

Drivers of Local Economic Growth- developing the dairy sector in Chontales, Nicaragua

A World Bank study carried out in 2004 of drivers of local economic growth in Nicaragua, generated much enthusiasm for territorial approaches to planning in rural development programmes. A follow-up study of the dairy sector in Chontales in Nicaragua, financed by Finnish Development Cooperation, has since proved a key input into the implementation of the Nicaraguan Government's Rural Sector Programme (PRORURAL).

The conclusions of the Drivers of Growth in Chontales study have very important implications for the role of cluster development in poverty reduction. Starting with an analysis of the asset base and physical connectivity as well as market access of small, medium and large dairy producers in the zone, the study concluded that cluster development would not automatically lead to income redistribution. A key determinant of access to the international market in Chontales is physical proximity to Parmalat pick-up locations- suggesting that investment strategies must address broadening of the tertiary road network in the long term, to improve overall Nicaraguan competitiveness in the international supermarkets dairy sector. However, in the shorter term, policy and investments must look at developing sub-segments of the dairy sector, taking a stratified approach. For those who are outside of the Parmalat network (for access or quality reasons, for example), a short-term priority is the deepening of the semi-industrial cheese sector for local (or Central American) markets. For those farmers that face even greater productivity or physical accessibility challenges, typically the poorest, it will be necessary to pursue opportunities for expanding local markets and/or diversifying the household income base. Policy and investment strategy that takes such a stratified approach can best achieve the dual objective of expanding dairy export markets and poverty reduction.

The application of the Drivers of Growth analytical framework to the specific circumstances of a particular cluster, or economic zone, has proven an extremely useful input into the design of the National Rural Development programme (PRORURAL). It represents a good example of how the application of analytical work on the ground, looking at existing asset bases of households, and the markets and organisations in which they currently, can help define public investment and enabling environment decisions.

A factor of success in applying the methodology to generate practical lessons, has been the process itself. The active participation of the Ministry of Agriculture and Forestry in Nicaragua (MAGFOR), the rural development donor group in Managua, and the Central American Regional Unit for Technical Assistance, helped the study team to obtain the support and build the ownership of important implementation partners. Now, civil society, farmers' organisations, large agribusiness interests and local government have a shared vision of the future of the dairy sector in Chontales and what their role is in delivering on the growth of the sector, as well as poverty reduction objectives.

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