Issues in Rural Development and Agriculture

A Presentation for the Public Expenditure Analysis and Management Course

Csaba Csaki (RDV)

May 22, 2002
Structure of Presentation

- New Framework: Revised Rural Development Strategy
- Critical Sectoral Policy Issues
- Typical Problems of Expenditure Policy and Resource Allocation in the Rural Sector
The New Bank Strategy
Despite Success in Agriculture, Existing Approaches Failed to Achieve Much Progress

- Persisting rural poverty, low agricultural growth and natural resource degradation
- Developing country governments allocate twice the public spending to urban areas as to rural areas on average
- Widespread protection of agriculture sectors and price distortions for agricultural products persist
- Declining donor support for rural development and agriculture
Bank Lending in Rural Space is not Aligned with Incidence of Rural Poverty

Rural Space Lending as Percentage of Total Bank Lending (FY99-01 average), Contrasted with Rural Poverty

Note: EAP poverty estimates are dominated by China data

Rural poor population as % of total poor by region (estimates)
Lending for Agriculture is not Aligned with the Importance of Agriculture

Lending to Agriculture as Percentage of Total Lending in Rural Space (FY99-01 average)

![Bar chart showing lending for agriculture as a percentage of total lending compared to agriculture's value added as a percentage of GDP by region.](image)
Declining Interest by the Bank and by Other Donors

- Champions of rural development are weak
- Other priorities have been added by governments and donors
- Rural development projects are perceived to perform less well
- Irrigation, water, forest, fisheries, and bio-tech programs are often controversial
A Shift in Emphasis

- Giving voice to the rural poor
- Addressing the entire rural space
- Forging alliances of all stakeholders
New Strategic Priorities

- Fostering broad-based rural growth
- Improving social well-being, gender equity, managing risk, and reducing vulnerability
- Enhancing sustainable management of natural resources
Revised Approach to Agriculture

- Improve food-chain productivity, income generation, competitiveness, and markets
- Diversify agriculture and boost high-value products
- Renew commitments to science and technology
- Encourage more efficient use of farm inputs, reduce post-harvest losses
- Promote food safety
- Tailor agenda according to the major farm types
Recognition of the Importance of Rural Non-Farm Economy and the Private Sector

- Improve investment climate, promote labor mobility

- Provide agricultural, financial, infrastructural, market and social services in part through the private sector, using market solutions

- Promote producer organizations, trade associations, business chambers, and public-private cooperation
Developing Rural Infrastructure and Social Assets, and Managing Risks are Essential

- Improve access to infrastructure and social services
- Improve access to nutrition and health
- Increase access to and improving the quality of rural education
- Provide assistance in managing household food security
- Provide new risk management instruments
- Build the capacity of the public and private sectors and civil society to manage their own services
Enhancing Sustainable Management of Natural Resources

- Environment, forestry and water strategies in the Bank give overall guidelines in approaching rural natural resource management

- Elements will include:
  - Reducing land degradation
  - Improving water management
  - Sustainable production of forest products while protecting the environment
Overall Implementation Thrusts

- Raise the profile of rural development in national policy
- Scale up innovation and successful investments
- Improve the quality and impact of Bank operations
- Implement global and corporate priorities
- Enhance partnerships
- Selectivity on regional and country basis
Critical Sectoral Policy Issues
Much progress has been made, but there are still pending policy issues

Some countries are slower reformers, and in some subsectors reforms are more difficult to implement due to domestic political constraints. These include:

- Rural policies in most of the countries are still mainly focused on agriculture, not rural poverty
- Food subsidies and policies designed to keep food prices low
- Agricultural support and credit policies
- Introducing an integrated system of incentives / pricing
- Removal of internal market distortions and completion of privatization of parastatals
- Land privatization and market liberalization
Much progress has been made, but there are still pending policy issues

- Development of efficient and effective public institutions at all levels - micro, meso, and macro.
- Support decentralization and devolution to subnational levels.
- Building capacity in decentralized government that reflect their changing roles and responsibilities.
- Land reform in countries with highly unequal distribution.
- Development of market institutions that link small farmers to regional, national, and global markets.
- Farm structure transformation in many transition economies.
Policy Issues Requiring Careful Consideration

- Adverse effect on developing countries of the continued massive subsidization of agriculture in OECD countries
- Agricultural trade policies in developing countries in a quickly globalizing world
- Domestic support and credit policies in the developing world
- Increased distortions by local governments as decentralization gives them more power and greater need for revenues
- Tension between cost recovery/privatization of services and poverty reduction objectives
- Policy approach to biotechnology & intellectual property rights.
Responsibilities of Developing Countries

- Avoid excessive taxation of farmers through administrative pricing of outputs, overvalued exchange rates, and excessive agricultural and industrial protection.

- Policies and investments needed to create open markets for agricultural products, inputs, and labor, including policies which create a positive climate for private investment in farming and agro-industry.

- Policies and investments in agricultural research, extension and education, in collaboration with the private sector and with foreign institutions, to allow greater participation in the knowledge and scientific revolution.
Responsibilities of Developing Countries (continued)

- Expanded investment in rural infrastructure, rural health, education, energy, telecommunications, finance, in conjunction with local communities and the private sector.

- Promotion of producer organizations and trade associations, so that rural people have more responsibility and more say in rural based activities.

- Decentralization of some government functions to local government authorities.

- Where necessary, improved land administration and land reform.
Responsibilities of Developed Countries

- Agricultural trade liberalization, to the levels of tariffs and non-tariff barriers which are established for non-agricultural products.

- Reduction of agricultural subsidies, which currently depress world prices and expand world agricultural market share held by developed countries.

- Expansion of agricultural and rural development assistance to developing countries to the levels characteristic of the early 1990s.
Responsibilities of Developed Countries (continued)

- A focus on Sub-Saharan Africa is required in international assistance for rural development given the particularly difficult food and agricultural situation which exists there.

- Better coordinate aid flows to developing countries.

- Support to the transfer of scientific findings of relevance to developing country agriculture.
Pragmatic Approach to Policy Reform – Actions Envisaged

Ability to introduce reforms constrained by limited opportunities for SALs, ASALs, and mixed effectiveness of policy conditionality in investment loans.

- Use program, SAL, ASAL, and PRSC lending as leverage for only key sectoral reforms
- More extensive program in “Reform Oriented” countries; smaller programs in slow reformers
- Use sector work to inform stakeholders, including civil society, on effects of major policy distortions to local and national interests.
- Limit investment operations in slow reformers to themes not adversely affected by major distortions
Some Public Expenditure Related Issues
## Declining Public Expenditures for Agriculture

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General Features

- Strong urban bias
- Non-transparent and inefficient use of declining agricultural public expenditures
- A significant portion of public expenditures in IDA countries originate from donor assistance
- Lack of sustainability in many areas
Need for Increased Levels of Public Expenditures

- To maintain the provision of traditional public goods in the sector
- To cope with new challenges
Traditional Public Expenditure Items

- Agricultural administration
- Subsidies and support programs
- Research and extension
- Information services
- Education and training
Intensity of Investments in Agricultural R&D, 1995

Source: Pardey and Beintema, 2001
Agricultural Research Intensity by Region: Public Sector Only

Source: Pardey and Beintema, 2001
New Requirements

- Animal Health
- Plant Protection
- Controlling Chemical Use
- Food Safety
- Biosafety
- Improved Public-Private Partnerships