Grassroots-Based Rural Development Strategies: Ecuador in Comparative Perspective

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Summary. — International donors are providing increasing amounts of assistance to grassroots-based economic initiatives in Latin America and elsewhere. The question is: can such initiatives prosper and generate widespread improvements in living standards in the context of the prevailing neoliberal economic policy agenda? The paper responds to this question, from comparative Latin American and East Asian perspectives, by analyzing how economic diversification and improved living standards were achieved in two rural parishes in highland Ecuador. We find that, in both cases, access to landownership and other assets was a critical factor in permitting small-scale producers to participate in market exchange in a manner that allowed them to improve their living standards. Hence, to the extent that neoliberal policies freeze into place the highly inequitable overall structure of asset and income distribution in Ecuador and elsewhere, such policies inhibit the widespread replication of the two successful cases. © 2000 Elsevier Science Ltd. All rights reserved.

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1. INTRODUCTION

Over the last decade, international donors have provided increasing amounts of assistance to grassroots-based economic initiatives in Latin America and elsewhere in the Third World. As the dislocations provoked by neoliberal structural adjustment policies (SAPs) became highly visible in the 1980s, donor countries and international financial institutions (IFIs) began to fund social compensation programs that were delivered through state agencies. Later, for reasons that included the often pervasive corruption of those agencies and the need to gain legitimacy for the new neoliberal paradigm, assistance began to be channeled through nongovernmental organizations (NGOs). Subsequently, inspired by certain success stories, the Grameen Bank of Bangladesh prominently among them, donor attention turned toward support for NGO-led small and cooperative enterprise programs aimed to foster “poor peoples’ entrepreneurship,” especially through microfinance (Adams & Von Pischke, 1992). Today, the advocates of poor peoples’ entrepreneurship span the entire ideological spectrum from right to left. Both World Bank-associated technocrats and disenchanted Marxists have turned to “small is beautiful” schools of thought.

The question is: can poor peoples’ entrepreneurship prosper and generate widespread improvements in living standards in the context of the prevailing neoliberal economic policy agenda? Examples of successful NGO-led
projects can certainly be found, although failure is much more common (e.g., Mayoux, 1995; Mead & Liedholm, 1998). Moreover, one project or program benefits, at most, a small segment of the socially and economically disenfranchised population. The developmental question is whether the general conditions that can ensure the success of very large numbers of local initiatives are present or being created (see also Carroll, 1992, p. 120).

It bears emphasizing that, despite the recent questioning of the Washington Consensus in some international banking circles and the rediscovery of the state and institutions by the World Bank (World Bank, 1997; Burki & Perry, 1998), IFIs and major donors continue to advocate economic liberalization and state downsizing. Their concern with institutional capacity-building relates to improving the functioning of certain public agencies and markets rather than empowering the state to play a directive role in the economy. It is market forces that are expected to create the general conditions for economic development and social progress.

Although evaluations of the performance of grassroots-based economic institutions are widely available, we are not aware of any works that systematically examine their degrees of success or failure with reference to structured patterns of asset and power distribution at the sites (or microregions) where they emerged “spontaneously” or were established by external agents. Here, we will take a step in that direction by analyzing two successful cases of rural diversification in highland Ecuador which, in the 1990s, benefited from Inter-American Development Bank (IDB) funding channeled to their respective NGO service providers. These cases are the spontaneous evolution of poor peoples’ entrepreneurship in Pelileo in the province of Tungurahua and the widely acclaimed and externally initiated “communitarian experience” of Salinas in the province of Bolivar.

While donor and NGO attention in Latin America has tended to concentrate on urban microenterprises, we focus here on rural development in light of the importance of rural sectors in generating employment and exports as well as poor migrants that crowd into the overburdened cities of the continent. The incapacity of urban sectors to generate reasonably remunerative employment for large numbers of people has also been demonstrated throughout Latin America and provides additional incentive to focus on rural development (Lefeber, 1997, 1998).

By drawing attention to historically structured patterns of asset and power distribution, we are not discounting the importance of social relations internal to enterprises, nor their institutional design, in determining success or failure. Indeed, their importance is highlighted in many of the studies on which we draw for comparative purposes: those studies have dealt with cases as different as the worker owned and managed industrial complex of Mondragon in the Basque country of Spain (Whyte & Whyte, 1988; Whyte, 1995), agricultural cooperatives in Peru’s cotton sector (Korovkin, 1990), and the small-scale credit programs of the Grameen Bank in Bangladesh (Holcombe, 1995; Bornstein, 1996; Todd, 1996). Nevertheless, as an analysis of Taiwan’s remarkably successful Irrigation Associations notes, “the survival and operation of self-governing local organizations are usually nested within and conditioned by, a broader institutional setting” (Lam, 1996, p. 1040).

Below, we will, first, briefly characterize key elements of the broader national-institutional setting in Ecuador, including the basic contours of development policy choices with respect to rural–urban (im)balance. In order to highlight certain fundamental issues, we will do so from a comparative Latin American and a contrasting East Asian perspective, with specific reference to Taiwan—a capitalist Third World society that experienced rapid and across-the-board improvements in living standards following WW II, after it had adopted rural development policies that diverged sharply from those adopted in Latin America. The second section turns to the two cases mentioned above—Pelileo and Salinas. The concluding section evaluates the two cases from the perspective of poor peoples’ entrepreneurship experiences in other areas of Ecuador as well as in other countries.

2. LATIN AMERICA AND ECUADOR IN COMPARATIVE PERSPECTIVE: FROM ISI TO SAPS

In Ecuador, as elsewhere in Latin America, the development model that preceded neoliberal structural adjustment policies (SAPs)—i.e., import substitution industrialization (ISI)—generated limited benefits for the poorest sectors of the population. The exclusionary and distorted character of ISI has been documented
in numerous studies conducted from various theoretical vantage points. Of particular relevance for our analysis is the fact that it was highly biased against the development of agricultural and rural sectors in general, thereby resulting in massive rural to urban migration and the rapid growth of shantytowns (Lefeber, 1980).

Improvements in the incomes and living standards of agricultural workers and of small and medium-scale farmers, especially those involved in production for domestic markets, were prejudiced by policies that favoured urban industrialization and avoided thoroughgoing agrarian reform. Moreover, even in those countries where comprehensive agrarian reform programs were undertaken (e.g., Peru during 1969–75), the new institutional arrangements imposed on producers were inappropriate and/or the mix of support policies that were required to make the reformed sector viable (extension services, reasonably priced credit, favorable or at least predictable access to markets, and the like) were not forthcoming (Korovkin, 1990; Thorp & Bertram 1978, pp. 301–320).

Rural to urban migration tended to accelerate because small and medium-scale rural producers could not improve their incomes, and capital substitution for labor on estates generated growing unemployment. As a result, shantytowns mushroomed around major cities, and the informal sector expanded rapidly because capital intensive ISI generated few employment opportunities. Large sectors of the rural and urban populations were thus excluded from the benefits of the economic growth and diversification that did take place. As a consequence, and in dramatic contrast to the post-WW II history of the East Asian Tigers (as discussed below), the development of Latin America’s national markets was truncated (Cameron & North, 1998, pp. 51–55).

As already indicated, in most cases, the power of the old landlord classes was not broken in the course of Latin American ISI. Indeed, landlords were often able to diversify into commercial, financial, and industrial activities and to form partnerships with foreign capital, in addition to maintaining their grip on land. In effect, landlords who diversified their activities and/or fused with other sectors of capital tended to concentrate more and more economic resources and, often, policy-making power in their hands. The process of fusion among different sectors of capital is documented in various studies, including works on Ecuador (Hansen, 1971; Brownrigg, 1972; Conaghan, 1988).

The now much criticized ISI-associated state intervention in the economy favored the advance of a capitalist class that included estate owners. In contrast to the neoliberal model, however, and in response to the political mobilization of urban middle and working classes as well as sectors of the peasantry, ISI was associated with efforts to build political hegemony through the expansion of state services for the working population. Education, health, and housing policies and the regulation of labor markets benefited a significant proportion of urban dwellers in particular. By contrast, under neoliberalism, the attempt to build political hegemony has relied heavily on ideological conversion and the involvement of civil society in the implementation of development programs (Hulme & Edwards, 1997).

Left and reformist political forces, for the most part, unfortunately supported or failed to question the urban bias of the ISI model. With few exceptions, the Latin American left saw the class vanguard of the socialist revolution in the growth of the urban proletariat. Meanwhile, in accord with prevailing Marxist orthodoxy, the peasantry and its forms of small-scale production were perceived as economic and ideological (i.e., individualistic) brakes on progress (Mitrany, 1951). As a result, when left and reformist forces gained political power, these theoretical inclinations—from Peru’s progressive militarism to Nicaragua’s Third World socialism—led to top-down agrarian reforms that failed to take into account the peasant producers’ views and preferred forms of organizing production (Korovkin, 1990; Ryan, 1995). These regimes’ economic development policies were not only state-centric and largely nonparticipatory but, like ISI itself, suffered from urban bias and from misconceptions concerning the superiority of scale economies in production and the advantages of introducing the most advanced forms of modern capital intensive technology.

As the debt crisis hit Latin America while reformist and revolutionary projects foundered (as a consequence of US aggression in addition to their internal contradictions), and later, as the Socialist block disintegrated, progressive political forces were left disoriented and on the defensive. In general, they lacked credible policy proposals and the political support to contest the advance of neoliberalism. Meanwhile,
the IFIs and large donor agencies—USAID prominently among them—provided generous funding for research on the merits of the market-driven model; they also ensured the broad dissemination of the “findings” of that research among civic leaders and intellectuals in the Third World. Among other things, the market-driven alternative was presented as inherently more democratic and less paternalistic, as decentralized and responsive to local needs and demands. In this context, small-scale, community-based development projects gained increasing numbers of advocates among former militants and leaders of progressive movements in Latin America and elsewhere (Bienefeld, 1988; Petras, 1997).

The IFIs also misrepresented the foundations for the successes of the East Asian Tigers. While holding them up as market-driven models for Third World countries, they disregarded the depth of the post-WW II agrarian and other redistributive reforms that were conducted in Taiwan and South Korea as well as Japan. Until recently, moreover, they denied the prominent role of the state in the capitalist development of those countries (Bienefeld, 1988; Fishlow et al., 1994). To anticipate and prepare the ground for the analysis of the Ecuadorian case studies and our choice of focus on rural development initiatives, we will briefly examine the extent and implications of those redistributive reforms in Taiwan, an eminently agrarian society at the end of WW II.

Taiwan’s rapid agricultural and industrial growth and diversification, achieved with a high degree of equality in the distribution of income both within and between the rural and urban sectors, provides a dramatic contrast to Latin American ISI. As Taiwan’s economy grew spectacularly—at an average yearly rate of 8.8% during 1953–87 (Mao, 1992)—the distribution of income improved to become possibly “the most equal in the world” (Griffin, 1989, p. 181): the difference between the incomes of the wealthiest and poorest quintiles fell from 15:1 in 1952 to 4.6:1 in 1989 (Calkins, Chern, & Tuan, 1992, p. 15).

Agrarian reform and rural development in Taiwan were motivated by urgent strategic political-military considerations deriving from the Kuomintang’s defeat and the Communist victory in mainland China. The rapidity and depth of the reforms, which began in 1949, were facilitated by massive amounts of US financial and institutional assistance, the infrastructural and institutional legacy left by a half century of Japanese colonialism, and a politically weak landlord class. By the early 1950s, Taiwanese agriculture was dominated by approximately 800,000 farm families, each possessing about 1.1 ha (Calkins 1992, p. 67).

In a highly interventionist fashion, the Taiwanese state invested in employment generating public works, especially irrigation and communication infrastructure; electrification; primary, secondary, and technical education; and agricultural research and extension services (Kuo, Ranis, & Fei, 1981). Meanwhile, much of large scale industry (and its profits for reinvestment) remained in state hands (Fei, Ranis, & Kuo, 1979, p. 62) and direct foreign investment was insignificant (Evans, 1987, pp. 206–209).

Most relevant from the vantage point of our case studies, in contrast to Latin American ISI, Taiwan’s industrial strategy was not biased against rural sectors. In addition to comprehensive agrarian reform, decentralized rural industrialization was favored and played a critical role in expanding off-farm employment and farm family incomes. By 1971, over 50% of firms—labor-intensive industries such as food processing, textiles, and light agricultural machinery production—were located in rural areas; by 1976, that proportion had increased to 64% (Peng, 1992, p. 113).

The promotion of labor-intensive rural industry, along with public works, played a critical role in generating employment, in narrowing the income gap between urban and rural families, and in stimulating the growth of domestic demand. The massive rural to urban migration and resultant growth of shantytowns typical of most other developing countries were avoided. Moreover, a family employment strategy that included both farm and non-farm work remained important to the maintenance of [urban] working class living standards . . . [A worker whose] family owns a productive agricultural small holding can return to the countryside when confronted with low wages or unemployment in the city (Evans, 1987, p. 220). Finally, Taiwan’s agrarian and rural development strategies were implemented in a decentralized fashion—largely through Farmers’ Associations (FAs) and Irrigation Associations—that made them particularly responsive to local needs.

Although Taiwan was ruled by an authoritarian regime, the FAs were internally democratic, albeit not highly participatory. Farmers
elected their representatives at the village, townships, county, and provincial (i.e., “national”) levels. The accountability of the FAs to their members was reinforced by the practice of recruiting staff locally. Consequently, FA employees were not only intimately acquainted with local conditions but also highly sensitive to social pressure from their neighbors.

The FAs enjoyed an extremely broad mandate which included: agricultural credit and insurance; reforestation; arbitration of rural disputes; emergency relief services; the compilation of rural surveys and statistics; and, most importantly, the provision of agricultural marketing and extension services, warehousing, and processing, as well as manufacturing of farm products (Yager, 1988, p. 133). Indeed, the FAs were granted monopoly powers in the marketing of the most important agricultural products of their members. In effect, the FAs were largely able to socialize the gains made from agricultural and other forms of rural growth and diversification.

A township farmers’ association is like a profit-making corporation owned by most of the farmers in the township... If farmers’ associations did not exist, all these profit-making activities would be controlled by private individuals and these people would constitute the economic, political and social elite of the township. The farmers’ associations in effect socialize both the political power of this potential elite and the profit it would earn, and make sure that the profits are redirected back into the local economy (Stavis, 1974, p. 61, emphasis added).

In sum, both traditional political power relations and the asset distribution were profoundly transformed in the course of industrialization in Taiwan. National market development was pursued simultaneously with export promotion.

In sharp contrast, when SAPs were introduced in Latin America, the traditional structures of power remained largely intact and degrees of inequality in asset and income distribution were among the highest in the world (Griffin, 1989, pp. 14–17). Other elements of the old order that remained in place included: the inheritance of urban bias; weak peasant and rural organizations; a high concentration of land ownership; foreign control of key sectors of the economy; a capital-intensive and low employment-generating industrial structure; and, generally low levels of investment in infrastructure and in public education and research (Larrea & North, 1997).

Neoliberal adjustment policies in Ecuador effectively froze basic features of the old order by deterring state intervention to reform them. For example, the terms of the 1994 Law of Agrarian Development, based on USAID financed studies, made future land redistribution programs extremely difficult. It is from this macroeconomic and political context that we turn to the analysis of local settings and our case studies.

3. SUCCESSFUL RURAL DEVELOPMENT EXPERIENCES IN ECUADOR: THE CASES OF PELILEO AND SALINAS

Grassroots-based economic enterprises supported by nongovernmental organizations (NGOs) face serious obstacles that can undermine their commercial viability, redistributive impact, and capacity to improve living standards. In addition to the highly unequal distribution of land and assets that prevails in Ecuador, as elsewhere in Latin America, small rural producers generally lack extension services and access to credit while they face highly volatile and/or monopolized markets. Moreover, many experienced NGO personnel are quick to recognize their own limited entrepreneurial capacities. NGO know-how has been developed in the provision of services, with little attention dedicated to the generation of expertise in marketing and the institutional design of productive activities.

Yet, despite the many obstacles, some notable successes in rural development have taken place. Prominent among them are the growth of family-owned textile enterprises in Pelileo and the highly regarded “community” agro-industrial diversification program in Salinas. The former—extolled by the World Bank itself (1995, p. 18)—had already taken off in the early 1990s when the Instituto de Investigaciones Socio-económicas y Tecnológicas (INSOTEC) began to provide services to the rural producers of jeans and other denim clothing. The latter was initiated by a land redistribution program carried out by the Catholic Church in the 1960s and has been assisted since the early 1970s by the Salesian Mission and the church-linked Fondo Ecuatoriano Populorum Progressio (FEPP).

In Pelileo, artisan production grew and prospered in an area characterized by relatively widespread distribution of land where small-scale producers had obtained access to credit
and markets already during the second half of the 19th century. In Salinas, the programs sponsored jointly by the Catholic Church, the Salesian Mission, and FEPP bear a remarkable resemblance to basic components of the agrarian reform and rural development programs of the Taiwanese state, including agrarian reform and the organization of institutions that democratize political power and socialize profits. In effect, both rural success stories are located in settings or micro-regions that, for different reasons, diverge from the Ecuadorian and Latin American norms outlined above and approximate certain key elements of post-WW II Taiwanese rural development history.3

(a) Rural entrepreneurship in Pelileo, Tungurahua province

In a recent report, the World Bank (1995, p. 18) singled out the town of Pelileo as an example of the entrepreneurial potential of small-scale producers, attributing its prosperity to the growth of family-owned and operated “blue jeans” tailoring workshops. In the mid-1990s, INSOTEC identified 300 such enterprises that were dedicated to manufacturing denim clothing—jackets, shirts, children’s overalls, and the like in addition to jeans—in the parish of Pelileo, that is, the town (pop. 6,000 in 1995) and its rural environs (pop. 11,000) (Dávalos, 1996, p. 12). In fact, there may have been as many as 600–700 such mostly informal household enterprises in the overwhelmingly rural canton of Pelileo (total pop. 38,000) where the town is located, and the jeans economy provided full or part-time work to several thousand persons (García, Eugenio, & Navarette, 1993, pp. 53–54), about half of them women. The great majority of these enterprises were very small, employing 3–6 mostly family members, including the proprietor, who was a woman in 22.5% of the 217 firms surveyed by INSOTEC (Dávalos, 1996, pp. 17 and 14). Quite a few, however, had a dozen or more workers (on their premises or engaged in piece work in their own homes) and a few as many as 30 or 40. Clearly, not only the town’s prosperity, but also that of the surrounding parish and even the canton had become largely dependent on the ups and downs of this textile industry that “took off” in the mid-1980s.

Income from the denim clothing industry brought important improvements in living standards, highly visible in the well-constructed roomy houses that dot much of the canton’s countryside. A closer examination of this micro-region however demonstrates that the origins of economic diversification and comparative well-being cannot be derived simply from the growth of jeans tailoring; rather, they lie in earlier historical periods and are rooted in long-standing artisan traditions, a relatively broad distribution of land, and favorable access to markets (Martínez, 1994, pp. 35–61).

Indeed, artisan production in the canton of Pelileo, as elsewhere in the province of Tungurahua, dates back to the middle of the 19th century if not earlier (Martínez, 1994, p. 64), and the production of pants and shirts for local markets had begun already in the 1920s (Dávalos, 1996, p. 2). The artisans were both town dwellers and minifundistas, that is, smallholding free peasants who could dispose of their own labor and sell their agricultural and artisan products in a vibrant system of local ferias (markets). Minifundistas who owned fertile valley lands formed a prominent segment of rural society in the province of Tungurahua, including in Pelileo, by the late 19th century (Martínez, 1994, p. 50–59). Indeed, they, rather than large estate owners who reigned over the countryside elsewhere in Ecuador, may have dominated provincial trade in domestic food products at that time (Forster, 1990, pp. 39–52). Later, the land base of small producers was augmented through purchases, the construction of irrigation works, and even by the modest agrarian reform laws of 1964 and 1973 (Forster, 1990, pp. 303–307).

In addition to selling in local ferias, rural artisans were subcontracted by merchants from the provincial capital, Ambato, which has occupied a strategic location since colonial times in the national commercial and transportation grid between coast and highlands and between regions of the north and central highlands. Pelileo lies only 20 km from Ambato and the principal route from the central highlands to the Amazonian region also passes through the town. Within the hub of principal transportation routes, the artisans and minifundistas in areas adjacent to Ambato were in a position to participate in the growing commercial exchange between the coast and highlands brought about by the coastal cacao export boom of the 1860s–1920s. In addition to selling their agricultural and artisan goods, they became merchants in the “pack trade” between
the coast and highlands (goods were transported on precarious trails solely by pack animals and on the backs of porters). The pack trade also opened access to relatively cheap credit and expanded opportunities for petty capital accumulation that could be used to purchase more land. Although a railroad that connected the coast with the highlands was completed in 1908 and arrived in Pelileo in 1918, the pack trade remained viable through the 1930s (Forster, 1990, pp. 61–62). The early extension of electrification to Pelileo provided yet another stimulus to the participation of minifundistas in the production and marketing of artisan goods: electricity reached the cabecera (head town) already in 1927 and more than 85% of the canton’s households enjoyed service by the mid-1990s.

In short, the widespread ownership of land by minifundistas—that is, the presence of a free landholding peasantry—was the critical element that made it possible for the rural population of Pelileo specifically and much of Tungurahua generally to take advantage of commercial opportunities. The ownership of parcels of land, even very small ones, provided the resource base for participating in market exchange, for the time and effort needed for learning and acquiring skills, for the formal and informal guarantees required by money lenders and lending institutions, and for risk taking since the produce of the parcel could guarantee or partly guarantee the satisfaction of the family’s basic subsistence needs when markets turned sour. Successful participation in artisan production and commerce, in turn, raised capital for the purchase of more land.

Yet in 1998–99, when we could expect the manufacturing sector to have separated entirely from its agricultural ties and origins, nine of the 13 INSOTEC-assisted jeans producers that we interviewed in Pelileo and the adjacent parish of Huambaló were engaged in agricultural production and/or raising animals. Three produced for family consumption only, but six were involved in production for the market—including tree tomatoes, onions, potatoes, fruits, and pigs—although all but one or two considered agriculture a secondary activity. Moreover, among some of those who dedicated their time entirely to jeans tailoring, savings from raising animals provided at least part of the capital for setting up the enterprise; for example, the owner-operator of one workshop stated that she had purchased her first sewing machine by selling a pig. The connections between farming and manufacturing are also reflected in the fact that in 1998, when the jeans market was contracting, the Chamber of Artisans of Tungurahua began to offer services for the diversification of agricultural production. In response to the demand of its members, the Chamber organized courses in the construction of greenhouses and instruction on new crops and agricultural techniques.

Our interview results are consistent with the findings of a survey of 455 Tungurahua artisans conducted in 1990 by Luciano Martínez. His survey respondents came from parish cabeceras rather than the surrounding countryside where many small enterprises are also located. Martínez nevertheless found that almost half owned some agricultural land, most of them less than one hectare, and 42% declared that their incomes derived from more than one occupation: agriculture and commerce were the most frequently mentioned other activities (Martínez, 1994, pp. 122 and 106–107).

How have Pelileo jeans producers fared in the course of 1990s structural adjustment and liberalization policies? As noted, INSOTEC, a NGO partly financed by the Interamerican Development Bank (IDB), began to provide technical services and supply inputs to the producers in the early 1990s, a few years after the industry had taken off. But INSOTEC’s support programs have not been able to prevent or reverse the deepening crisis which the sector confronted from the mid-1990s onward. On the basis of interviews conducted in March 1998, the average number of workers employed by enterprises was falling steadily and many small units had been forced into bankruptcy. Already then, the crisis of the jeans industry was such that the producers had formed a debtors’ club, and the staff of the National Development Bank, which had provided credit to some of the larger enterprises, did not dare to enter Pelileo due to fear for their personal safety. A year later, in March–May 1999, Pelileo’s workshops—along with just about all other enterprises in the country—were practically paralyzed by the fiscal crisis of the state and the near meltdown of the country’s financial system.

The causes of the jeans producers’ problems are multiple. They include the impacts of the early-1995 war with Peru (which closed borders to trade), widespread and frequent electricity outages in 1995 and 1996, and loss of sales on the Coast (where about half of the country’s population resides) as a consequence of the devastating impacts of El Niño in 1997–98 and
heavy rains in 1999. One special aspect of economic liberalization—that is, increasing imports of used clothing—has severely harmed the artisan industries of the canton. In more general terms, the increased unemployment and underemployment provoked by neoliberal policies, and the incapacity of a weakened state to respond with employment and reconstruction programs to disasters such as El Niño, have restricted the purchasing power of the low and low-to-medium income consumers who form the jeans producers’ markets. In this respect, it is relevant to note that while Ecuador’s average per capita income, according to World Bank data, reached US$1,600 per year in 1994, median income (that is, the income of the 50th percentile) remained below US$700; in other words, more than half the population subsisted below the poverty line (Lefeber, 1998, p. 156, note 8). Finally, it should be noted that the banking crisis of 1999 was in significant part induced by the liberalization of the financial system demanded by international banks and donors. In Ecuador, those policies were carried to such extremes that, in the spring and summer of 1999, the International Monetary Fund (IMF) demanded tighter regulation of the banks as a condition for providing assistance.

In sum, during 1998–99, Pelileo, the historically prosperous zone of small-scale private entrepreneurship, was reeling from the sharp contraction of low and middle-income markets while confronting competition from very cheap imports of used clothing. Significantly, in the midst of the spring 1999 crisis, unable to sell their accumulated stock, two of the 13 jeans producers interviewed for this study turned their attention entirely to agricultural activities; another wondered about the wisdom of his past decision to invest in the purchase of more sewing machines instead of acquiring more land; and yet another, in the immediate outskirts of Pelileo itself, was pleased to own a pedigreed sow that had given birth to a litter of 10—he had recently sold a pair of two-month-old piglets for Sucres/500,000 (about US$50), a tidy sum in rural Ecuador.

It remains unclear how much INSOTEC has contributed to the development of the jeans industry and the extent to which it has been able to provide assistance in the current crisis. To be sure, the NGO’s technical services—low-cost access to specialized machines for finishing details such as button holes—have improved the quality and presumably the prices of producers’ goods and have induced some private merchants to begin providing similar services; reasonably priced credit for the purchase of fabric from the INSOTEC outlet may have kept down the interest rates of private suppliers. These are important contributions but, on balance, the NGOs’ role appears to have been marginal to the evolution of the jeans economy. Both the origins and growth of the industry derived, over a lengthy period of time, from a set of mutually reinforcing conditions that included, most prominently, the presence of a smallholding peasantry, artisan traditions, and access to markets. In fact, rural poverty had been reduced and entrepreneurial capacities had developed prior to the flowering of the jeans industry as, indeed, they had in other micro-regions of minifundistas such as the canton of Otavalo in Imbabura province in the north and in several cantons in the radius of the city of Cuenca in the provinces of El Cañar and Azuay in the south (Larrea et al., 1996, p. 26; Martinez, forthcoming).

(b) Communitarian development in Salinas, Bolivar province

The conditions under which communitarian enterprises were established in the parish of Salinas contrasted sharply with those that encouraged small enterprise development in the canton of Pelileo. These included the isolation of Salinas from national markets; its lack of basic transportation and communication infrastructure; extreme poverty reflected in, for example, outrageously high infant mortality rates (Bebbington et al., 1992, p. 54; interviews); the oppressive power of the Cordobez family which, in addition to its own estates, had traditionally rented land from the Church and exercised seignorial rights over much of the population; the consequent presence of servile social relations which suppress the capacity for individual initiative and risk-taking in addition to reducing self-esteem and limiting the possibilities of collective action. Finally, whereas the soil and climatic conditions of the Ambato area lend themselves to intensive agriculture, Salinas’s geography, in the opinion of local residents, is “violent” and its climate “infernal.”

The parish cabecera sits 3,550 m above sea level and its lowland regions drop to altitudes of 600 meters (Leon & Tobar, 1984, p. 39).

The foundations for change were laid in 1959, when the Diocese of Guaranda (the name of the canton where the parish is located)
decided to conduct an agrarian reform on its Salinas estates: during the 1960s, the Catholic Church provided low-interest credit to peasants who bought the Church’s 15,000 ha (more than a third of the parish’s 40,000 ha area) in lots of 15–30 ha. During the following decades, the Cordobez family also sold much of its property to individual peasants or to community groups which had benefited from activities sponsored by the Salesian Mission, which arrived in the parish in 1971, and the Fondo Ecuatoriano Populorum Progressio (FEPP), which was established in Quito in 1972. Meanwhile the Commune of Matiaví Salinas, whose legal status as a corporate political and land-owning institution dated back to the Spanish colonial period, remained in control of about half of the parish territory (in theory, collectively but, in practice, increasingly under private “titles” granted to Commune members). Thus a parish where the Church had rented its estates to powerful landlord families that controlled labor and markets was transformed into an area of small and medium-scale property owners with support services provided by progressive sectors of the Catholic Church.

With the arrival of the Salesian Mission, under the charismatic leadership of Father Antonio Polo, and support from Italian volunteers of the Organización Matto Grosso, Savings and Credit Cooperatives (SCCs) began to be established, first in Salinas—the name of the highland cabecera (head town) as well as of the parish—and then in the hamlets of both the highland and the lowland regions. Local community efforts to organize, prior to the arrival of the Salesian Mission, had not succeeded, suggesting that supportive external agents were needed to ensure progress under the particular historical conditions of the parish. Low-interest loans from the SCCs played an important role in the deconcentration of land ownership and the purchase of cattle and sheep by the new peasant proprietors. Moreover, since the SCCs did not pay interest on savings accounts (a practice made possible, according to the Director of FEPP, by the region’s isolation from national markets and formal banking institutions, as well as the low inflation rates of the times), SCC profits could be used for investment in community works and productive enterprises that generated employment.

At the same time that a class of middle peasants consolidated from the 1970s onward, the Salesian Mission and FEPP, among other things, promoted the establishment of primary schools and, eventually, a secondary school in the cabecera; organized a great variety of training courses; supported the genetic improvement of sheep and cattle herds; and initiated the organization of various collectively owned and in many cases mutually interlinked small enterprises—cheese and sausage plants, a mushroom drying and packing enterprise, a wool spinning mill, a hostel, a weaving cooperative, a carpentry shop, communal stores, a bakery, a ceramics workshop, and marmalade “factories” prominent among them. In order to generate investment capital for further economic diversification and local employment generation, the Salesian Mission and FEPP (1996) also promoted internal economic linkages between the highland and lowland regions of the parish (pop. 8,500 in 1996). To make this possible, the greater part of the local road infrastructure was constructed by parish organizations with the guidance and support of the Salesian Mission and FEPP, both of which helped channel foreign donor resources and also some Ecuadorean government funding to the parish.

Among the small enterprises, it is the small cheese plants, established with Swiss assistance in 1978, that have made the parish famous all over Ecuador: their high quality mature cheeses are sold through one of the country’s principal super market chains as well as directly through “Salinerito” outlets in Ecuador’s two principal cities, Quito and Guayaquil. From the vantage point of local employment and incomes, the cheese plants were to provide a secure market for local milk producers among the peasantry that had acquired land and cattle in the previous years. By 1997, plants functioned in 20 parish hamlets and in 1998–99, the cabecera plant was purchasing anywhere from three to 80 liters of milk on a daily basis from each of more than 200 producers—that is, from just about every household in the cabecera (pop. 1,000) and its immediate environs (Cadena & Boada, 1998 and interviews). Meanwhile, the spinning mill provided a market for local wool production.

Due to environmental problems created by the increasing size of cattle herds, reforestation programs were undertaken in 1981 and greatly expanded in the following years. Quite unexpectedly, edible mushrooms began to grow in the pine plantations, providing the resource base for yet another local industry—mushrooms that are collected for the most part by women and children for drying and export to
Europe as well as for sale in the country’s urban markets. In addition, little by little, the reforested areas began to provide firewood from prunings and incomes from lumber harvests.

During the initial years of diversification, enterprise ownership rested in the hands of the Savings and Credit Cooperatives (SCCs). Later, the Grupo Juvenil (Youth Group) and the Union of the Organizations of Salinas (UNORSAL)—founded in 1977 and 1982 respectively and later reconfigured as Foundations (Fundación Juvenil and FUNORSAL)—also became enterprise proprietors and managers. FUNORSAL, in addition, functioned as the general service provider and coordinating body for the various parish organizations and enterprises. It must be emphasized, however, that all enterprises were started under the umbrella of the Salesian Mission, to be transferred into the hands of local organizations only after achieving profitability. When the cheese plants were first set up, the principle of “communitarian redistribution” of profits, originally established by the SCCs, was extended to those enterprises. In the words of Ramón and Ortiz:

We resolved that rather than distributing profits..., they would be used for capitalization; that is to say, they would be used to undertake new productive activities, to provide credit, and to improve our living conditions (Ramón Valarezo, Ortiz Hidalgo, & Naranjí Bonilla, 1995, p. 15).

Another guiding principle involved the prioritization of social efficiency over economic efficiency. For example, external evaluators who have analyzed the cheese plants from an economic efficiency point of view have recommended the centralization of production in the cabeceras (Bloemkolk & Salinas, 1994). The Salesian Mission and FEPP have, however, insisted on the organization of a large number of small plants in as many hamlets as possible in order to provide incomes for milk producers all over the parish and to sustain the sense of communitarian ownership (interview with FEPP director José Tonello, and Polo, 1993).

In sum, as stated earlier, the parallels between Taiwan’s rural development history and the Salinas experience are notable. Both involved land reform and timely access to credit, expansion of educational opportunities, construction of basic infrastructure, promotion of decentralized rural agro-industrial diversification, and socialization of profits through participatory organizations (the Farmers Associations in Taiwan and the SCCs, the Fundación Juvenil, and FUNORSAL in Salinas). Moreover, the Salesian Mission and FEPP acted as state-like authoritative external agents in Salinas. In addition to grounding new economic activities in ethical principles, the Mission and FEPP established a local macro-economic policy framework, so to speak, and extended infant-industry protection through subsidies that provided time for experimentation and learning. Finally, significant amounts of foreign assistance—from NGOs, governments, and even one of the IFIs (that is, the IDB)—were channelled to the parish.

To what extent were the objectives of social progress and equity achieved? According to Ramón and Ortiz:

We have estimated that the 98 productive projects in the parish cabecera and the hamlets of Salinas, along with employment in organizational-administrative activities, have generated 519 new jobs and that the majority of the population [of almost 5,000 in 1990 and about 8,500 in 1996] is indirectly incorporated into those activities through the supply of primary materials like milk, wool, mushrooms, fruits, nogal and tagua nuts, etc. (Ramón Valarezo et al., 1995, p. 8).

The same source maintains that half of the new jobs were created in the outlying hamlets of the parish (1995, p. 18). Other observers and evaluators agree that a remarkable transformation has taken place in the cabecera where, for example, modern cement block and brick houses with at least rudimentary sanitary facilities have replaced all the chozas (shacks) that provided the only kind of housing at the beginning of the 1970s. There is much less consensus, however, on the extent of social progress in the outlying hamlets.

To review some of the relevant data, the cabecera, by the late 1980s-early 1990s had witnessed the return of many former emigrants, a unique phenomenon in Ecuador (Bebbington et al., 1992, p. 55). The population of the parish as a whole, however, remained stagnant during 1980–90—4,983 and 4,954 persons, respectively—according to census figures (Leon & Tobar, 1984, p. 34; Larrea et al., 1996, p. 46). Indeed, in light of high parish birth rates, those figures suggest continued emigration from the rural areas. Yet, such emigration may have been reversed by the time that Ramón and
Ortiz conducted their study, a plausible proposition in light of the large number of income generating activities launched in the hamlets by the Salesian Mission, FEPP, and others in the 1990s. Evidence of this comes, for example, from women in the highland hamlets who, in group sessions organized as part of a study on gender and development in rural Ecuador, singled out their appreciation of incomes from mushroom collection and timber harvests. Meanwhile, brick houses were beginning to appear in the hamlets and even the outlying countryside.

Nevertheless, the experiences of the Ministry of Health employed physician who provides services in the cabecera and the highland hamlets are cause for concern. Her data indicate that while malnutrition has been just about eliminated in the cabecera, it remains at low to moderate levels (as measured by weight/age) among 30% of hamlet children between the ages of 1–4 for most of the year and increases to 50% during August and September. During those months, the school lunch supplement (an oatmeal drink with a cracker) is not available to school age children, and hence families have to distribute whatever food they have among a greater number of members. In addition, those are months during which peasants who own property in both the highlands and the lowlands (that is, the wealthier peasants) migrate with their animals to the lowland areas.

The physician’s data, however, have to be weighed by reference to the situation prior to the arrival of the Salesian Mission and to the generally high levels of malnutrition that still characterize the rural highlands (see for example, World Bank, 1995, p. 22). Indeed infant mortality in Salinas was reduced by 76% during 1970–90 (Bebbington et al., 1992, p. 54). Nevertheless, in light of the highly visible economic and social development programs in the parish, and the elimination of malnutrition in the cabecera the physician’s data imply that the benefits of those programs have not been as widely shared as the most enthusiastic observers of the communitarian experience suggest (the earlier mentioned differences in the amount of milk sold to the cheese plant by local producers are certainly indicative of significant social divisions).

Factors internal to the communitarian system of Salinas may account in part for continued acute poverty in the parish. However, among the factors outside the control of parish organizations and external support agencies lie some 15 years of cutbacks in government spending on public health, education, and maintenance and improvement of infrastructure. Local resources and donor contributions simply have not been sufficient to compensate for the withdrawal of the state. Thus the physician cited earlier singled out reductions in the quality of lunch supplements, the elimination of stipends for local community health workers, and lack of attention to the provision of potable water among the causes of the incapacity of the poorest sectors to provide adequate nourishment for their children. Meanwhile, the deplorable state of road and communication infrastructure increases the costs of marketing activities and the maintenance of vehicles.

The impacts of economic liberalization policies, through 1998, were contradictory, however. Parish enterprises that direct their production to high income markets (e.g., the cheese, sausage, and mushroom plants) were even able to expand production. On the other hand, the women weavers of TEXAL (approximately 45% in mid-1998) found themselves competing in saturated markets—with the sweater production of the dozens of women’s groups that have been organized over the past decade to generate incomes for poor women in Ecuador and other Andean countries. Likewise, the wool spinning mill, whose production was indirectly exported, was running into increasing difficulties. Subsequently, the fiscal and banking crisis of 1999, as might be expected, had serious adverse impacts on just about all parish enterprises. For example, cheese stocks began to accumulate at alarming rates and the sausage plant reduced production. But, as a foreign advisor who has worked in the cabecera since the early 1990s pointed out, in the difficult moments when some were laid off (for example, 12 from the wool spinning mill) and others were forced on half time (31 at the same mill), agriculture and animal husbandry ensured subsistence among the town’s people since all had access to at least some land and owned a few animals.

To conclude, in light of the adverse historical conditions and state macroeconomic policies in which the communitarian system was built, social progress in Salinas has been remarkable although poverty, even in some of its extreme forms, has not been eradicated. In 1990, some 15 years after the programs of the Salesian Mission and FEPP were launched, on a ranking
from one (lowest) to 10 (highest) based on that year's census data, the parish still registered six on indigence and eight on poverty. By contrast, the parish of Pelileo (along with most other Tungurahua parishes) was among the most prosperous in the highlands, registering three on indigence and four on poverty (Larrea et al., 1996, pp. 46 and 61). By 1999, social conditions in Salinas had certainly improved over their 1990 levels, but they remained visibly below those of Pelileo where minifundista artisans had been able to take advantage of market opportunities since the late 19th century. The rural area of Ecuador that registered lowest on poverty and highest on social development lay, however, in the coastal province of El Oro which borders on Peru; there the Ecuadorian state—for security reasons, according to some—invested in infrastructure and promoted the constitution of a rural middle-class of banana producers during the 1960s. In 1990, the poverty index of 10 of El Oro’s 14 cantons stood at one, three registered two, and only one reached three (Larrea et al., 1996, p. 36; Larrea et al., 1987).

4. CONCLUDING COMPARATIVE REMARKS

The two cases examined here point to the combined presence (Pelileo) or creation (Salinas) of a progressive distribution of land, reasonable access to markets, and the acquisition of know-how and market skills as critical elements in rural economic diversification and social advancement. Conversely, they signal the pernicious consequences of land concentration, market monopolies (often exercised by the landlord class itself), and lack of access to the possibility of acquiring new skills and capacities on the part of the rural poor. These, of course, are the conditions that prevailed in pre-1960s Salinas and still prevail in the great majority of rural communities where NGOs engage in promotional activities in Ecuador.

Indeed, in an evaluation of its own grassroots development work experiences over a 25-year period, the Central Ecuatoriana de Servicios Agrícolas (CESA) found varying combinations of the following present at its project sites: limited access to agricultural land; production for low-income markets and restricted access to even those; limited or highly exploitative access to credit, warehousing, transportation, and marketing services; lack of marketing knowledge; very low levels of education; scarce technical assistance; highly unequal power relations, often involving an alliance between large landowners and merchants against local peasants; and as a consequence of all this, high levels of seasonal and permanent emigration (CESA, 1991, 1992). NGOs in Ecuador and elsewhere that lack the capacity to change these conditions—in the ways that the Diocese of Guaranda, the Salesian Mission, and FEPP could in Salinas—are unlikely to register major successes.

Neither will reliance on market forces, as proposed by the IFIs and major donors, turn such conditions around. As pointed out, in Ecuador—as well as in the “real markets” of other Third World countries—tightly woven elites often exercise monopoly control over assets such as land, credit, transport, and processing (see Hewitt de Alcantara, 1993). Markets favor those who have established market power or, in other words, those who have access to information and control the assets and institutions through which market exchange is conducted.

This is not to say that NGO programs cannot make a difference and that concern with the institutional design of such programs does not matter. Clearly, the Grameen Bank in Bangladesh has assisted hundreds of thousands of households to rise above the poverty line by providing credit to rural women—a total of US$385 million in 1994 alone (Bornstein, 1996, p. 289). An in-depth study of 40 Grameen Bank members and 24 nonmembers in two villages where the loanees had been borrowing for at least eight years found that Bank members were much more likely to rise above the poverty line than nonmembers. Most interesting with regard to our arguments concerning access to land, the Grameen members who experienced the most notable improvements in their living standards had invested in purchasing paddy (Todd, 1996, pp. 215–216), in violation of Bank rules that explicitly earmarked the loans for commercial activities and prohibited their use for land purchases for fear of driving up land prices. Nevertheless, despite the Grameen Bank’s widely recognized successes, Khalid Shams, its Deputy Managing Director, asserts:

Government is the most important actor in the development scenario ... Unless there is a distinct bias in favour of the poor, you are not going to make much change. Even if there were ten Grameen Banks, you would not achieve a significant qualitative change in
people’s lives without change at the national level (Holcombe, 1995, pp. 69–70).

Of particular relevance here are also Whyte’s observations with regard to Mondragón, widely acknowledged as one of the world’s most successful industrial cooperative complexes. Whyte points out that, when the first cooperative enterprises were established in Mondragon in 1956 “and for many years thereafter, Spanish manufactures were protected by high tariffs” (1995, p. 65). In reviewing its history, Mondragon’s manager observed that “if it weren’t for the economic situation of Spain when we started and for Don José María [the founder], the Mondragon cooperatives would not be here today” (Whyte, 1995, p. 65).

The comparison with the success of rural development policies in the case of Taiwan further highlights the importance of situating the analysis of appropriate institutional arrangements for grassroots-based enterprises within the broader context of macroeconomic policies and of power relations at the local, or micro-regional, and national levels. While the institutional design of the Taiwanese Farmers’ Associations was important to their success, the development of rural Taiwan would not have been possible without a proactive and interventionist state which played the central role in implementing land reforms, developing rural infrastructure, promoting agricultural research and training, aggressively seeking out export opportunities, protecting local producers from foreign imports with high tariff barriers, and generally creating the conditions for increased employment and self-employment. Moreover, the end of WW II left Taiwan’s landlords with little political power, in stark contrast with their counterparts in Latin America.

What steps might be taken to promote the creation of the conditions identified here as necessary for successful grassroots-based rural enterprise development—that is, a more progressive distribution of land and other assets, access to markets, and improved skills? Clearly, both state and civil society capacities have to be enhanced and new forms of cooperation between them and international organizations must be found. Such cooperation was present, for example, in a FEPP-administered “debt for land swap” program. Negotiated with the Belgian and Ecuadorean governments, the funds that were made available allowed FEPP, between April 1990 and June 1996, to provide credit and other assistance for the purchase of land by 138 mostly highland peasant organizations that represented 9,235 families, or about 50,000–60,000 persons (Tonello, 1997, p. 146). Although a full-scale evaluation of the program’s results remains to be done, the reduction of emigration from about half the communities that acquired land and the defusion of violent confrontations between peasants and landlords in several provinces represent important progress (Vallejo, Navarro, & Villaverde, 1996, pp. 146 and 207). Once communities can live in peace and control at least some land, then credit, training, and other programs have better chances of meeting their objectives.

Up to now, we have referred to rural producers who receive some type of assistance from NGOs. But they, in fact, constitute a small proportion of the rural population. The majority is made up of marginal peasants who produce basic grains for domestic consumption (in the highlands) or exist on the margins of the major agricultural export sectors (in the coast). They face a grim future, given land concentration, increasing capital intensity on large estates, and the contraction of formal sector urban employment. Even in such situations, however, employment in public works—water control, roads, and the like that are urgently needed in areas devastated by El Niño in particular—could improve rural living standards, especially if organized in ways that permit local communities to take initiatives (see Tendler, 1997, pp. 46–73, on Ceará in the Brazilian Northeast).

In the case of rural industry, state procurement policies (purchase of school desks, uniforms, etc.) (Tendler, 1997, pp. 102–134) and recourse to the anti-dumping clauses of international trade agreements (in the case of used clothing, for example)—not to mention re-regulation of the country’s financial system now demanded by the IMF—would provide incentives and help stabilize markets.

All of the above, however, require the presence of a state with planning and executing capacities that are not likely to emerge if international organizations and donors continue to insist on privatization and downsizing policies that destroy the limited autonomy that the state gained in the past and enhance the economic power of rentier elites (Larrea & North, 1997). Although not interventionist in the Taiwanese fashion, such a reformed state could play a significant role in facilitating and promoting a more progressive distribution of assets and
economic diversification in rural areas. Improved economic capacities in rural areas would not only enhance peoples’ lives and lessen destabilizing social conflicts but also decrease the pressures in the urban areas, thereby helping to generate the conditions for the development of healthier and safer cities.

NOTES

1. With regard to Ecuador, see, for example, Larrea (1992), Lefeber (1985), and Vos (1987).

2. Costa Rica is an exception. Although its governments did not carry out a major land reform following the 1948 Revolution, agrarian and rural social relations were transformed. The near monopoly control exercised by large coffee producers over access to credit, marketing, processing, and technology was broken through the nationalization of the banking system, the promotion of marketing and processing coops, the organization of state extension services, and the like (see Winson, 1989), all of which led to social progress in rural areas (see also Colburn, 1993).

3. The following discussion draws on interviews conducted at the two field sites—Pelileo and Salinas—as well as Quito, Guaranda, and Ambato during January–April 1998 and February–May 1999. In addition to 13 jeans producers, 20 INSOTEC personnel, bank officials, producer association leaders, and scholars responded to our questions in Pelileo and Ambato, many of them in both 1998 and 1999. Altogether, 36 persons were interviewed, some of them on several occasions, concerning the history of the communitarian enterprises in Salinas, including directors and staff of FEPP, the Fundación de Organizaciones de Salinas (FUNORSAL), and the Salesian Mission; enterprise managers, foreign consultants, and experts contracted to evaluate the Salinas “experience.”

4. Our interview results and Martínez’s data are contradicted by the findings of a 1996 INSOTEC survey: only 16 of the 217 jeans producers interviewed by INSOTEC stated that they had another “business” (negocio), and only three declared that they were involved in farming. Our own field work experience convinces us that the survey did not capture the actual diversity of the producer’s income sources. In the course of our interviews, landownership and agricultural and commercial activities came to light, in most cases, only upon probing since the principal source of income—with the possible exception of three cases—came from denim clothing production. The INSOTEC report does note however that the raising of small animals, especially pigs, is generalized among the residents of the canton (Davalos, 1996, p. 10).

5. It should be noted that whereas the levels of emigration from Tungurahua have been relatively low, remittances from emigration (to other parts of Ecuador and also to North America and elsewhere) have played an important role in poverty reduction in the southern cantons.

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