CAPSA Flash
Volume 6, No. 1, January 2008 ISSN 1693-4636

Short Article

More Aid for More Impact: is the Agricultural Sector Left Behind?

The last decade has seen a huge debate on the effectiveness of Overseas Development Assistance (ODA). In general, ODA (also called foreign aid, development aid or simply aid) is considered to have had insignificant impact on poverty reduction, although there are some success stories (for example in Hong Kong, the Republic of Korea and Taiwan). In the explanation of aid's failure in poor countries, poverty traps and insufficient aid have been considered to be major factors (Sachs, 2005a; Sachs, 2005b; Kraay and Raddatz, 2005). For this reason, in 2001 the World Bank President James Wolfensohn called for the doubling of ODA. This condition is considered to be a must, if we want to halve poverty and hunger.

This call to increase ODA has been successful. The official net ODA increased from a yearly average of US$ 55 billion in the 1990s, to US$ 80 billion in 2004, and about US$ 110 billion in 2005. Theoretically, this substantial augmentation of aid should increase investment in the most vulnerable sectors in poor countries such as the agricultural sector. This sector is considered to be the first one to be stuck in poverty and a key sector for poverty alleviation.

Poverty is largely a rural phenomenon. Over 70 per cent of the poor live in rural areas and make their living from agriculture. In many countries (mostly in Africa), over 70 per cent of the total workforce is involved in agriculture. Therefore, rural development is fundamental for food security, economic growth and poverty reduction. However, fundamental changes in the agriculture sector of developing countries are improbable due to lack of knowledge and capital. Moreover, in this sector, commodities are produced under decreasing returns to scale. Consequently, the sector receives weak private investment, which in turn leads to weak production; leading to the 'poverty trap'. A significant external stimulus is needed to break this trap. A large injection of aid can do this. Once out of the trap, the sector can attract private investment, and innovation is possible. That is a theoretical explanation of the call for more aid.

An example of this phenomenon can be seen in the role of massive aid to agriculture in the development of the Republic of Korea (Mahn-Je Kim, 1997). Between 1960 and 1980, aid to agriculture helped the country to improve the use of water in agriculture, to provide adequate seeds and knowledge to farmers and to promote intensive use of fertilizers. By this process, total production of the agricultural sector grew yearly by 4 per cent on average. The growth of the agricultural sector substantially increased the government's tax revenues and investment in other sectors. Poverty has been considerably reduced in the Republic of Korea.

The importance of ODA to the agricultural sector is widely recognized. Recently, the G8 summit in 2001 and 2003, and the Financing for Development meeting in 2002 all reaffirmed the importance of agriculture in poverty alleviation. Adequate food supplies and rural development were cited as central objectives of the poverty reduction strategy, and support to agriculture was considered to be a crucial target of ODA, because agriculture provides a sustainable basis for health, education and social safety.

Nevertheless, contrary to the case of the Republic of Korea, aid during the last two decades has failed to alleviate poverty in many countries. What can explain this?

An answer may lie in the amount of aid of aid allocated to the agricultural sector. In the period from 1980 to 2002, the total ODA increased by 65 per cent, from US$ 37.1 billion to US$ 61.4 billion. Over the same period, the amount of ODA allocated to agriculture decreased from US$ 6.2 billion to 2.3 billion, a surprisingly steep fall from 17 to 3.7 per cent of total ODA. Geographically, the largest reduction occurred in Asia. Aid to agriculture in South and Central Asia decreased by 83 per cent from 1980 to 2002 (OECD, 2006).

The above discussion exposes a paradox. On the one hand, high-level international meetings and forums recognize that more aid is needed to make a significant impact on poverty; and that the agriculture sector is central to poverty reduction strategies. Yet on the other hand, while the total ODA is increasing, aid to agriculture is decreasing in both volume and share of total ODA. Theoretically, only large inflows of aid will help to break a poverty trap. Therefore the sharp decrease of aid to agriculture during the last two decades can help explain aid's failure in alleviating poverty. Reallocation of aid should be considered as a way to improve the current situation. ■

Written by Agbessi Komla Amewoa, Associate Expert, UNESCAP-CAPSA, Bogor, Indonesia.

(References available upon request)

FlashBREAKING

China's Rural Poverty Elimination Drive Stalls

After slashing its rural poverty-stricken population by an impressive 80 per cent in 20 years, China finds itself struggling against entrenched destitution in the remote interior, especially among ethnic minorities. With relatively large impoverished populations and fewer opportunities for upward mobility, these areas would remain destitute, said Fan Xiaojian, Deputy Chief of the State Council Leading Group of Poverty Alleviation and Development. Unlike other regions that have taken the lead to lift their inhabitants out of poverty, these minority habitats are more closed to the outside world, less developed and often plagued by an adverse natural environment. The government has drawn up preferential policies, including taxation privileges, and increased financial support to these areas.

People's Daily Online, 2007. China's Rural Poverty Elimination Drive Stalls in Minority Habitats, http://english.people.com.cn/ (23 November 2007).

Crop Research 'Must Switch to Climate Adaptation'

Experts from the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT) have urged governments and international donor agencies to invest more in crop research in view of adverse projections on agriculture due to global warming. The focus of crop research should be reoriented towards adaptation to environmental stress, such as rising temperatures and water scarcity, and more resistant plant varieties. Refocusing research in this way would have implications for training programmes for plant breeders and agricultural education systems. ICRISAT's proposed strategy looks at climate change in two time frames: a short-to-medium-term strategy to help farmers cope better with rainfall variability; and a medium-to-long-term strategy to adapt crops such as pearl millet, sorghum, chickpea, groundnut and pigeon pea to grow in a warmer world.

ScidevNet, 2007. Crop Research 'Must Switch to Climate Adaptation', http://www.scidev.net/ (23 November 2007).

Viet Nam Rural Development Centres on People

Viet Nam has formulated a roadmap for the implementation of the Government's 2007–2020 Rural Development Strategy. The main targets of the strategy, which will be carried out in three phases, are to increase incomes for farmers, reduce the number of poor households, improve rural people's living conditions, and develop infrastructure in rural areas. Bill Tweddell, Ambassador of Australia, a major donor to Viet Nam's agriculture sector, pointed out that rural people rely mainly on farming production and agriculture-related industries even when this sector's contribution to national GDP drops. He encouraged the Vietnamese Government to maintain its priority on investment for rural development in its future economic growth and poverty reduction strategies.

Agroviet, 2007. Viet Nam Rural Development Centres on People, http://xttm.agroviet.gov.vn/ (30 November 2007).

Food and Climate Change

The global food supply and climate change are closely linked. How we eat is affecting climate change, and vice versa. The food chain is a big emitter of greenhouse gases and contributes significantly to growth in atmospheric carbon dioxide levels. Emissions come from both how we grow and transport our food. Production of meat and transporting food to overseas markets are the biggest emitters. Consequently we must re-evaluate how we grow and transport our food; but this will have many challenges in light of shrinking land availability, a growing world population, water shortages, mass biodiversity loss – not to mention the quest for new sources of energy, and poor countries' potential loss of a large slice of GDP that comes from exporting food.

WBCSD, 2007. All About: Food and the Environment, http://www.wbcsd.org/ (21 November 2007).

Feeding Poor People While the Climate Changes

Climate change is likely to affect agriculture production all over the world. This will affect strategies for poverty reduction. Research from the Overseas Development Institute in the UK considers that about 40 per cent of the world's land area is currently used for agriculture, and this is highly dependent on the climate. Due to climate change, the land available for agriculture is likely to decrease in tropical regions and increase in temperate regions. For example, it has been predicted that 11 per cent of the land in southern Africa will be unsuitable for growing crops by 2080. But in North America, the land suitable for growing cereals could have increased by 40 per cent. This means that policies concerning the global trade in food will be increasingly important for poverty alleviation. It is also important to consider other possible factors, such as improvements in agricultural technology and changes to farming systems. Researchers suggest that development assistance over the next few decades should focus on economic diversification and strengthening the agricultural sector in developing countries. This means taking measures such as more investment in agricultural research and development and improvement of agriculture programmes. ■

Based on id21, 2007. Feeding Poor People while the Climate Changes, http://www.id21.org/ (13 November 2007).

Rising Food Prices Threaten World's Poor People

A new report by the International Food Policy Research Institute (IFPRI) revealed that surging demand for feed, food, and fuel have led to drastic price increases, threatening the livelihoods and nutrition of poor people in developing countries. The production of biofuels is contributing to dramatic changes in the world food situation. If high-potential countries meet their planned production of bioenergy by 2020, maize prices will increase by 26 per cent and oilseed prices would rise by 18 per cent. Assuming this production is doubled, maize prices would increase by 72 per cent and oilseeds by 44 per cent. China and almost all African countries, would suffer from the resulting high prices, but India, a net exporter would benefit. Overall, the majority of poor people will be worse off. Climate change will also have a negative impact on food production, compounding the challenge of meeting global food demands, and potentially exacerbating hunger and malnutrition among the world's poorest people. The impact on developing countries will be much more severe than on industrialized nations. Africa is particularly vulnerable to climate change because of its high proportion of low-input, rainfed agriculture, compared with Asia or Latin America. The following, among others, are some recommendations: developed countries should facilitate flexible responses to drastic changes in food prices by eliminating trade barriers and programmes that set aside agriculture resources; and developing countries should increase investment in rural infrastructure and market institutions to improve access to critical agricultural inputs, which are key to enhancing productivity. ■

Based on IFPRI, 2007. Rising Food Prices Threaten World's Poor People, http://www.ifpri.org/ (4 December 2007).

Can Biofuels Reduce Poverty and Tackle Climate Change?

Research from the Overseas Development Institute in the UK explores the role of biofuels in poverty reduction. Potential impacts include: (a) poverty reduction through employment – some biofuel production systems require significant labour; (b) difficulties for small poor farmers to access biofuel supply chains due to the large-scale nature of biofuel production; (c) poor people's access to land may be reduced due to increasing demand and pressure for biofuels; and (d) food security could be affected if land is used to produce biofuels instead of food, causing decreased food availability and increased prices. Increased biofuel production is likely to have differing effects, both internationally and within countries. Price increases will be good for producers such as Brazil, but less so for net importing countries such as those of sub-Saharan Africa. Within countries, increased incomes will be seen for agricultural producers but not in sectors that rely on energy imports. The researchers argue that it is not possible to make general predictions over the sustainability of biofuels. They recommend: each country must consider its own suitability for biofuels, in terms of available infrastructure for production and transport, human resources, food security and energy regulations; data should be collected globally on food stocks and the prices of fuel and staple foods – these could be used for food security early warning systems; and climate change mitigation funds should be used to identify and support the cleanest biofuel production techniques. ■

Based on id21, 2007. Can Biofuels Reduce Poverty and Tackle Climate Change? http://www.id21.org/ (21 November 2007).

Trading off the Poor: the Benefits of Trade Liberalization on Poverty and Environment

At the start of the 21st Century trade does not seem to be helping some of the world's poorest communities and the environment. In agriculture, food imports resulting from trade liberalization are responsible for the destruction of small farmers' livelihoods. There is now less confidence that the mainstream trading system can help the poor. More land in developing countries now grows food for the export market, and this has implications for food for local people. Also of concern are the social and environmental consequences of small farmers being driven off their land. A further threat to the poor lies in the expansion in developing countries of crops being grown for biofuel. Trade, especially in agricultural, forestry and related products, also has environmental costs. The role of big corporations is another key factor. In financing international trade many developing countries have incurred foreign debts. The debt crisis is one of the biggest single factors keeping people in poverty. In view of the problems with conventional South-North trade, interest has grown in alternative trade, also known as ethical or fair trade. Resource-poor farmers, for example, are among those who are benefiting from fair trade. The farmers' group can directly sell its product to companies who have been granted the 'Fairtrade Mark'. The companies pay the farmers' group a price, which covers the cost of production and allows a margin for social investment. A growing number of alternative trade products are now available in large stores and supermarkets in western countries. ■

Based on Madeley, John, 2007. Trading off the Poor. People and Planet, http://www.peopleandplanet.net/ (12 December 2007).

Flash EVENTS

International Symposium on Underutilized Plants for Food, Nutrition, Income and Sustainable Development
3 - 7 March 2008
Arusha, Tanzania
Abstract Deadline: 15 August 2007
Info:
http://www.icuc-iwmi.org/Symposium2008/index.htm

International Forum on Potato Science for the Poor – Challenges for the New Millennium Preliminary Announcement
25 - 28 March 2008
Hotel Libertador, Cuzco, Peru
Info:
http://www.cipotato.org/Cuzco_conference/index.asp

International Symposium on Interdependencies between Upland and Lowland Agriculture and Resource Management
1 - 4 April 2008
Stuttgart, Germany
Abstract Deadline: 1 December 2007.
Info:
https://www.uni-hohenheim.de/uplands2008/

International Conference on Food Security and Environmental Change: Linking Science, Development and Policy for Adaptation
2 - 4 April 2008
University of Oxford, UK
Info: http://www.foodsecurity.elsevier.com/

Global Agro-Industries Forum: Improving Competitiveness and Development Impact
8 - 11 April 2008
New Delhi, India
Info:
http://www.gaif08.org/

5th International Crop Science Congress: Recognizing Past Achievements, Meeting Future Needs!
13 - 18 April 2008
International Convention Center, Jeju, Korea
Abstract Deadline: 13 August 2007
Info:
http://www.cropscience2008.com/

UNESCAP-CAPSA
Jl. Merdeka 145
Bogor 16111, INDONESIA
Phone: (62-251) 356813, 343277
Fax: (62-251) 336290
Email: capsa@uncapsa.org
www.uncapsa.org

EDITORIAL FLASH CONTACTS

Book Review

Agricultural Producer Support Estimates for Developing Countries: Measurement Issues and Evidence from India, Indonesia, China and Vietnam

David Orden, Fuzhi Cheng, Hoa Nguyen, Ulrike Grote, Marcelle Thomas, Kathleen Mullen, and Dongsheng Sun, Research Report 152, IFPRI, Washington, D.C. USA, 2007, ISBN 0-89629-160-X.

The levels of support that trade and domestic farm policies afford to agriculture are important issues for developing countries. The study under review contributes to filling the existing research gap by examining the impact of agricultural policies and policy reform on the incentives for agricultural producers in India, Indonesia, China and Viet Nam. The report is intended to describe the impact of related domestic support policies over the period of 1985 to 2002 or 2003.

After a brief introduction, the book consists of five main chapters which address: measurement of producer support estimates (PSE); the countries' economies and their agricultural sectors; agricultural policy reform and recent policy settings; PSEs; and effects of exchange rate misalignment on PSEs for India and China. The report finishes with a summary and conclusions.

The two main policy indicators used in this study are market price support (MPS) and PSE, which is the modification approach used by the Organization for Economic Co-operation and Development. MPS is basically a gap between domestic market price and border prices measured at the farm gate level. The total MPS for any commodity is given by the per-unit price gap multiplied by the level of output. PSE can be determined as the percentage of the support received by farmers (MPS and budgetary support) with respect to the value of output at the farm-gate-equivalent international price.

Agricultural policies among the four countries are different and unique. India and Indonesia have deep traditions as market economies, while China and Viet Nam have emerged from communist central planning and continue to be governed by communist regimes. In each country the economy has grown rapidly with economic reform, with faster GNP growth in manufacturing and service than in agriculture. In addition, there is a movement in each country toward a more deregulated market environment, with greater integration into the world economy and a new and larger role for the private sectors.

For India, by considering 11 crops that comprise about 45 per cent of total agricultural output, the findings indicated that support for agriculture has been largely counter-cyclical to the world price. The result demonstrates the increased level of budgetary payment for input subsidies to agriculture in recent years, and that there is a clear trend from "disprotection" toward protection. For the case of Indonesia, four imported commodities (rice, sugar, maize and soybean) and two exported commodities (crude palm oil and national rubber) are evaluated. The MPS and PSEs show that, regardless of its form, the government has consistently subsidized agriculture since 1990, although not uniformly across commodities. Domestic rice and sugar producers have been protected from import competition.

The pattern of protection of rice in China is similar to that in India, with disprotection when world prices were high, turning to protection when world prices were lower. Sugar has been protected for the entire period but at decreasing levels. In a long-term context, there has been a substantial move toward lessened disprotection of agriculture in China. Viet Nam has followed China in moving from a centrally planned to market-oriented economic system. The results, covering more than 70 per cent of the value of agricultural output, indicate a policy shift from an import substitution strategy toward export promotion, with decreasing disprotection turning to positive support for rice and overall agricultural commodities being considered.

Broader conclusions from the study indicated that: (i) to allow greater involvement of the private sector, each of the four countries have improved economic efficiency in agricultural processing and marketing; (ii) the success of market-oriented reforms in China and Viet Nam was a constructive policy reorientation, which enhanced efficiency and raised rural income; (iii) because farmers have traditionally been protected (developing and developed countries), it is difficult to attain a more open and less distorted global agricultural trade regime; (iv) fiscal limitation and commitments to the WTO may constrain the government from fully following the example of developed countries regarding levels of agricultural support; (v) the effect of exchange rate misalignment was that Indian farmers have not experienced sharp policy shocks from exchange rate adjustments, but the Chinese agricultural sector could face substantial disruption from changes in exchange rate policy in coming years.

The report is well organized and structured, and it is easy to digest. The existence of an executive summary as well as summary and conclusion will be beneficial for readers who are already familiar with the quantitative analysis of agricultural support in the main body of the book. The book is especially important as a source of complementary knowledge on agricultural reform and trade liberalization *vis-a-vis* developed countries. ■

Reviewed by I Wayan Rusastra, Programme Leader of R&D, UNESCAP-CAPSA, Bogor, Indonesia.