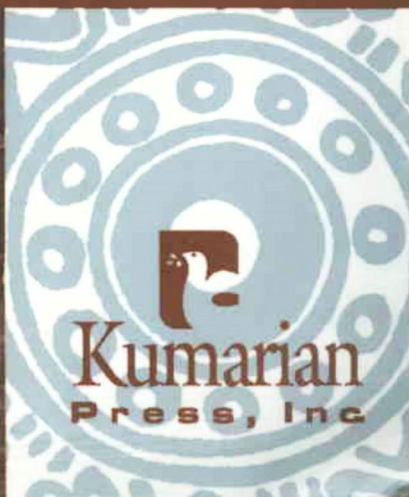
# RURAL PROGRESS, RURAL DECAY

*Neoliberal Adjustment Policies  
and Local Initiatives*



EDITED BY

LIISA L. NORTH and JOHN D. CAMERON



# **RURAL PROGRESS, RURAL DECAY**

*NEOLIBERAL ADJUSTMENT POLICIES  
AND LOCAL INITIATIVES*

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**LIISA L. NORTH AND JOHN D. CAMERON**

  
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**Rural Progress, Rural Decay: Neoliberal Adjustment Policies and Local Initiatives**

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## Chapter 5

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# Endogenous Peasant Responses to Structural Adjustment

### *Ecuador in Comparative Andean Perspective*

LUCIANO MARTÍNEZ VALLE



The implementation of SAPs in the 1980s and 1990s resulted in increased levels of poverty and social inequality throughout the Andean region. Although the GDPs of the countries in the region did grow during that period, the standard of living of the majority of their residents deteriorated significantly. This decline was especially notable in the countryside where poverty increased even more than it did in urban areas, resulting in a visible pauperization of the majority of rural producers and rural indigenous producers in particular.<sup>1</sup>

Throughout the Andean region the rural sector in general and the agricultural sector in particular faced difficult conditions. The population of the rural sector declined, the contribution of agriculture to national food markets fell, and the share of agriculture in the GDP stagnated. Connected to this were processes of agricultural modernization that served the interests of large-scale agribusinesses and marginalized small-scale peasant farmers. As a result of these trends the rural sector rapidly became characterized by a sharp division between a small elite sector of large-scale agribusinesses that produced for world markets and an immense peasant sector that was rapidly being driven out of agricultural production altogether.

In light of these conditions, we need to ask whether the peasant economy of the Andean countries remains viable. As a result of economic globalization, adjustment programs, the termination of land

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<sup>1</sup>This chapter is a revised and updated version of an earlier work, Martínez 1999.

redistribution, the general withdrawal of the state from rural development, and the already precarious economic situation of the majority of peasant producers, the margins of viability for peasant producers have become very narrow. It is in this context that the future of small-scale peasant producers must be examined.

### **THE IMPACT OF STRUCTURAL ADJUSTMENT ON AGRARIAN POLICIES IN THE ANDES**

The implementation of SAPs in the Andean region was highly uneven with regard to both the timing and depth of the reforms. Moreover, SAPs were implemented without any consideration for the socioeconomic conditions of the rural sector. Initiated at the beginning of the 1980s, SAPs concentrated on three basic mechanisms to stabilize and reactivate economic growth: liberalization, privatization, and deregulation. These policies had a series of particularly harmful consequences for agricultural policies and the rural sector.

It is important to begin by explaining that SAPs were most thoroughly implemented and their resulting shocks were the harshest in countries ruled by military regimes. In the case of Ecuador, a country ruled by elected civilian governments after 1980, SAPs were pursued in the face of strong social resistance and in the absence of the hyperinflation that had helped to create a stronger political consensus in favor of adjustment in neighboring countries (Martínez and Urriola 1994). In fact, in Ecuador SAPs were implemented later and still remained to be completed at the turn of the century—most notably in the conflictive area of privatization (see Larrea 1992, 295; Thorp 1998, 263–64).

Second, stabilization and adjustment programs do not present answers to the problems of the rural sector. As the FAO argued, the full impacts of SAPs are not only not evident in the short run, but they are also incapable of generating sustainable growth and development (FAO 1995). The immediate results of SAPs may be promising from the perspective of macroeconomic stabilization. However, stabilization based on neoliberal policies is unlikely to contribute either to improvements in agricultural production and productivity or to a decline in rural poverty.

Third, in the Andean region SAPs were implemented without any accompanying support policies for the agricultural sector. The absence of such support policies was particularly devastating for small-scale peasant farmers. Initially, adjustment programs were focused on dismantling the so-called distortionary elements of state-oriented development policies (Cismondi 1994, 3). Although specific initiatives for the agricultural sector were eventually formulated, they were designed in complete accordance with the dominant neoliberal macroeconomic framework, which

resulted in policies that were oriented toward neither sustainability nor equity (Cismondi 1994, 4).

Fourth, adjustment programs drastically reduced the role of the state in rural development. The shrinking of the state most seriously affected small- and medium-scale peasants engaged in production for domestic markets, since they were left without access to credit and other critical resources that markets failed to provide (Escobal 1994). In general terms, only those peasants who were able to diversify their production or who became involved in nonagricultural activities were able to maintain their livelihoods.

In Ecuador, adjustment has been viewed from a market perspective as an important step toward the consolidation of modern large-scale agriculture without considering either the social costs of adjustment or the incoherence of agricultural policies. From a macro perspective, the negative impact of SAPs appeared to have been mediated by reasonably good levels of agricultural growth, 2.9 percent per annum between 1988 and 1995 and 3.6 percent in 1995. However, those figures primarily reflected the growth of agricultural exports (Whitaker et al. 1996, 5–6), not an expansion of small- and medium-scale production (Chapter 4). SAPs were implemented in Ecuador without any consideration of the problems facing poor, small-scale producers. The rapid deregulation of prices, privatization of public enterprises, and development of private land markets quickly led to increased poverty and a decline in the supply of food for the internal market, the majority of which was grown by small-scale producers.

The mainstream solutions that were proposed for confronting the growing rural crisis focused on deepening the macroeconomic reforms that were already under way: privatizing what still remained in the hands of the state, eliminating all barriers to foreign investment and trade, increasing agricultural exports, and further liberalizing financial markets. Accordingly, the agricultural policies in place circa 2000 were designed purely from a market perspective. They included the development of technological-scientific support for large-scale private agriculture, the creation of private systems of credit and marketing, the strengthening of rural land markets, and the privatization of water. Sectoral policies were thus aimed at strengthening a highly competitive private sector on the basis of scientific management, high-yielding varieties, and industrial inputs (Whitaker et al. 1996, 32)—a strategy that consisted of little more than combining a market approach with green revolution technology. What is perhaps most objectionable is that the advocates of this model also presented it as an environmentally sustainable alternative to peasant production, which, they argued, was characterized by exploitation by poor, small-scale farmers lacking appropriate scientific and technical knowledge.



Comparative research reveals tremendous contrasts between the neoliberal agricultural development policies that were implemented in the Andean region and the strategies adopted by countries in those parts of the world where rural livelihoods improved over the second half of the twentieth century. The contrast is especially stark with respect to the Southeast Asian countries, where economic development resulted from the state's active role in promoting profound agrarian reforms, a relatively equal distribution of income, and the development of strong internal markets (Evans 1987; Fishlow et al. 1994; Kuo, Ranis, and Fei 1981). By contrast, in the case of Ecuador, average agricultural growth rates and incomes fell and levels of rural poverty increased as neoliberal stabilization policies were pursued. As Lefebvre argues (Chapter 4), mechanisms such as employment-creating rural public-works programs aimed at reactivating demand among the popular sectors could be much more effective for stimulating peasant production than the supposed miracles of the market. However, as the experience of the Southeast Asian countries makes clear, the success of such mechanisms requires that state intervention be directed toward the majority peasant sector, a strategy that the market-based model rejects.

### **THE DIFFERENTIAL IMPACT OF ADJUSTMENT ON THE RURAL SECTOR**

To date, no comprehensive evaluations have been conducted that measure the impact of adjustment programs on the highly diverse population of small-scale agricultural producers, either at a national level or for the Andes as a whole. There are, however, various studies that examine the impact of SAPs on specific geographic areas and identify key tendencies that are likely to be present in other areas with similar conditions. Here, I turn to the principal findings of these works.

First, throughout the region, SAPs led to a growth in rural poverty in the context of an increasingly concentrated structure of agricultural landholdings. Poverty increased in the region both as a direct result of SAPs, and also because these policies effectively blocked the access of peasant farmers to the key resources needed for agricultural production. Most important, in Ecuador, data indicated a declining availability of agricultural land: the number of small-scale farms grew while the total quantity of land available for purchase actually shrunk. At the opposite extreme, extensions of land larger than 100 hectares grew in size and controlled over 40 percent of available land (Martínez 2000b). Indeed, the World Bank explicitly noted that the overall concentration of land in Ecuador changed little between 1954 and 1994, and that the Gini index for land-ownership remained at the astounding level of 0.89 (World Bank 1995, 2:105–6).<sup>2</sup>

Second, the implementation of neoliberal-inspired agrarian laws destabilized rural indigenous communities, which had already represented the poorest sector of rural producers. It was precisely these communities that were most threatened by neoliberal reforms, which undermined communal land-tenure patterns and blocked the possibility of redistributing land through agrarian reform. Indeed, the term *agrarian reform* itself was vilified and replaced with the concept of *land markets* as the central element of the new paradigm for agrarian development in the region. Ideologues of the new agrarian laws emphasized the need to make land markets more efficient by establishing strong regimes of property rights and land titling (e.g., see Whitaker et al. 1996, 7–8) but without considering the highly restricted capacity of small-scale peasant producers to access credit and to purchase land through the market. From this perspective, Ecuador's 1994 Agricultural Development Law clearly worked against the interests of the majority of peasant producers. Although the leaders of Ecuador's principal indigenous and peasant organizations were invited to participate in drafting revisions to the law following massive nationwide protests against the original version of the law, their input was manipulated by the Chambers of Agriculture (the representative organizations of large-estate owners) to create the impression of a consensus around the law rather than making any substantial changes to it.<sup>3</sup>

Third, depending on their levels of productive diversification, peasant producers responded differently to SAPs. In Ecuador, both the volume and profitability of production for the internal market declined (Martínez and Urriola 1994, 173). The only producers who managed to insert themselves successfully into the new global market conditions were large-scale producers of "new export crops" such as flowers and broccoli. However, they were a small minority even among the broader export sector, which, for the most part, also encountered problems with markets, international prices, and technology. In response to deteriorating conditions for agricultural production, many peasant farmers simply stopped producing for the market altogether and sought income from nonagricultural activities, particularly in the urban informal sector. Adjustment programs in Ecuador were thus pushing peasants out of the sphere of agricultural production altogether.

Fourth, as a result of SAPs, employment in the rural sector became increasingly precarious throughout the Andean region. Adjustment programs encouraged the adoption of labor-saving technologies on large estates in order to increase international competitiveness. As a consequence of the widespread shift toward the use of temporary and seasonal labor by large-scale producers, it became increasingly difficult to find stable employment in agriculture. This was reflected in a massive contraction in the overall demand for labor as well as in a concentration of remaining demand in peak harvest periods.

An exception to this dominant trend emerged in the new cut-flower and vegetable-export sectors that developed in traditional dairy-producing areas of highland Ecuador. In this case the new crops involved increased labor intensity along with a shift in the use of agricultural land and the penetration of nonagricultural capital into the rural sector. As in other parts of the Andes, the majority of temporary workers in Ecuador's cut-flower and vegetable-export sectors were women, a phenomenon that signaled the emergence of more flexible local labor markets adapted to the global market (Martínez 1993). In fact, a process of "double feminization" in agriculture emerged throughout the Andean region, as well as in the rest of Latin America; that is, women became increasingly engaged in both small-scale agricultural production and temporary salaried agricultural work (Kay 1995).

Fifth, adjustment programs created an increasingly semi-proletarianized rural population with decreasing connections to the land. As Kay explains, semi-proletarianization became the principal tendency among Latin American peasants as the majority began to derive their incomes from sources external to their plots of land (Kay 1995, 73). In Ecuador, data from 1990 reflected a rural social structure in which the majority of producers were in a very weak position to adapt to neoliberal economic reforms: 26.8 percent of households were made up of wage workers and poor peasants represented another 33.3 percent of households (Martínez 1995).

Finally, SAPs disarticulated many of the traditional peasant organizations in the region. During the "lost decade" of the 1980s, the peasant movement was seriously weakened as a consequence of the fragmentation of the rural labor force (Kay 1995). Nevertheless, other new types of organizations and movements emerged in response to the acute conditions of rural poverty—perhaps most important, the indigenous movement in Ecuador that attracted international attention through national uprisings in 1990, 1994, 1999, 2000, and 2001.<sup>4</sup>

## THE VIABILITY OF THE PEASANT ECONOMY

The predominant analysis of the Latin American peasantry at the end of the twentieth century was highly contradictory. In spite of their poverty, peasant producers were also seen as having a very high organizational potential. In the most optimistic analyses, especially those of NGOs, this capacity for organization was presented as the key factor that would catapult the peasantry toward sustainable livelihoods in the twenty-first century. However, not only were many of the rural poor completely unorganized, but organization alone was not enough to provide a route out of poverty, as Korovkin makes clear in her analysis of the indigenous organizational "victories" in the province of Chimborazo (Chapter 7).

In addition to high levels of democratic and entrepreneurial organization (discussed below), at least four other elements are necessary for the peasant economy to become viable: (1) possession of sufficient land, water, and credit; (2) favorable macroeconomic policies; (3) reasonable access to markets that are not socially destructuring; and (4) sustainable external supports. I now turn to an examination of each of these factors.

Individual peasants have no control over the distribution of land, water, and credit or over macroeconomic policies, and they have little control over access to markets. Peasants do have greater control over organization and support from external agents. However, if access to productive resources and markets and a supportive macroeconomic policy context do not form part of the framework of agrarian policies, peasant organization and external support are unlikely to have much impact.

### ***Access to Land, Water, and Credit***

Problems of access to productive land and the need for agrarian reform were excluded from the new agrarian policies of the 1990s and replaced by strategies emphasizing rural land markets. The case for land markets, as argued by the World Bank in particular, is quite simple: If small-scale producers are more efficient than large-scale producers with respect to the volume of production per hectare, they should be able to obtain more land through the market. The Bank's expectations concerning redistribution through land markets, however, are based on two erroneous assumptions: The first is that large landholders are willing to cultivate their land more intensively so that they will need less of it; the second is that they are willing to sell their surplus land to peasants. The argument also fails to consider two other critical factors: First, control of land in the Andes is not only a source of wealth but also of social and political power; and second, in the current context, small-scale peasants cannot compete with other actors who are trying to purchase land. The solutions that land markets might provide to relieving land concentration thus exist only in the imaginations of neoliberal economists.

Rather than increasing access to land, the new agrarian laws have begun to destabilize indigenous communities through the elimination of regulations that once blocked the division and sale of communally owned lands.<sup>5</sup> In Ecuador, in response to the Agrarian Development Law and the resources made available by NGOs, many peasants shifted their demands from land redistribution to land titling. In fact, in the context of the new legal framework, land invasions stopped completely after the mid-1990s and calls for the expropriation of *haciendas* declined considerably (Chapter 6). At the same time, the subdivision of former communal lands increased, especially in the high altitude *páramo*, with at least three negative consequences: (1) the properties that entered the land market were primarily small parcels with the consequence that small

landholdings became even smaller; (2) many of these properties passed from the collective control of communities to that of private individuals; and (3) ecologically sensitive *páramo* lands, which are not appropriate for agriculture, were divided and sold for use in agricultural production (FUNDAGRO 1996).

The control of water resources in the Andes was also rapidly shifting into private hands, and legal regulations were prepared throughout the region to accelerate this process. As the role of the state in water management declined, speculation over irrigated areas increased, driving up land prices and threatening to intensify land conflicts (FUNDAGRO 1996, 49). Moreover, the benefits that high-altitude indigenous communities had previously enjoyed as a result of their proximity to the sources of irrigation water deteriorated as water was privatized, user fees were increased, and other cost-recovery mechanisms were introduced to finance irrigation (Whitaker et al. 1996, 109–10). There is no doubt that state-managed irrigation systems in the Andes were inefficient and generally allowed irrigation water to be controlled by large property owners. However, the problems of publicly managed systems do not justify the potentially devastating social and ecological consequences that would result from the privatization of water (Bolens 1995). At the close of the 1990s, proposals involving the regulation of water supply by the state but the private delivery of irrigated water appeared to be one alternative to full-scale privatization (Dourejeanni 1993).

### ***The Macroeconomic Policy Context for Rural Development***

In the Andean countries neoliberal macroeconomic policies not only took precedence over agricultural development policies, but no policy measures were even implemented to confront the negative economic and social effects of adjustment in the countryside. The integrated rural development policies that were popular in the 1970s and 1980s were largely dismantled and continued to operate, in a much reduced form, only in Colombia and Ecuador. Moreover, those policies were focused almost exclusively on peasants considered to be economically viable or were simply designed as social welfare schemes. No policies were implemented to support small-scale peasant producers. Rather, emphasis was placed on macroeconomic and monetary policies that were expected to benefit the peasant sector, and policymakers simply bet on NGOs and other elements of civil society, accompanied by a policy of “select supervision” on the part of the state, to provide support for those peasants considered to be economically viable.

### ***Socially “Destructuring” Market Access***

Financial capital has always been scarce among small-scale peasants. Moreover, in the Andean countries, credit from state banks that was

theoretically intended to support peasant producers almost always ended up in the hands of large-scale farmers. This phenomena was often cited by neoliberal advocates to support the privatization of state banks that offered preferential credit to rural producers. However, in Peru, the liquidation of the state-controlled Banco Agrario pushed market-oriented peasant producers even further toward informal sources of credit, which had lower “transaction costs” but also higher interest rates than credit offered by formal lenders (Alvarado 1994, 121). Similarly in Ecuador, the restructuring of the BNF into a commercial bank, with no special preference or lower interest rates for peasants, resulted in a reduction in the amount of credit available to peasant producers (see Younger et al. 1997).

The “real market,” understood as a culturally and politically specific institution, has incorporated peasants in different ways (Hewitt de Alcántara 1993). Large sectors of peasant producers, and indigenous communities in particular, remained effectively outside the markets for agricultural products, simply because they were not “competitive.” Gonzalez de Olarte, referring to one of the central problems facing Peruvian peasants, observed:

The current macroeconomic and institutional context forces peasants to substantially raise their levels of productivity if they want to progress through agricultural activity. To become more efficient and to gain access to markets, peasants must incorporate new technologies, which in turn require new resources and knowledge. In the event that peasants are unable to access those resources and knowledge, their only alternative is isolation from the market or migration. (Gonzalez de Olarte 1988, 118)

Numerous studies, in Peru in particular, highlight the weak capacity of peasants to adopt new technologies in response to the challenges of higher productivity and competitiveness. In contrast to the rapid integration of global markets, technology in the peasant sector tends to change very slowly (Gonzalez de Olarte 1988). Without new technological inputs it is very difficult for small-scale peasant producers to become integrated into the market without extensive periods of migration, which have a highly “destructuring” impact on families and community (see below).

In Ecuador, at least, the romantic idea that peasants could opt out of market relations and develop self-sufficient production strategies as a response to adjustment programs has no empirical or historical basis. Most peasants and indigenous communities had no choice but to maintain the connections with the market. Moreover, in some areas of Ecuador production for the market increased, relative to production for self-consumption, as a result of adjustment programs.

By the 1990s the principal connection with the market for small-scale peasants occurred not through agricultural production but rather through urban migration and the sale of their labor. As indicated above, limited access to productive resources forced poor peasants to pursue livelihoods in activities outside of their farms and often beyond their home communities and even countries.<sup>6</sup> Research conducted in the areas of operation of PRONADER in Ecuador found that, in areas with predominantly indigenous populations, agricultural activities accounted for less than 40 percent of household incomes (Martínez and Barril 1995, 64). The connection between lack of access to critical productive resources and migration has been analyzed in numerous studies of migration as a “subsistence strategy” aimed at “re-peasantization,” that is, saving money earned from wage labor to purchase agricultural land. However, in the predominantly indigenous areas of the Andes, little land remained available for purchase, while new agrarian laws blocked any collective political strategies aimed at acquiring it. Even more problematic was social decomposition of rural communities that began to occur as a result of increasing levels of labor migration. Not only was the principal labor force leaving rural communities, but as wage labor became the most important source of income, the logic of “exchange value” began to transform internal community practices and urban consumption patterns proliferated among the younger generations. There was a direct correlation between the marginal situation of households with only small plots of poor-quality land and the increasing diversification of socially destructuring income sources (de Janvry 1994).

### **Peasant and Indigenous Organization**

Organization has become a central theme in debates about the viability of the peasant economy. Indeed, hope for the survival of the rural poor in the context of globalization is now almost always pinned on the apparent organizational potential of the peasant sector. However, most discussions of peasant organization fail to distinguish between traditional organizations that were created in response to state legal frameworks and exist only on paper, and the newer forms of organization that emerged in response to external financing and development programs in the 1980s. Ecuador, and especially its indigenous population, is frequently presented as a model of peasant organization, largely because of the sequence of massive indigenous uprisings that began in 1990. Indeed, the tremendous growth in the number of peasant and indigenous organizations, and especially of second-level peasant organizations (that is, federations of community organizations), led some researchers to challenge the view that the 1980s were a “lost decade” for development in the rural sectors. Those researchers articulated a vision of the 1980s as “the decade that was won” (*una década ganada*) in the context of flourishing of peasant

organizations (Bebbington et al. 1992). Donor agencies, NGOs, and IFIs also came to emphasize social organization as the key factor needed to make peasant production viable in the twenty-first century, a perspective that was reinforced by international debates about the importance of social capital—which came to be seen as one of the key strengths of Andean peasants.<sup>7</sup>

Unfortunately, those who highlighted the importance of peasant organization generally failed to consider the limited productive resources that peasants actually controlled. Moreover, enthusiasm for the indigenous movement also resulted in a generalized failure to examine carefully the entrepreneurial capacities of peasant and indigenous organizations. Systematic analysis of the type of organizations that are emerging and the question of whether or not they are capable of responding to the economic challenges of integrating into global markets and benefiting from the neoliberal macroeconomic policy context were generally left by the wayside.

A fundamental change is taking place in the world of Andean peasant organizations. Older traditional peasant organizations, such as community-level *cabildos* (elected councils) and microregional peasant federations, are in crisis. At the same time, however, new types of peasant corporations and businesses began to emerge in response to adjustment programs in connection with the promotional work of rural development NGOs (Chapter 8).

My own research on second-level peasant organizations in the majority of Ecuador's highland provinces revealed that many of them existed only on paper and that those actually functioning suffered from serious internal problems (Martínez 1997). Peasant organizations flourished in the 1980s in direct response to new sources of financing and development projects targeted specifically at indigenous communities. As those initiatives later began to dry up, many organizations became less active, often to the point of ceasing to function altogether. For example, only seventeen of seventy-one second-level peasant organizations examined in 1996 had any real capacity to formulate or carry out development projects. Moreover, of those seventeen, only three could be considered efficient and had clear future-oriented development strategies (Martínez 1997). By contrast, the vast majority of peasant organizations in highland Ecuador had little internal cohesion and little capacity to negotiate with external institutions and actors.

Significantly, the few organizations that could be characterized as efficient and internally cohesive bore little resemblance to traditional community-based peasant federations. Rather, their profile was much more similar to that of microenterprises. Moreover, although these new organizations had emerged as a consequence of external support, they tended to be more efficient than traditional organizations in responding to the demands of their members. The phenomenon of these new



peasant organizations remains to be seriously examined, but their appearance certainly suggests that significant changes were taking place in rural organizations in the Andes.<sup>8</sup> These changes should be analyzed, not from the idealized theoretical perspectives of an assumed cooperative matrix of Andean social relations, popular in much of the academic literature, but from the perspective of the real accumulated experience and practices of the communities themselves.

### ***Sustainable External Support for the Peasant Economy***

The theme of external and sustainable support to peasant producers has two components. On the one hand, state support became increasingly limited and weak; on the other hand, support grew from NGOs. The declining role of the state was accompanied by flourishing hopes for the strengthening of civil society through community organizations and NGOs. These organizations became the new agents of much of the work previously carried out by the state, and many observers hoped that they would be more efficient agents of development than the state, capable of inducing a shift from production for self-consumption to production for the market (de Janvry 1994). However, there was little empirical evidence to support such optimism about the role of NGOs and civil society. Without evidence concerning their actual capacities, the simple growth in the number of peasant organizations provided no reason to be hopeful about the future of rural development. At least in Ecuador, which was often viewed as a model for other countries in the region, rural peasant organizations turned out to be much weaker than the euphoria surrounding them—as expressed in the notion of the “decade that was won”—had suggested.

At the end of the twentieth century there was still a long way to go to reactivate second-level peasant organizations, to understand better the problems of undemocratic administration that characterized many of them, and to support their embryonic business initiatives. Arguments that indigenous and peasant federations could form the basis of a more competitive model of rural development simply ignored hard realities. Rural civil society, even when supported by NGOs, simply was not able to fill the voids left by the state, as the case studies in this volume demonstrate.

NGOs represented the other great hope for confronting the problems of rural development within the framework of structural adjustment. However, there was little objective evidence available about their actual performance and capacities. Very few NGOs had conducted serious evaluations of their effectiveness in promoting rural development. Moreover, rather than basing rural development strategies on lessons learned from their own experiences, the vast majority of NGOs simply adapted to new development fashions and funding opportunities from

the international development agencies. Even more problematic, NGOs frequently interpreted successful cases of community and local development as models that could be replicated without seriously examining their sustainability.<sup>9</sup>

NGOs in the Andean countries occupy ambiguous positions. Since they emerged in the 1970s, NGO interventions have not resulted in any sustainable solutions to the problems of either rural development or poor peasants. However, despite their widespread failures, NGOs were assigned a prominent place in the new “magic formula” for rural development that combined social organization with the “free market.” NGO efforts were increasingly focused on strengthening peasant organizations as business enterprises and on searching for market niches that could make peasants economically viable in the context of the new economic model. NGOs, in short, were becoming highly functional to the interests of the IFIs and, as a result, received generous funding for their programs (see Chapter 8).

Sustainable NGO supports for the poorest peasants also began to disappear as the parameters of rural development were reshaped within the confines of the free market. As NGOs adapted to the new market-oriented development paradigm and abandoned their role as nonprofit organizations to become “organizations which sell specialized services” (Arcos Cabrera and Palomenque Vallejo 1997), poor peasants lost access to their support. This occurred for the simple reason that small-scale peasant production was not sustainable within the new market model and small-scale producers could not afford to pay for the costs of NGO services.

Many of the proposals for improving peasant livelihoods were based on organic agriculture as a technological alternative to the Green Revolution (Toledo 1995). NGOs were generally seen as the principal institutions that might encourage peasants to adopt this line of action, focused on agro-ecology, peasant organization, and specialty markets. However, these agro-ecological proposals almost always revolved around strategies for conservation and sustainable resource management that were feasible for only a minority of peasants with access to land and other resources. Without ignoring the theoretical importance of these ideas, which might provide solutions for peasants with sufficient productive resources, no similar proposals emerged for the majority of poor peasants who were dependent on small plots of land and highly diversified sources of income.

### **THE LIMITATIONS OF THE NEW RURAL DEVELOPMENT: THE CASE OF PRONADER**

The rural development programs implemented in Ecuador over the 1980s and 1990s were repeatedly undermined by the absence of a macro-

economic framework favorable to small-scale rural producers. Neoliberal SAPs, the dismantling of state institutions, the “flexibilization” of labor, and trade and investment liberalization all worked against the development of the peasant economy.

Any rural development program aimed at reactivating peasant production requires a favorable macroeconomic policy context. As Echeverría argues, that policy context must both “allow small-scale agricultural production to be profitable and facilitate peasant access to productive resources and . . . promote non-agricultural rural development” (Echeverría 2000b, 4). In Ecuador, rural development programs did neither of these things. Rural development efforts were relegated to the realm of anti-poverty programs, and the state largely ceased to provide credit, marketing support, and technical assistance to the peasant sector. In this respect, it was no accident that Ecuador’s Under-Secretariat for Rural Development was located in the Ministry of Social Welfare.

The National Rural Development Program (PRONADER) was the most recent state-administered rural development effort in Ecuador. It operated from 1990 to 2000 to support approximately twenty-three thousand peasant households in twelve rural areas, with US\$112 million in funding, US\$84 million of which came from a World Bank loan.<sup>10</sup> Unfortunately, PRONADER failed to address any of the economic problems that were created for poor peasants by Ecuador’s macroeconomic and agricultural policy framework. As a result of its lack of understanding of the problems facing the peasant economy, a lack of vision in the design of its programs, and political interference, PRONADER generally failed to improve peasant livelihoods in project areas.

The analysis of PRONADER’s impacts presented here is based on before and after surveys of a representative sample of program beneficiaries conducted by the author. Altogether, 1,572 families were interviewed in 1993 and 1,545 in 2000, with most of the latter being families that had been interviewed seven years earlier. In addition, in 2000, the research involved a review of the functioning of 180 organizations and interviews with personnel from 36 institutions that had collaborated with PRONADER. The reader should keep in mind that the program’s twelve operating areas were chosen because peasants in those areas were considered potentially “viable” in the context of neoliberal adjustment. The program was not designed for the poor peasants who make up the majority of rural producers.

PRONADER’s impact on the incomes of its intended beneficiaries was minimal. In fact, the average incomes of beneficiaries dropped from US\$354 per annum in 1993 to US\$337 in 2000, and only five of the twelve areas registered any increases in income. It is important to point out that three of those five areas—Daule, Tres Postes, and Playas de Higuierón—were located in the rice-growing region of the lower Guayas

basin on the Pacific coast, an area where the size and quality of farms and the nature of production placed the producers at the top of the minority of "middle peasants" with good land, stable market access, and experience in adopting new technologies. To be effective, however, rural development programs need to give priority to the majority of poor peasants who rely on small plots of land and wage employment. In this respect, PRONADER's impacts in project areas in the highland region, where indigenous populations are concentrated and poverty is most acute, are revealing: Producers in the highland zones actually experienced a deterioration in economic conditions, and peasant incomes dropped by as much as 28 percent, even though the communities targeted by the programs were not among the poorest in the highland region.<sup>11</sup>

Analysis of PRONADER's initiatives also reveals that its development interventions had the greatest impact in areas that had previously experienced agrarian reform, as had the rice-growing areas in the lower Guayas basin. Where agrarian reforms had not been implemented, the impact of PRONADER's projects was much weaker. Similarly, its projects focused on agricultural production faced greater difficulties in increasing peasant incomes in areas where economic activities had by necessity become highly diversified and peasants had ceased to depend on agricultural production for most of their income, as is the case of the poorest areas in the highlands and in the coastal foothills.

Employment in PRONADER's areas of operation also declined between 1993 and 2000, from 87.1 percent to 76.4 percent of the economically active population. Moreover, underemployment in agriculture increased as the proportion of peasants engaged in agricultural activities rose in the face of declining nonagricultural employment opportunities.<sup>12</sup> The provision of credit for agricultural production by PRONADER and the crisis of urban employment in the construction and service industries were key elements that led many peasant households to focus their time on agricultural production. Because large-scale agribusinesses also failed to generate new employment opportunities,<sup>13</sup> small farms became a sort of employment refuge for members of peasant households who could not find employment in other sectors of the economy. Significantly, however, a higher degree of occupational diversification remained evident in the highland areas with poor access to land. Meanwhile, in the coastal areas with better resources and more advanced market agriculture, occupational diversification was much lower because peasants in that region could still earn basic livelihoods from agricultural production.

Land ownership in PRONADER's areas of operation also became more concentrated between 1993 and 2000.<sup>14</sup> The farms of peasants with less than fifteen hectares decreased in size between 1993 and 2000 as a result of economic pressures on peasants to sell their land and the division

of properties through inheritance. By contrast, farms larger than twenty hectares increased in size, from an average of 31.1 to 39.8 hectares, a process of land concentration that was facilitated significantly by Ecuador's 1994 Law of Agricultural Development (see Lefebvre's critique of the principles underlying this law in Chapter 4). The land titling programs established in accord with the 1994 law made considerable progress among peasants with small farms, but this did not translate into improved access to land for those peasants, as the proponents of land markets argue (World Bank 1995; Echeverría 2000a; Vogelgesang 2000; Jaramillo 2000).<sup>15</sup> Poor peasants, in fact, had great difficulty acquiring land that was supposed to become available through the market, and economic forces pressured many of them to sell their land to larger-scale farms.

PRONADER also failed to improve peasant access to technology, credit, and markets. These factors are all essential if peasant households are to increase their levels of production and productivity. However, the percentage of peasant households in PRONADER areas that received technical assistance actually dropped between 1993 and 2000, from 62.8 percent to 14.4 percent. Moreover, technical assistance was concentrated on the middle and wealthy peasants rather than on the majority with very small plots of land.<sup>16</sup> As noted above, the availability of technical assistance for peasant agriculture declined throughout Ecuador as a result of the withdrawal of state institutions that used to provide technical assistance for agricultural development (for example, the Ministry of Agriculture and Livestock) and the inadequacy of private sources of technical assistance.

Access to productive credit among peasants in PRONADER's areas of operation dropped from 32 percent in 1993 to 19.5 percent in 2000. Among the causes of this drop, it is important to highlight the national financial meltdown in 1999, which involved the bankruptcy of major banks and financial institutions and, in particular, the reorientation of the BNF, which was reorganized to become a traditional commercial bank with the elimination of its special preference for peasant producers. The proportion of credit provided to the peasant sector by the BNF in PRONADER areas plunged from 23.7 percent in 1993 to 9.3 percent in 2000. The lack of formal credit from the BNF was partly filled by new financial agents, such as savings-and-loan cooperatives, NGOs, and various churches. As well, a reactivation of informal credit from small-scale moneylenders and loans from family members accounted for 41.7 percent of all credit to peasants in PRONADER areas by the year 2000. However, the most common response to the 1999–2000 financial crisis among peasants was not to borrow money at all—which, although a prudent strategy for protecting their land, also resulted in lower levels of agricultural productivity and production.

The peasant economy in Ecuador remained very closely connected to the market. In PRONADER areas in 2000, 84 percent of production

was directed toward the market, in contrast with only 16 percent for self-consumption. Significantly, 30 percent of peasant agricultural production for the market was processed in artisan enterprises that were set up in peasant households. This fact suggests a high potential for developing forward linkages from agricultural products. In PRONADER's areas of operation, such peasant processing activities had developed around two principal products, dairy goods and sugar cane. But those activities remained confined in family-based artisan businesses with low levels of technology and productivity, manufacturing low-quality goods for local markets. Unfortunately, and in spite of their potential importance for creating rural employment and generating income for peasants, PRONADER did not recognize the potential of these endogenous peasant initiatives and failed to provide supports that might have made them more productive.

One important advance in the new conception of rural development was the recognition that education and organization are essential for rural progress. De Janvry and Sadoulet (2000) argue that rural development in Latin America will only be possible if peasant access to secondary education increases dramatically. Secondary education is a prerequisite for peasants in order to develop their capacities to manage small businesses, improve marketing, produce higher-quality goods, and find non-agricultural employment, all of which require high levels of literacy, numeracy, and other skills. Although the percentage of the population with no education dropped in PRONADER's areas of operation, from 17.4 percent in 1993 to 15.2 percent in 2000, 67.1 percent of peasants still possessed only an elementary education, and illiteracy among women remained at 18 percent in 2000.<sup>17</sup> In general, levels of human-capital formation in PRONADER's areas of operation were low: in 2000, only 13.8 percent of the school-aged population had completed secondary school, and only 1.6 percent had tertiary education. These low levels of education represented a formidable obstacle to rural development efforts, because peasant businesses cannot be expected to survive and become competitive without a solid educational foundation. Moreover, in the prevailing context of economic crisis, the peasant population was not giving priority to the education of its children. Poverty induced a premature use of human resources with low levels of education in family-based farms and enterprises, as demonstrated by the extensive use of family labor in agricultural production.

PRONADER also failed to include efforts to strengthen peasant organizations in its rural development strategy. In its areas of operation, it worked only with those peasant organizations that demonstrated openness to the program, with little consideration for their capacities, legitimacy, or the size of their membership. Indeed, PRONADER's failure to screen carefully the peasant organizations with which it worked resulted in the formation of at least 137 ad hoc groups that were formed

specifically to take advantage of PRONADER's programs but had few roots in local communities. Moreover, the training that PRONADER offered to peasant organizations was narrowly concentrated on agricultural activities, and, in light of the urgent needs of the peasants at the program sites, the number of training events offered between 1995 and 2000 (generally between one and three in each area) was entirely insufficient.

PRONADER's interventions had a similarly negligible effect on strengthening social capital in its areas of operation. Although the program took advantage of traditions of community labor in highland peasant communities to complete certain projects, it did almost nothing to strengthen social relations in those communities. Dependence on volunteer community labor has become a key component of rural development projects, but it was beginning to reach its limits. The unproven assumption that peasant organizations can provide such volunteer labor for local development projects on a permanent ongoing basis is being increasingly called into question. Moreover, not all rural areas have high levels of organization or traditions of community labor upon which to rely. PRONADER's failure to strengthen the peasant organizations in its project areas seriously limited the potential sustainability of its development efforts as local peasant organizations were generally left without the capacity to assume control over projects when PRONADER support ended.

Finally, it is important to point out that PRONADER failed to develop any kind of institutional synergy with the NGOs in its project areas that might have made possible a more coordinated and sustainable development effort. Among the most important causes for that lack of coordination were the changes in state policies that resulted from political interference and instability and the consequent frequent rotation of technical staff, as well as jealousy among NGOs. With regard to political interference, corruption was particularly pervasive in the appointment of project personnel who, in various cases, were given positions as a means of returning political favors, resulting not only in incompetent project staff but also in high rates of turnover.<sup>18</sup> In certain cases, moreover, PRONADER projects were manipulated by powerful local landowners who stood to benefit from increased agricultural land values that resulted from investments in irrigation in particular.

In sum, PRONADER's efforts to promote rural development addressed none of the principal problems facing the majority of peasants. Its failure to improve the livelihoods and living conditions of peasants in its specific areas of concentration was perhaps not surprising given its top-down approach, its failure to design policies for the majority of poor peasants, and its acceptance of the neoliberal macroeconomic policy framework. Indeed, it is difficult to imagine how a rural development

program without improved access to agricultural land, credit, education and technical assistance, viable market strategies, and competent peasant organizations could have any positive impact on peasant production and livelihoods.

## CONCLUSION

The situation of peasant and indigenous communities in the Andean countries, and in Ecuador in particular, has deteriorated significantly as a result of the SAPs implemented since the early 1980s. Putting a halt to that deterioration and making the peasant economy of the Andean region economically viable require a solution to the problem of poverty, which in turn depends on peasant access to those resources that are not being used at maximum efficiency by large-scale agriculture. However, the legal barriers that neoliberal policymakers have constructed to stop processes of agrarian reform and to consolidate land markets undermine the stability of the peasant economy. *Real* land markets—in the context of the poverty of the majority of peasants—have resulted in an increased concentration rather than a redistribution of agricultural land. As a result, without an immediate revision of agrarian laws and renewed state involvement in rural development efforts, most peasant producers will be marginalized no matter how efficient they are. It is also essential that the state make a major commitment to rural development initiatives that focus much more carefully on the needs and conditions of poor peasants and that are implemented through democratic processes. The state must also establish an overall macroeconomic framework that recognizes the economic value of the activities of poor peasant producers and must enable peasant organizations to participate in the design, administration, coordination, and regulation of rural development initiatives.

This chapter has criticized the neoliberal macroeconomic model for its adverse effects on small-scale agricultural producers. Nevertheless, recent proposals from institutions such as the FAO and the World Bank suggest that there may still be some hope for the peasant economy. The simple reason for their preoccupation with rural conditions is that the mass of impoverished peasants in unstable countries represents a threat to political stability that needs to be carefully contained. The FAO, for example, proposed “a reappraisal of the rural sector” and identified a need to develop strategies to protect food security (FAO 1995). The World Bank, for its part, recognized the need to make land more accessible to peasants, although still only through market mechanisms. The UNDP, in turn, has insisted that new strategies of agricultural development must be centered on small plots of land, the generation of employment, more efficient resource use, and an equitable distribution of resources (UNDP



1996, 86–105). There is thus a debate under way about creating at least the minimal conditions that would enable peasants to play a productive role in the context of structural adjustment. Strategies focused on reducing food insecurity, organic production for specialty export markets, and productive diversification throughout artisan activities and agricultural processes represent three politically and economically viable policy options that could help to promote the peasant economy and that already have some support from the development institutions mentioned above. While not solving all the problems of small-scale producers, initiatives in these areas would at least mitigate some of the worst impacts of SAPs as they have been implemented in Ecuador. One fact remains certain however: The opportunities for Andean peasants to use their knowledge, culture, and productive practices to build more equitable societies in the future will be much greater if development policies break away from the narrow focus on free markets and globalization.

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### Notes

<sup>1</sup> In the case of Ecuador, poverty affected 75.8 percent of the rural population in 1995, and 82 percent in 1998 (Larrea and Sánchez 2002, 12, table 5).

<sup>2</sup> As explained earlier, the Gini coefficient represents the degree of inequality in asset ownership, with 0.0 representing complete equality (all individuals owning equal assets) and 1.0 representing complete inequality (all assets owned by one individual).

<sup>3</sup> Indigenous leaders and organizations asserted that they won important concessions from the government and landlords (e.g., Pacari 1996). However, many analysts of the process who work with the peasant sector argue that those concessions were purely symbolic.

<sup>4</sup> “New” rural social movements also emerged in other Latin American countries with modes of organization and strategies that were very different from those that characterized the peasant organizations of the 1970s and 1980s. Prominent among these new movements were the MST in Brazil and the EZLN in Chiapas, Mexico.

<sup>5</sup> This process occurred in Mexico with the elimination of Article 27 from the Mexican Constitution in 1992; in Peru, with the approval of the Land Law 26.505, in 1995; and in Ecuador with the passage of the Agrarian Development Law in 1994.

<sup>6</sup> With regard to international migration, see, for example, Jokisch 2001.

<sup>7</sup> For more on this theme, see Putnam 1993; Bebbington et al. 1992; Arrobo Rodas and Prieto 1995; Flora 1995; Martínez 1997.

<sup>8</sup> The attention that has been given to the theme of *organization* needs to be questioned rigorously. Thus far, it has been much more closely connected to the apolitical deployment of the concept of social capital than to political and economic perspectives that question or challenge the status quo (see Chapter 1).

<sup>9</sup> In Ecuador, the case of the parish of Salinas in the central highland province of Bolívar has become a well-known model for NGO-led development. However,

few have investigated how much money was invested during the course of the 1980s and 1990s in this development effort, which ultimately benefited fewer than ten thousand people. Nor have they inquired into why the management and financing of development efforts in Salinas was not shifted from NGOs to peasant organizations. How much time will it take before the peasants in Salinas can manage their own enterprises? Finally, it is critical to recognize, as North does (Chapter 11), that the experience of Salinas is not replicable among poor peasant producers without access to land, other assets, credit, and a variety of services.

<sup>10</sup> PRONADER's areas of operation were, in the highland region, Espejo and Mira in the province of Carchi; Sierra Norte de Pichincha in Pichincha; Pangua and T.T.P. in Cotopaxi; Facundo Vela in Bolívar; Guano in Chimborazo; Santa Isabel in Azuay; in the Costa, Daule and Tres Postes in Guayas; Jipijapa and Paján in Manabí; Playas de Higuierón in Los Ríos.

<sup>11</sup> Between 1993 and 2000, the average income of beneficiaries in the Sierra Norte of Pichincha declined from \$US203 to \$US195, in Guano (Chimborazo) from \$US360 to US\$263, and in T.T.P. (Cotopaxi) from \$US277 to \$US202.

<sup>12</sup> The percentage of the economically active population in PRONADER's areas of operation engaged in agricultural activity rose from 53.6 percent in 1993 to 58.8 percent in 2000. Livestock production occupied 10 percent of the economically active population in 1993 and 14.5 percent in 2000. By contrast, non-agricultural activities declined from 19.5 percent of the economically active population in 1993 to 14.7 percent in 2000.

<sup>13</sup> The exception was the cut-flower industry of the northern central highlands, which employed between eleven and thirteen workers per hectare, more than any other agricultural product in the region. The majority of workers on cut-flower farms lived in nearby indigenous communities and represented a significant process of proletarianization in the provinces of Pichincha and Imbabura in particular (Mena 1999).

<sup>14</sup> At the national level 77.6 percent of farms smaller than five hectares controlled only 5.3 percent of land, while the 1.5 percent of farms over one hundred hectares controlled 50.5 percent of all land (Martínez 2000b).

<sup>15</sup> In 2000, 20 percent of farms still had no property title, down from 34.1 percent in 1993.

<sup>16</sup> Only 9 percent of peasants with one to two hectares and 15 percent of peasants with two to five hectares reported receiving any assistance, while 19.3 percent of peasants with five to ten hectares and 28.4 percent of peasants with ten to fifteen hectares received technical assistance from PRONADER.

<sup>17</sup> This problem was most severe in the highland areas with large indigenous populations, where female illiteracy is widespread.

<sup>18</sup> It is important to note that, especially during the presidency of Sixto Durán Ballén (1990–94), PRONADER became so politicized that its developmental goals were totally ignored, as was made evident by the appointment of incompetent political supporters of the president's party to technical positions in PRONADER. To provide a few examples, local area coordinators in the Sierra Norte de Pichincha site at various times included a hairdresser, a bullfighter, and an ice-cream store owner, all completely unqualified to lead rural development projects but politically well connected to the president's party machine. With regard to corruption, see Arcos Cabrera 2001.