

TOWARDS A NEW STRATEGIC AND POLICY FRAMEWORK FOR SUSTAINABLE AGRICULTURAL AND OVERALL ECONOMIC DEVELOPMENT FOR REDUCED POVERTY AND ENHANCED FOOD SECURITY

1. Introduction

Poverty, food insecurity and hunger remain not only as endemic today as ever before, according to FAO, the World hunger is increasing¹. Its most recent estimates put the number of hungry people at 923 million in 2007, an increase of more than 80 million since the 1990–92 base period. Along with increase in hunger, there is also evidence that in-equality is also increasing.

Though several countries have made significant progress, failure by many countries to address wide spread poverty, hunger and in-equality is raising the need for (i) renewed efforts to understand the causes of persistent poverty and food insecurity (ii) revisit the strategies and policies based on historical evidence and the experiences of the successful countries; and (ii) enhance the effectiveness of international aid, cooperation and assistance. In view of this TCA is initiating an exercise to initiate debate and discussions towards formulating new strategies and policy framework for sustained agricultural growth for overall development, reduction of poverty and increased food security drawing lessons from experiences.

2. Strategies for Addressing Poverty and Food in-security

Non-farm activities and poverty reduction

Available empirical evidences, since the beginning of industrial revolution, show that reduction in food insecurity and poverty are positively related to overall economic development, particularly development of livelihood in non-agricultural activities. In particular, the countries that have reduced poverty and food insecurity are those whose share of agriculture in GDP has declined and the people who have moved out of poverty are those whose share of non-agriculture income is higher than agriculture². Thus, it is now widely accepted that addressing poverty, hunger and food security would ultimately entail overall economic development and movement of people out of agriculture into non-agricultural economic activities.

Agricultural growth and linkages to economic development and non-farm activities

As regards the process of overall economic development and transition from agro-based to non-agricultural activities, there exist also a broad consensus that growth in agriculture is crucial, due to its strong forward and backward linkages with the other sectors of the economy. Every country that has made the transition, reduced poverty and increased food security, did so during the phase of and through high agricultural growth. Also, empirical evidence shows that higher level of economic development and non-farm activities are positively correlated with development of agriculture, particularly the efficiency of the sector in terms of land and labour productivity and its aggregate value added.

Causes of persistent poverty and food insecurity

¹ FAO- State of Food Insecurity (SOFI), 2008.

² This is true for China, Vietnam, Bangladesh, Indian Punjab and Haryana, Thailand and parts of Indonesia

Persistence of poverty and food insecurity, therefore, can be attributed to lower growth of agriculture and low land and labour productivity. It is estimated that in the European countries³, forty to sixty years preceding the industrial revolution, agricultural productivity had grown by about 40 per cent and the average level of agricultural productivity on the eve of the industrial revolution was about 7, approximately 45 per cent higher than that in the countries of Africa and Asia today (except in China, Thailand, Vietnam, South Korea, Malaysia, i.e. the countries which have also successfully made the transition to Industrialization). Hence, the issue is how to maximise agricultural growth with focus on land and labour productivity and total value added in agriculture.

3. Strategy for sustained Agricultural growth

Capitalising agriculture in developing countries: a key for sustained growth and development:

The experience of developing countries with agricultural development strongly suggests that making a transition from economic stagnation to self-sustaining economic growth in agriculture – and subsequently the overall economy- requires a sustained increase in the rate of domestic capital formation in agriculture.

The nexus between capital formation and agricultural growth, and agricultural growth and poverty alleviation are very well articulated in the literature and in spite of various methodological issues surrounding this association⁴, all empirical analysis and calculations have clearly demonstrated that the volume and composition of capital formation is the major determinants of agricultural productivity and output growth.

Most important is the increase in domestic capital formation in its broader sense, in the form of investment in social overhead and economic infrastructure. Although such investment may yield directly only small increase in income in the short term, but will create an environment necessary for more profitable and cumulative subsequent investments. Short term direct increase in income is less important than the long term increase in investment opportunities. The experiences in China, Thailand, Brazil and Vietnam, clearly demonstrate how the sustained increase in capital formation in agriculture generates the subsequent growth opportunities in agriculture and the economy as a whole.

What policies and strategies?

Increased capital formation for maximising growth and value added in agriculture in low income developing countries and supporting the transition from agriculture to non-agriculture activities are crucial strategic elements for addressing hunger and poverty. Yet, little debate is taking place about the processes of how these developments happen and how to accelerate them and make them more effective. This could in part be attributed to: (i) the findings that growth do not necessarily *trickle down* to the poor; (ii) share size of the rural agricultural population to be

³ Paul Bairoch: *The Economic Development of the Third World since 1900*, London: Methuen, 1975 (Translated by Cynthia Postan).

⁴ The methodological issues surrounding the association between capital formation and agricultural productivity includes: First, capital investment is a determinant of agricultural growth, but agricultural growth could also be a determinant of capital investment, particularly in case of private investment. Second, the impact of total investment on growth could be different from that of public and private investment separately. Third, two alternative measures of public investment viz, physical and financial terms may, give rise to different productivity and output elasticities. Fourth, there are differences in the choice of public capital expenditure heads (recall narrow and broad public investment series) to assess the impact. Choice of capital expenditures may be in the form of index of agricultural infrastructure, index of transport and communication, research, extension and educational infrastructure, credit infrastructure, and various other definitions and measurement of investment variable. Fifth, the time lag allowed for investment and productivity/output response is yet another methodological issue.

transited to non-farm activities; and (iii) past failure of industrialisation strategies in many developing countries, where the attempt was to extract surplus out of agriculture and into industry.

However, while it has been clearly established that growth do not always trickle down, it has also been clearly shown that without growth nothing else can be done to significantly reduce poverty and hunger. The countries with the highest rate of sustained growth have succeeded more in reducing poverty and food insecurity and are also in a better position to put in place policies for redistribution and protection of the very poor. Hence, instead of pursuing policies with focus on “redistribution with growth” and/or “pro-poor growth”, would it not be better to pursue one set of policies with focus on growth and separate set of policies and instruments for distribution. That is, different instruments for different objectives. As regards past industrialization attempt, doubts remain whether the policies were wrong or they were wrongly implemented? i.e Instead of allowing agriculture to grow and contribute to industrialization, the countries squeezed agriculture (i.e. instead of waiting for the golden egg, they killed the goose).

Making capital formation and support for transition from agriculture to non-agricultural activities core of a new strategy may also lead to new policy directions aiming at public investment, private corporate investment, private farm household investment and foreign assistance and investment. For example, while policies with emphasis on egalitarian distribution of land also need to consider that small and marginal farmers need more public investment support than large farmers.

In light of the above, national and global policies and strategies in agriculture may need to be revisited with respect to: (i) the role of public investment in agriculture and the appropriate mix of private and public investment; (ii) disentangling policies targeting growth from those focusing on safety nets and social protection; and (iii) the role of foreign assistance to agriculture.

First, developing country governments, particularly the low income countries, may need to rethink their role in agriculture and how to focus public investment to maximise agricultural growth and productivity. The key question here is not to make agriculture grow per se, but how to make it grow in a way that will maximise aggregate value added, spur the highest and sustained growth in other sectors and the economy as a whole. What is the mix and sequence of public and private investments would be required to generate a sustained increase in domestic capital formation in agriculture. A judicious balance between public and private investments seems necessary in order to secure both profitable immediate returns and, most importantly, a sustained increase in the margin of this profitability over time. Invariably, in different stages and different phases of development more investment may be required to produce a unit of additional income than in others. The public sector investment plays a greater role in this respect. Determining the most appropriate respective roles in this regard for government agencies, donors, civil organizations, and commercial entities requires an imaginative and innovative approach, with greater emphasis on policy support and sharing of best practice.

Second, instead of exclusively considering social protection/safety nets as charitable transfer payments to the vulnerable, these instruments can be effectively used to cushion the transitory phase of the transition from agriculture to industry, as well as for re-distribution to ensure increased growth by providing social stability. Social protection measures⁵ after all were initiated, to a large extent, to support capitalist transformation of the production process. Further, recent research in this area has demonstrated that the social track has direct impact on the production and that some form of social protection is a precondition for development. Rothschild (1995: 732) points out that early political economists such as Adam Smith, Condorcet and Turgot ‘were convinced that some sort of minimum income protection/security was a condition for economic development.

⁵ Excluding the charitable initiatives of the religious and other social organizations.

Third, aid recipient countries and donors should clearly focus on the rational and objective of foreign assistance. Foreign capital inflow in agriculture would be more helpful and effective if directed to increase the rate of domestic capital formation in agriculture, where it can be allocated in a way to have the maximum catalytic effect of mobilising additional domestic investment resources. Thus the purpose of such assistance should not be to raise standards of living in the recipient countries but rather to accelerate economic development through helping them make the transition from stagnation to self-sustaining economic growth.

In fact, capital formation is the core of the guiding principle of foreign aid. According to Rosenstein-Rodan (1961)⁶, the purpose of an international program of aid to underdeveloped countries should be to accelerate their economic development up to a point where a satisfactory rate of growth can be achieved on a self-sustaining basis. The function of outside capital in a development program is not directly to raise standards of living in the recipient countries but to permit them to make the transition from economic stagnation to self-sustaining economic growth. The principal element in this transition must be the efforts that the citizens of the recipient countries themselves make to bring it about. Without these efforts, outside capital will be wasted. Thus the general aim of aid (loans, grants, and technical assistance) is to provide in each developing country a positive incentive for maximum national effort to increase the rate of domestic capital formation up to a level, which could then be maintained without any further aid. The increase in income, savings, and investment which aid indirectly and directly makes possible will shorten the time it takes to achieve self-sustaining growth.

Ideally, aid should be allocated where it will have the maximum catalytic effect of mobilizing additional national effort or preventing a fall in national effort. Analysis of capital formation also enables to measure a country's additional effort ("sufficient" or "deficient"), through the main elements of capital formation, such as increased in savings and investment. If a country increases her volume of investment and savings, notably in maintaining or in widening the deviation between the average and the marginal rates of savings, then surely it is making additional efforts. A changing composition of output (more industry with high marginal rates of savings) will lead in many cases to foreseeable higher savings rates for the country as a whole).

4. The overall purpose of the exercise

The purpose of the exercise is to initiate debate and discussions to rethink the agricultural and rural development strategies and how they can be redesigned to accelerate and stimulate growth and productivity of the agriculture sector for overall economic development and consequently reduce poverty and enhance food security. It will:

- Contribute towards formulation of a new strategic and policy framework for accelerating sustained increase in capital formation/investment in agriculture for higher growth and productivity.
- Investigate the distributional impact of policies with focus on maximising growth, land and labour productivity on poverty and food security and elaborate social protection measures and other policy instruments to address these concerns along with estimate of direct/indirect cost of the such measures.
- Contribute in analysing the applications of social protection measures as an instrument to facilitate transition from agriculture to non-agricultural activities by focusing on maximising agricultural growth, aggregate value added, land and labour productivity;

⁶ International aid for underdeveloped countries; P.N. Rosenstein-Rodan, The review of Economics and Statistics, Volume XLIII, number 2, May 1961.

5. Scope of the exercise

This study will focus on analysing the role that the agricultural sector can play in accelerating the economic growth and development in developing countries and reducing poverty and food insecurity. The objective is to identify elements of a strategy for action to exploit the agricultural potential by adopting the appropriate policies and measures to create a sustained increase in capital formation in the sector. To that end, the study will assess performance of agriculture in connection to the overall development of the economy and changes in the state of food security and poverty. Policy lessons of relevance will be drawn, based on the experience over the past three decades or so and focusing on success stories in agricultural development

6. Implementation plan

The debates and discussions for a new strategic framework needs to be based on empirical findings, assessment and validation of the issues and questions raised earlier in this paper (and not on analytical work). Hence, the exercise will be initiated with the launching of country case studies for validating some of the emerging observations on the subject, such as:

- The extent to which growth in agriculture has been associated with increased overall growth and development in the economy and a reduction in food insecurity and poverty;
- The extent to which growth in agriculture in developing countries has been linked to gross domestic capital formation in agricultural;
- How social equity dimensions influenced growth in agriculture and overall growth in the economy.

Given that country case studies need to be well designed and the various concepts and methodological issues, as well as practical problems of estimating capital formation, etc need to be standardised for meaningful inter country comparison, launching of country case studies need to be preceded by some desk work and organization of technical workshops to (i) discuss conceptual, methodological, as well as practical problems of estimating capital formation/investment; and (ii) agree on detailed terms of reference for the conduct of country case studies, keeping in view that the exercise will address the following:

a. Addressing key issues underlying domestic capital formation in agriculture:

- What are the most efficient ways for making a sustained increase in domestic capital formation in agriculture? And which forms of capital formation are more effective (availability versus efficiency of use of capital) and for countries in different stages of development?
- What is the appropriate relationship between public and private sector investment for an effective capital formation? Are public and private investments complementary, substitutes or independent? And how to make them complementary
- How domestic capital formation is linked to diversification of production and quality improvement in agriculture and generation of value addition along the value chain?
- How should the various forms of investments (public, private, foreign or local) be effectively channelled to achieve that?
- What can be learned from past agricultural development experiences?

b. Other issues that may possibly be addressed by the study

- What should be the role of public investment and foreign assistance?
- What challenges lie ahead in the new developments in climate change, bio-energy and globalization that may enhance or impeded the speed and/or effectiveness of capital formation?

7. Outputs of the exercise

The main outputs of the exercise will be two policy documents as follows:

A. One with a set of clear recommendations for key actions to spur agricultural growth in low income developing countries, drawing upon past experience and success stories, based on country case studies and taking into account emerging domestic and global challenges. The recommendations will be based on a strategy to recapitalize agriculture with increased investment (public, private and foreign assistance) to maximise aggregate value added, land and labour productivity. In this regard, it will:

- Identify capital formation/investment growth cycle and compositional shifts in investment in agriculture.
- Assess the determinants of capital formation in public and private sector, and the complementarity hypothesis in a multivariate framework.
- Evaluate the shifting efficiency of capital use in agriculture.
- Analyze the impact of capital formation on agricultural growth vis-à-vis other explanatory variables.
- Derive policy directions/reforms for augmenting the level and shifting the composition of capital formation in and for agriculture.

B. One with clear recommendations for a system of social protection which will contribute towards transformation of the agro-based rural economies for contributing an increasing share of non-agricultural income to the rural households through increased capital formation, as well as reduce poverty, hunger and increase food security.