Enough is not enough: Improving quality in rural spending

Gustavo Gordillo - Jorge Ortega - Rodrigo Wagner

Abstract

With a new dataset, it was estimated that Latin American governments spend, on average, nearly 6% of their budget in rural areas, which represents approximately 135 US$ per rural inhabitant (2001). The trend is indicative of an increase in the level of rural governmental spending, but its composition is changing. In gross terms there is a rise in social expenditures.

Some preliminary analysis about public spending impact on welfare was performed, suggesting a mixed effect depending on the type of expenditure and the indicator of welfare.3

Finally, having in mind needed improvements in the quality of policymaking, some institutional innovations are suggested both at micro-regional level, with an Alliance for rural development, and at national level considering the existence of (i) non partisan public organizations and (ii) concrete measures for enhancing parliamentary deliberations.

Those arrangements are likely to reduce capture, increase checks and balances and help coordination; attributes that could improve efficiency of public expenditures in rural areas.

Key Words: Rural development, Public expenditures, Institutional innovations, Alliances.

JEL Classification: H83, H5, Q1.


2 Gustavo Gordillo is Assistant Director-General and Regional Representative of FAO for Latin America and the Caribbean. Gustavo.gordillo@fao.org. Jorge Ortega and Rodrigo Wagner are Consultants for the same Organization Rodrigo.Wagner@fao.org, Jorge.Ortega@fao.org.

3 Whole dataset will be available at FAO webpage by January 2005.
1. Introduction

How much money do Latin American governments allocate to rural areas? How much these expenditures impact welfare? What can we do to increase its efficacy and efficiency? The objective of this paper is presenting new evidence about that spending and discussing some policies at sub-national and national level in order to address some gaps in the decision-making markets that represent restrictions for development.

When we model development, we always have to keep in mind that “doing things right is not the same than doing things bad” for each agent in the economy. Consequently, today there is enough awareness that the aggregate production function of a country or region not only includes the total investments level, but also its quality, which is endogenous to the institutions and processes of policymaking. Thus technology (Solow, 1956), is not fixed and can be managed.

In fact, new public management prescriptions precisely address that issue thru effectively setting out to create the “self correcting, dynamic feedback loop”. Those are precisely the characteristics of an individual firm constantly subject to the feedback of price signals from the market. (Norman and Gregory, 2003). In this paper it is shown some institutional innovations that could help to increase that responsiveness at national and micro regional scale.

This paper contributes to this discussion by means of: (i) presenting a new dataset about government spending in Latin American rural areas, statistics that are not commonly available in traditional national accounting systems; (ii) showing some correlated impact of this governmental interventions in rural welfare with this new dataset and; (iii) suggesting some feasible mechanisms at micro regional and national level for addressing coordination problems and reducing capture.

In section 2 we present some descriptive conclusions about rural governmental expenditures in Latin American countries. We then move to discuss the impact on national and rural welfare in Section 3. Based on what we believe is an outstanding conjunture of factors and events we
propose three type of institutional innovations in section 4 related to micro regional arrangements, public but not government agencies and quality of parliamentarian deliberations.

Finally, in section 5 some concluding remarks are outlined.

2. How much do LAC governments expend in rural areas?

This section describes a preliminary version of a new dataset of LAC’s rural governmental expenditures for the period 1985 - 2001, which is a compilation of several studies carried out by the FAO’s Regional Office for Latin America and the Caribbean since 2001. Although more categories are available in the dataset, we grouped spending in three classes: direct transfers to the agricultural productive cycle, rural infrastructure and rural social expenditure. In total, there are available data from 20 countries. Data analysis was performed dividing the dataset in three periods (1985 to 1990 / 1991 to 1995 / 1996 to 2001), and in some situations disaggregating it by sub-regions (Andean, Caribbean, Mercosur and Mesoamerica).

On average, per capita rural governmental expenditures increased from US$ 79 in 1985-1990 to US$ 135 in 1996-2001 (Figure 1 and see Annex 1 for more details). In terms of total governmental expenditure its represents 2.57 and 6.22 percent, respectively. However, there are important differences among countries, even within each of the sub-regions. For example, in the Andean sub region it is remarkable the expenditure reduction in Venezuela (from US$ 300 to US$ 120 in the same period), but there is on the other side a paramount increase in Ecuador and Peru. Also in the Andean zone, Bolivia increases slightly its expenditures and Colombia has practically no change. In the Caribbean sub region there is a contrast between the countries studied: while Dominican Republic increases its expenditures from 86 to 146 dollars, Jamaica decreases them from 50 to 25 dollars. In the Southern Cone, Uruguay is an astonishing case with

4 Although we recognize that the dataset is not yet complete we wanted to show this quasi final collection (October 2004) in the important 10th World Bank’s ABCD LAC meeting, Costa Rica. Lopez (2004), also presented in this meeting, used an even previous version updated last year (October 2003), which neither includes some countries (Brazil, Colombia and Argentina), nor some data corrections.

5 We can mention also the previous work of IFPRI, which performed a similar data collect of a previous period (Elias, 1985)

6 Including Chile

7 If no other explanations is provided, in this papers per capita refers only to rural inhabitants.

8 Real US$ year 2000, using each country’s own deflactor
an increase from 620 to 1700 dollars. In Argentina and Paraguay a slight increase is noted. Brazil’s spending rose up from 1991 to 95, but in the subsequent years it fell. Finally, Mesoamerica presents a contrasting picture with reductions in the expenditures level of Mexico and Costa Rica, and increases in the other countries.

Figure 1. Rural public expenditure per rural inhabitant (US$ of 2000)

In ¡Error! No se encuentra el origen de la referencia. we present an Agricultural Orientation Index (AOI), which quantifies the relative relevance of the sector in total governmental expenditures. An AOI equal to one would mean that government spending in the sector equals

\[ \text{AOI} = \frac{\text{Expenditure in rural direct incentives}}{\text{total governmental expenditures}} / \frac{\text{Agricultural GDP}}{\text{Total GDP}}. \]

its relevance in the economy. With the exception of Mexico and Costa Rica (the latter only in 1985-90), this indicator is consistently below one, and the average trend is increasing, consequently with rural expenditures. Other interesting evidence is the relative convergence of Mesoamerica (except Mexico) around 0.5. Mexico

In Mexico, direct incentives represent 45%, which in per capita terms is slightly higher than other Mesoamerican countries. On the other side, 38% correspond to social expenditure, especially characterized by programs like PROCAMPO and Alianza para el campo.

Figure 2. Index of Agricultural Orientation

There is no apparent contradiction between the increase in rural expenditure per capita and the reduction of Agricultural Orientation Index. Nonetheless there are differences not shown by these indicators, like the decreasing emphasis of agriculture in rural income (De Janvry and

Unfortunately we do not have a proxy for rural GDP, so we cannot calculate a Rural Orientation Index ROI = (Total Expenditure in rural areas / total governmental expenditures) / (Rural GDP / Total GDP). On the other side for AOI we only consider rural direct incentives. On the other hand we are not considering neither the rural infrastructure nor the social spending components; hence the AOI presented is certainly underestimated.
Sadoulet, 2001), rural migration and also the changes experimented by rural expenditure’s composition, that in general increases its share of social expenditures (Figure 3)

Figure 3. Governmental rural expenditures composition
3. Does rural spending increase welfare? – Some preliminary inquiry

3.1. How much State, how much Market: Old wine in new bottle?

In modern democracies there is consensus on the complementary role of market and State (Bagnasco, 1988). Following Stiglitz (2000) the main arguments for state interventions are market failures (by information or by externalities), concerns about redistribution (a special case of externality) and also about the consumption of preferable goods (schooling, pensions…). However, limitations of state capabilities are well documented: lack of information, limited control of bureaucracy, and political economy concerns (Tullock, 1988; Laffont, 2000). Consequently, this after-adjustment thinking “on bringing the State back in”\textsuperscript{10} (i.e. what the state should do and what should not do), has been transformed into 3 policy mainstreams: market liberalization, privatizations and state modernization. that have led the transition from classic welfare state to the new public management and state reinvention (Osborne y Gabler, 1992; Clarke y Langan, 1993, Haggard , S.,and Kaufman R,1992 ).

In a mixed economy, governments should (i) establish the legal system, which allows an adequate contract enforcement and market functionality (ii) produce goods and services when private fails to do it and when government fails to efficaciously contracting out without jeopardizing public interests (iii) influence the behavior of privates, in order to reach socially optimum outcomes, (iv) buy form private sector goods and services, if it is socially desirable and, (v) redistribute income ( Stiglitz, 2002). Given its influence in the public sphere, thru regulations, taxes and expenditures, one of the most important discussions in economics lies on the optimal state size, namely its spending and its impact in society.

From a macroeconomic viewpoint (Sala-i-Martin, 2000), the relationship between public expenditures and welfare depends on two characteristics: if the good supplied thru public spending is included in production or utility functions and if the provided good is of public, private or congestion nature. Following Barro (1990), when public spending produces public

\textsuperscript{10} We refer to the phrase used by Skocpol (1985)in a classic post-marxist approach to the roles of state.
goods, there is a trade-off in growth rate: first, the higher the public spending, the bigger the
growth rate, because this spending is productive; but second, it reduces growth because taxes for
its financing reduce private profits. When public goods are produced (Sala-i-Martin, 2000), there
is also an improvement, but by increasing marginal productivity of private goods. But, like in the
other case, there is also a trade off due to taxing.
However, those theories do not account for quality of that governmental spending in public or
private goods\textsuperscript{11}, neither in their degree of complementarity nor in their impacts on inequity and
social peace.

Some empirical analysis about determinants of economic growth, like the recent work
of Loayza y Soto (2002), report that governmental expenditures are useful when they are
invested in infrastructure and human capital, but that current expenditures (as % of GDP) is an
overload for growth.

A recent study of the World Bank (Easterly and Serven, 2003) also supports the relevance of
some public interventions, showing that reduction of infrastructure investments during
stabilization process in Latin America had negative effects on growth, principally due to the
complementarities between public and private investment stocks, and to the fact that in some
cases the vacuum left by state contraction was not adequately adjusted by the market, at least in
the short and medium run (Gordillo, 1999)

When public spending allotments and state reforms were analyzed (Fan and Rao 2003), Latin
America health expenditures were significantly positive, as well as the structural adjustment
coefficient. Surprisingly, agricultural spending was not significant, like in Asia and Africa, due
to according to those authors the low economic participation of agriculture in our region.

Poverty can be reduced by economic growth and also with the transfer of services. For example,
studies developed in India confirm the effect of agricultural growth on poverty reduction in rural
and urban areas. (Ravallion y Datt, 1996 y Datt y Ravalion, 1998). Nonetheless, a discussion still
persists between those that maintain this position (Timmer, 2002) and those who hold that the

\textsuperscript{11} An interesting approach on this respect can be found in Elinor Ostrom’s prolific work. See for example Ostrom,
E., 1994,
The principal cause of poverty reduction is in general economic growth, and not in agriculture specifically (Gardner, 2003). Recently, the project Roles of Agriculture (ROA), conducted by FAO, found for Chile that there is an important effect of agriculture and agro industry in the poverty reduction through the increase in non-qualified labor demand (López and Anriquez, 2003). Regarding transfers, Dollar and Kray (2002), show that public expenditures in health and education have a positive impact in the poorest.

Specifically in the agricultural and rural sectors, IFPRI\textsuperscript{12} developed several studies on different types of public expenditures, especially those regarding agricultural research, and their impact in explaining growth and poverty reduction. Those studies, in India and China, are based on the conceptual framework presented by Fan, Hazell y Thorat (1999)\textsuperscript{13}. Other procedures, less data-demanding and more feasible to be applied in Latin America were developed by Thirtle et al., (2001) and Thirtle, Lin and Piesse (2003).

They estimated for Asia, Africa and Latin America the relations among agricultural productivity, National income, inequality and poverty, and found that in the poorest regions, (Asia y Africa) expenditures in agriculture, specifically in research and extension, have noticeable effects poverty reduction. For Latin America, results are less optimistic, and consequently the simulation shows that it is much more expensive to reduce poverty by this way\textsuperscript{14}

To some extent, our approach is extending the methodology used by those authors to this new dataset, but considering all rural expenditures.

### 3.2. A Preliminary Modeling

a. Theoretical approach

\textsuperscript{12} International Food Policy Research Institute [www.ifpri.org](http://www.ifpri.org)
\textsuperscript{13} This approach is very data-demanding. The studies in India and China used long and wide panels that include poverty and other social indicators at provincial level, which allows a detailed endogenous analysis (Fan et al 1999 and 2000). Unfortunately, equivalent datasets are not available for Latin America.

\textsuperscript{14} US$ 11,000 per capita, compared with US$ 144 for Africa and US$ 188 for Asia.
We can represent rural development of country \( i \) in period \( t \), as determined by the following the expression

\[
D^t_{ij} = f\left(g_{it}, s^k_{it}, q_{it}, X_{it}, u_{it}\right)
\]

Equation 1

Where \( D^t_{ij} \) is a development indicator level, \( g_{it} \) represents the stock of public expenditures of government in rural areas; \( s^k_{it} \) is the share of rural spending that is assigned into each category \( k \) (\( k = \) productive direct transfers to agricultural productive cycle, rural infrastructure, rural social spending). \( q_{it} \) represents the quality of governmental management of spending. \( X_{it} \) is a vector of other control variable observed by the researcher and \( u_{it} \) is also a vector, but of unobservable determinants of development.

b. Empirical

As mentioned, we use a preliminary version of the dataset on public expenditures resulting from the project conducted by FAO Regional Office for Latin America and The Caribbean since 2000. Other data were collected from World Development Indicators (World Bank 2004) and BADEINSO (ECLAC, 2004).

Four indicators of development \( (D^t_{ij}) \) were used: (i) agricultural productivity, measured by the agricultural value added by hectare\(^{15} \), (ii) rural income, approximated by agricultural value added per worker\(^{16} \), (iii) national poverty, measured as percent with income below to US$ 2, and (iv) poor’s income, estimated as the proportion in national income divided by 0.2 (Dollar and Kray, 2002).

The control variables, for isolating the effect of of expenditures level and composition, were selected following principally Irz \( \textit{et al.}, \) (2001), Dollar y Kray (2002), Fan y Rao (2003) and Thirtle, Lin y Piesse (2003). Also, supported in the previous evidence of the same authors, the estimation methodology were performed in a system of 4 seemingly unrelated regressions (SUR)

\(^{15}\) The same proxy used by Gardner (2003)
\(^{16}\) Used by Thirtle et al (2003)
For constructing the stock of capital produced by governmental investments \( g_t \), the approach was consider a 5 year average. Quality is supposed to be captured in some extent by the country and period dummies. However any variations in “policy learning” not accessible for an average country is not captured and probably affected coefficient estimates. Further discussion about those assumption is given in section 3.4.

3.3. Estimation results and some preliminary conclusions

Estimation results are given in tables 2 to 5 (Annex). The variables of public expenditures (total governmental expenditures in rural areas and their composition), were not significant in explaining agricultural productivity and poverty. For rural income the level of expenditures were not significant but the share oriented to direct incentives and rural infrastructure were positive and significant in explained part of variability. Regarding the income of the poorest, only the share of spending focused on social support was significant and positive. Possibly, an interesting conclusion\(^{17}\) extracted from this analysis is that if governments change the composition of their rural expenditures they can better foster development.

3.4. Quality of policymaking processes matters!

As mentioned earlier, the quality of expenditures is a key factor and impacts positively on the expected social benefit of those spending. Unfortunately, in this work we still have not found a reliable proxy for the quality of policymaking in rural areas.

But how can we measure the quality of public expenditures? A first approach could be the ex post cost-benefit ratios, like a recent evaluation of three anti-poverty programs in Latin America

\(^{17}\) Conclusions should be taken with precaution, given the limitation in using a partial dataset and the restriction of the empirical model selected. Regarding the dataset, there are still missing values that will be completed by the end of collection phase of the project (by January 2005), being specially important for Bolivia, El Salvador, Guatemala y México. Not having complete panels of poverty and income of the poor are also a limitation. Finally, the SUR methodology probably should be changed for a dynamic method, however this cannot be performed yet, until the whole dataset is completed.
(Caldés, Coady and Maluccio, 2004): PROGRESA in México, PRAF in Honduras and RPS in Nicaragua. This is an indicator of the incidence of policies, but other dimensions of analysis such as design, political economy issues and constitucional framework are necessary. (Rausser and Goodhue 2002)\textsuperscript{18}. We need to understand better the underlying political process that generates policy selection, design and implementation. (Dixit, 1996).

Other fundamental issue for quality is an efficient government administration, which has both characteristics of a public good (Stiglitz, 2000): substractibility and excludability. This interest is reflecting in the inclusion of “private sector’s management tools” into the public (REF), the so called New Public Management (Osborne y Gabler, 1992; Clarke y Langan, 1993; see also Ostrom, V. et al, 1993).

Under this framework, in Latin America there is an increasing awareness on indicators that measure public performance. Probably this awareness is better translated in the realm of sl social programs evaluations (Schultz, 2004). Regarding management political decisions at local level, it is remarkable the recent analysis of local government developed by National Planning department of Colombia\textsuperscript{19}

Finally, it is important to highlight that any aggregated measure of social spending is affected somewhere in the pipeline by two main factors: (i) intrinsic quality within each project or policy design and execution and (ii) quality among policies, including coordination and pertinence of each program.

4. Improving decision making quality in public expenditures : how to cope with dissipation

\textsuperscript{18} Another interesting approach on these issues in Oakerson, R. and Walker, S., 1997

\textsuperscript{19} They calculate a global index of performance of municipalities watching at 6 indicators (autofinancing of current expenditures, dependence on transfers, relevance of own resources, magnitude of investment and saving), su agregación, aggregated by principal components (DNP, 2004)
As expressed by Gordillo and Andersson (2004) “transformation of policy lessons into policy actions is a process associated with specific political incentives”. By considering political incentives, it is possible to explain why governments may decide to act on the basis of policy evaluation or common sharing of lessons learned and perhaps more importantly, why they so often do not. It highlights on the other hand, the importance of institutional arrangements that have built-in incentives for cooperation among policymakers (Oakerson, 1999; North, 1990; Ostrom 1990; Putnam 1993; Olson 1965).

Preliminary results from the project conducted by FAO Regional Office for Latin America and the Caribbean cited above, indicate as well some qualitative problems that need to be coped with in order to enhance impact of public expenditures for rural poverty reduction and in general for welfare in the countryside. Crowding-out of public actions as a result of an immense amount of dispersed and over-lapping policies, programs and projects, a real coordination vacuum despite the many efforts coined as “coordination mechanisms”, the lack of continuity in public programs and policies and the absence of systematic impact evaluation of public spending; are but a few of the most commonly mentioned problems regarding the decision making processes on public expenditures.

We can summarize these failures of state intervention as resource dissipation. Fragmentation in public action, lack of coordination and discontinuity leads to squandering public resources. The most obvious mechanism is rent captures and deviation due to bureaucratic intricacies. But there are also other forms of resource dissipation that are generally unaccounted for. Managing programs particularly when they imply cash transfers are normally subject to conditionality that guarantee transparency and civic participation. Taken seriously, building mechanisms that guarantee real influence in decision-making processes is a time consuming exercise. More frequently than not the fast-track proxy is civic window-dressing which has a double pernicious effect. It discourages citizen’s participation and it sends a strong message on the futility of the exercise itself. It is a waste of social energy.

On the other hand program design, negotiations among competing agencies, public relations efforts and sequencing implementation also takes time. Public managers’ time is also
dissipated and prevents them from sharing best practices, lessons learned and impact evaluations that might be crucial for program adjustment due to the fragmentation and competition between bureaucracies.

Finally fragmentation of government programs and public action prevents the construction of a common base of knowledge on what works and what does not work. Instead as in the Greek mythology each new administration undoes and redoes the Sissifus way\textsuperscript{20}. Arrogance in the uses of power is nurtured with plain ignorance. But it also means dissipation in public knowledge.

To summarize, low quality in public action and government programs means dissipation of public resources, social energy, strategic time and knowledge. Thus the importance placed on enhancing the quality of policy making processes. Many governments, citizens’ organizations and experts have been focusing on these shortcomings not because of an intrinsic rejection on public expenditures or on the role of interventions but precisely because of their crucial role for welfare and economic growth.

The efficient response is not bureaucratic centralization but rather a shared agenda that leads to delimitation of functions between different levels of government interventions –from national ministries to state governments, sub national arrangements and municipal governments- and between public and private sectors. This response requires consensus and legitimacy. It is a result of a common understanding among diverse economic and political agents. Briefly stated certainty and continuity in public policies is the most important result.

Recognizing that quality of policymaking -including design, implementation, evaluation and feed back loop improvement- matters for increasing public expenditures impact, we discuss three institutional innovations both at micro-regional level, and at national level. In doing so we also recognize that for Latin America and the Caribbean there is another enormous restriction in policy making derived from its dubious world leadership on inequality. As

\textsuperscript{20} Gods had condemned Sissifus to push a rock to top of a mountain until it slided back to the bottom in a continous and eternal process. They thought correctly that there was no harsher punishment than a useless work without any hope or future.
expressed by the 2003 World Bank Report inequality in this Region is extensive since all countries are affected; is pervasive characterizing all aspects of life “including attainment of political voice and influence; and is resilient in the sense that “high inequality is rooted in exclusionary institutions that have been perpetuated ever since colonial times”. This general context of inequality pervades political processes including policy making with rules of the game biased and policies moulded to favor the richer and most powerful segments and elites independently of the type of political regime. 

At this stage it is useful to insert the concept of policy regime proposed by Oakerson y Walker. A policy regime is an institutional arrangement designed to attain certain policy objectives without the recurrence to written prescriptions on specific courses of action. As rules of the game that limit authority on certain jurisdictions and prevent diverse understandings it emphasizes the role incentives play to manufacture actions and results. In this way selection criteria implied by a certain incentives structure is embedded in the institutional arrangement that thus, reproduces an ensemble of common values and conducts. Our underlying hypothesis is that a strong common understanding in the form a social contract aiming at raising the effectiveness of public institutions and private partnership to reduce poverty and inequality could set in motion a policy regime favorable to institutional reform.

In a situation of high inequality, low quality of the democratic institutions, strong and small closed elites and fragmented though sometimes powerful mobilizations from below, the crucial question is why would the political and economic elite want to reform institutions in the sense of instilling transparency and accountability. As in all cases of long lasting reforms a combination of events is needed: a credible threat, enlightened elite, strong voices from below and international context that favors those changes. It is our contention that all four aspects are strongly surfacing in the present conjuncture and thus make certain reforms plausible.

21 “Exceptionally high inequalities of wealth and income are the basis for exceptionally inequitable distributions of political power and representation, even in the continent’s young democracies, and these power arrangements are subsequently unlikely to address the basic problem of high inequality. Instead, economic and social policy operates largely through the exercise of private influence and the skewed functioning of politicized bureaucracies structured to favor large economic groups. The unequal power distributions they both reflect and reproduce, in turn, help to secure economic privileges, undermine competition and efficiency, encourage corruption, undermine productive growth and, in the end, subvert democracy” (Karl,2002)

22 Oakerson y Walker, op. cit, p. 33
4.1. **Alliances for regional development**

Briefly stated we observed that centralized power has problems regarding the information about local preferences and capacities. On the other side, local governments have competitive advantages regarding those issues but lack enough economy of scale for technical capacity and linkages (which cannot be contracted in completely divisible units). As mentioned by Laffont (2000), we recognize that the 100% local corner-solution is not the panacea: inadequate decentralization can increase the level of capture by local interests, especially in regions where the capture becomes too easy due to "caciquismo" (Bardhan, 2005) which in itself is a symptom of low levels of democracy, insufficient schooling and lack of social capital. Also the extremely reduced size of some municipalities produces a bias against projects with externalities that significantly impact beyond the boundaries of a given municipality (Duret and Ventelou, 2004)

Consequently, we propose a complementary institution: an Alliance for (micro) regional development which operates as an agency to coordinate public policies at microregional level (group of municipalities). It purposes is to maximize the potential spillovers of projects without by-passing but instead coordinating permanent local institutions.

In practical terms, based on an in-built feedback loop for learning and following some best practices in an effective operative framework, these alliances would be prone to unveil areas for interventions and to channel them into the pipelines of the ministries, financing agencies or private investor initiatives. These alliances can assist in solving tradeoffs between enough economies of scale for enhancing capabilities and sufficient local knowledge. Also, they might reduce capture problems. (Gordillo and Wagner, 2004)

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23 Paper presented in ISNIE 2004 and also in ABCD LAC 2004
FAO is currently promoting a capacity building initiative within existing institutional arrangements at subnational level. In this project, FAO is a regulator and facilitator, promoting and improving a learning process, rather than being the classic exogenous executor.

Gains in local information and technical capacities are in itself an improvement. However, there are still important quality issues to solve at central level. To address these issues we propose two complementary solutions: empowering and developing non governmental agencies included within the public sphere\(^{24}\), and enhancing the quality of parliamentary discussion.

4.2. Public Non Governmental Organizations\(^{25}\)

One important lesson from the previous cycles of structural reforms is that weak or incomplete markets call for public interventions but not necessarily governmental agencies. Noting this crucial lesson the term Public Non Governmental Organizations (PNGO)\(^{26}\) seeks to express the provision of certain public goods such as policies, norms and regulations thru private actors.

These organizations are de-linked from a particular political regime and subject to different rules on its composition, its duration and its enforcement procedures. Examples of these types of organizations can be found in Human Rights commissions, Electoral Boards or Central Banks.

It is well known the increase in decision-making effectiveness regarding monetary policy, after independent central banks were institutionalized (Alesina and Summers, 1988; Cukierman et al 1993). These improvements are a result of its non partisan nature in that: (i) it keeps a set of clear indicators and goals, like an inflation targeting; (ii) it has a whole group of experts that is continually improving its understanding of there specific business; (iii) there is a relatively standardized language and background that allows the international community of experts to discuss, and consequently conceptually advance in parallel and network rather than sequentially;

\(^{24}\) Habermas, J. (1989).
\(^{25}\) Gordillo(1999)
\(^{26}\) Gordillo (1999) differentiates this term from a similar used by Bresser Pereira (1998) in that these are public organizations but not government agencies
and finally (iv) it has a strong relationship with markets and with a technical supervisor group, that allows a pertinent performance control. It is true that the variables that a central bank manages are related in straightforward way when it is compared to the complex nature of national and regional development. However, the underlying principles could be adapted and effectively applied for favoring impact evaluation and spillover from public expenditures.

Another analogy that also sheds light on the role of these PNGOs comes from the modern role of National Comptroller Offices 27 which is in addition to control for legality of processes, also foster efficiency and potential coordination namely, on how to improve governments.

The incipient comparative analysis of these types of public organizations leads us to the introduction of the common-pool resource concept 28. This clearly calls for a distinction between the flow and the stock of this type of resource. In the case of policies the rules that define the operational, governance and constitutional spheres 29 correspond to the stock of this common pool good denominated PNGO whereas a the policies, norms and regulations that is to say the policy regimes are the flows. Deterring opportunist behavior in these institutional arrangements requires participation of a plurality of actors 30. On the substractibility side— that is to say the private good side—depletion does not come in the form of using norms or regulations by different actors but by ineffectiveness in the implementation or on its enforcement since it damages trust in the regulation itself or even the reputation of the PNGO.

To conclude these still preliminary reflections on the commonalities of these public organizations it is crucial for their continuity the structure of incentives and sanctions to enforce the rules. As Ostrom(1990) insists those common-pool resource institutions that last longer are

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28 Common-pool resources are "natural or human-made facilities (or stocks) that generate flows of usable resource units over time. Common-pool resources(CPRs) share two characteristics: (1) it is costly to develop institutions to exclude potential beneficiaries from them, and (2) the resource units harvested by one individual are not available to others...." (Ostrom,E.,1994). Ostrom points aptly to the fact that the first trait likens them to public goods whereas the second relates them to private goods..

29 Oakerson and Walker,1997)

30 Gordillo and Andersson(2004) propose that in order to solve the problem with M&E information of its high excludability, which hampers the wider use of evaluations in the democratic process, “good governance requires this limited-access club good to be transformed into an open-access public good.”
provide with self-enforced mechanisms of monitoring and sanctions. Margaret Levi uses the term "quasi-voluntary compliance" illustrating the way taxpayers react in countries where mostly everyone does. In this case paying taxes is voluntary but those who do not pay having that obligation might be subject, if discovered, to sanctions. Levi concludes that social actors usually are disposed to comply to rules if convinced that the common purpose it being attained and have an acceptable assurance that others will comply as well.

4.3. Quality in parliamentary discussion

Even considering their limitations, parliamentary deliberations represent some level of territorial and partisan diversity in preferences, but are mostly preferences on final outcomes of policies (income, redistribution, externalities...) and not on policy measures (discussion outputs) that should be taken in order to receive from the system a given outcome (reforms, taxes, subsidies, regulations...). In general, they do not have competitive advantages for modeling and, in Latin America, internal arrangements that organize technical assistance and advice are rarely developed. Secondary and unexpected effects is an indicator of quality failure. (Sterman, 2001)

Thus in our region, parliamentary decision making has too little of argumentative discussion and too much of doctrine. Acceptance of a doctrine may be articles of faith but for good policymaking it does not exempt presentation of objective proof neither discussion of the suppositions that hold an argument (Norman and Gregory, 2003).

Public intervention in this decision making market is reasonable precisely because there is a public interest in increasing the quality of arena in which ideas are discussed, given that a Coase theorem is not feasible in the political economy. Thus, following the experience collected in more than 40 years of Quality Management attention should be paid not only to the quality of

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31 The crucial question in unveiling the nature of these public organizations is which instance monitors and guarantees enforcement of the rules, norms and policies.
33 See Acemoglu 2004.
34 Now formally a branch of operations management.
laws: parliamentary discussion products; but also in the process that generates those products, in order to avoid excessively delays, casuistic approaches and costly problems of quality.

For addressing some of the quality problems an expansion of the "arguments market", is needed for enhancing the elective and decision processes.

- A independent advisory body that develops research and proposals on laws and regulations.
- Government Accountability agency: following the example of GAO in US, congresspersons not only need to revise legality of some procedures followed by the executive (like the job that makes some common Comptroller Offices in Latin America), or about complex modeling (as discussed above), but also need to perform managerial decisions based on facts. Indicators on level of efficiency and effectiveness in governmental offices are needed. Actually, there is a clear informational asymmetry between the performance of bureaucracies.

- A vector of indicators to be maximized by parliament: this is helpful considering the non contractable (i.e. non enforceable on courts) nature of congressmen work. This vector should contain variables (or proxies) regarding both quality control of products (laws analyzed ex post) and a quality of process.

These changes are feasible because of a context characterized by: (i) recent surveys that reflect low levels of voters’ trust in their institutions, specially the low perceived value of democracy (Latinbarometro, ). (ii) a credible menace of populism and (iii) the need of nationally internal and external signals of accountability.

---

36 Regarding the latter, a system for monitoring managerial decision making is good for increase transparency, however if you record only “easy indicators”, like session attainment or project acception rate, you are biasing the incentives against a good quality of discussion and a deep address requirements. Some alternatives could be (i) a group of argumentation professionals that record the deepness of discussion and arguments presented for each representative.
A formal Change Management approach should be considered for really implementation some of the mentioned innovations.  

In conclusion, these three arrangements presented in this section are likely to reduce capture, increase checks and balances and help coordination; thru improve the quality and informational attributes in which lies the efficiency of public expenditures in rural areas.

5. Concluding remarks (to be developed in a latter version of this paper)

6. Bibliography


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### 7. Annex

#### 7.1. Rural expenditure in LAC

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<tr>
<th>Subregión</th>
<th>Country</th>
<th>Period</th>
<th>Rural public expenditure per rural inhabitant (US$ 2000)</th>
<th>Agricultural productive promotion (% of total rural public expenditure)</th>
<th>Rural infrastructure (% of total rural public expenditure)</th>
<th>Rural social expenditure (% of total rural public expenditure)</th>
<th>Total rural public expenditure (MM US$ 2000)</th>
<th>Ag pro pn (gov exp)</th>
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### 7.2. Estimation output

**Table 1. Results of SUR model estimation for agricultural productivity**

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<td>Agricultural labor per hectare</td>
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</tr>
<tr>
<td>Tractors per hectare</td>
<td>-0.069</td>
<td>0.565</td>
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<tr>
<td>Fertilizer per hectare</td>
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<td>Literacy rate (above 15 years)</td>
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<td>Irrigated Land (%)</td>
<td>-0.209</td>
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</tr>
<tr>
<td><strong>Rural expenditure per rural inhabitant</strong></td>
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<td><strong>0.501</strong></td>
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<td><strong>Share of agricultural productive promotion</strong></td>
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<tr>
<td><strong>Share of rural infrastructure</strong></td>
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<td>Dummy South Cone</td>
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Table 2. Results of SUR model estimation for rural income

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<th>Variable</th>
<th>Coefficient</th>
<th>P-value</th>
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<tr>
<td>Agricultural productivity (t-1)</td>
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<td>0.000</td>
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<tr>
<td>Land per worker</td>
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<td>0.000</td>
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<td>Non agricultural income per capita</td>
<td>0.008</td>
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<tr>
<td>Irrigated Land (%)</td>
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<td>0.082</td>
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<td><strong>Rural expenditure per rural inhabitant</strong></td>
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<td><strong>0.661</strong></td>
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<td><strong>Share of agricultural productive promotion</strong></td>
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<td><strong>0.002</strong></td>
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<tr>
<td><strong>Share of rural infrastructure</strong></td>
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<td><strong>0.004</strong></td>
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Table 3. Results of SUR model estimation for poor income

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<td>Non agricultural income per capita</td>
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<td>Rural population (%)</td>
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<td>Public expenditure in health and education (%GDP)</td>
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<td><strong>Rural expenditure per rural inhabitant</strong></td>
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Table 4. Results of SUR model estimation for poverty

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<td>Non agricultural income per capita</td>
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<td><strong>Relative agricultural worker productivity</strong></td>
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<td><strong>Primary school enrollment</strong></td>
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<td><strong>Rural population (%)</strong></td>
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<td><strong>Public expenditure in health and education (%GDP)</strong></td>
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<td><strong>Rural expenditure per rural inhabitant</strong></td>
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7.3. Classification of rural public expenditures

**A. Direct productive incentives**
I. Direct incentives for production (administration) and others
1. Internal and external marketing (Market promotion and development)
   1.1. Forest, Agricultural, Animal and Fishing exports promotion.
   1.2. Internal marketing promotion agricultural and animal production
2. Infrastructure for irrigation
3. Scientific and Technological Research and Extension
4. Soil, natural resources and environmental conservation focused on agricultural producers
5. Forest incentives
6. Phyto / Zoo sanitary capital
7. Information and communication services
II. Targeted rural productive incentives; targeted territorial or special programs
III. Integrated rural development programs
IV. Productive incentives for aquaculture and fishing

Subtotal Direct productive incentives

**B. Rural Infrastructure**
1. Housing
2. Roads and related
5. Rural electric infrastructure
7. Rural sanitary investments
8. Rural water infrastructure (human uses)
9. Land titling, agrarian regularization
10. Water rights regularization and titling
11. Social infrastructure for rural communities
13. Land brought and expropriations

Subtotal Rural Infrastructure

**C. Rural social expenditures**
0. Social services in rural areas (Administrative and others)
1. Health
2. Education
3. Justice
5. Sports and recreation
8. Promotion of native ethnic groups
Age groups promotion
9. Women promotion
10. Family promotion
11. Promotion of associations and other administrative expenses
12. Training

Subtotal rural social expenditures