IRG Discussion Forum

December 2002 Number 3

Agriculture and the Rural Economy

Washington-area professionals gathered on a snowy December afternoon for the third session of the IRG Discussion Forum, Agriculture and the Rural Economy. Cornell University's Chris Barrett discussed policy issues and IRG's Doug Clark addressed natural resources at the session, which was moderated by IRG President and CEO Asif Shaikh.

> "Most of the people in the world are poor, so if we knew the economics of being poor, we would know much of the economics that really matters. Most of the world's poor people earn their living from agriculture, so if we knew the economics of agriculture, we would know much of the economics of being poor."
>
> —Theodore W. Schultz, winner of the Nobel Prize for Economics, 1979

Food security is a fundamental concern for every household. But even with 70 percent of people living in rural areas—the vast majority of whom work in agriculture—unsustainable policies and practices persist.

The economics of rural living varies widely between developed and developing countries. Episodic poverty is at the heart of the matter in the United States, where the median amount of time spent poor is 4.5 months. In rural areas of the developing world, however, poverty is chronic, an inter-generational inheritance that persists and traps people over decades. Forty percent of Ethiopians are poor, and persistently so—much of the county's poverty has existed for as long as it has been able to be measured.

What Are the Poverty Traps?

Assets. Since it would be practically impossible to build significant physical capital in rural areas, rural economies are dominated by human and natural capital. Strengthening human capital requires good governance, education, and, importantly, healthcare. Poor health resulting from such diseases as malaria, tuberculosis, and AIDS is a principal barrier to progress, corroding the vital human contribution to productivity. Natural capital includes all of the resources that must be managed to sustainably feed the world—good soil, clean water, species diversity. But population growth pushes people to cultivate marginal lands, producing low yields and degrading the land. In addition, most of the poor neither own nor have rights to the land they work; without a sense of ownership, unsustainable practices will ensue. The World Bank states that erosion, salinization, and other forms of land degradation already affect 30 percent of irrigated lands, 40 percent of rainfed lands, and 70 percent of rangelands, resulting in a cumulative productivity loss of 12 percent over the last 30 years.

Technology. According to the International Food Policy Research Institute (IFPRI), technology has made it possible for twice as many people to be fed today than 40 years ago, using essentially the same amount of land. But there will be 3 billion more mouths to feed in 50 years, current investments in agricultural technology are minimal, and the time needed for returns is more aptly measured in decades than months. Nor has the technology been evenly distributed. IFPRI states that, globally, "95 percent

Doug Clark (left), Asif Shaikh (center), and Chris Barrett (right) spoke at the third session of the IRG Discussion Forum, "Agriculture and the Rural Economy."

For More Information...

Consultative Group on International Agricultural Research: www.cgiar.org

International Fund for Agricultural Development: www.ifad.org

UN Food and Agriculture Organization: www.fao.org

U.S. 2002 Farm Bill: www.usda.gov/farmbill

Cornell University College of Agriculture and Life Sciences: www.cals.cornell.edu

University of California Sustainable Agriculture Research and Education Program: www.sarep.ucdavis.edu

of the production gains since 1961 have come from increasing yields, except in Africa where about half the gains have come from expanding the area of cultivation." Technology, also, can be hobbled by dependence on a single system—chemical, bio-technological, agro-ecological—when all approaches and their variations should be developed simultaneously.

Markets. Rapidly growing urban populations require a food supply to develop in parallel. Efficient markets are key to making that supply available. While private research will play an important role in market development, poorer countries will, perhaps always, depend largely on the public sector for development. Regionalization and improved smallholder access would promote efficiency and production in poorer, agricultural areas, which would in turn make producers better suited to compete in world markets. Policy reform will also be vital. Countries in the Organization for Economic Cooperation and Development spend around $1 billion a day on domestic agricultural subsidies—or more than six times what they spend on official development assistance for developing countries, according to the UN Development Program. Trade regulations also in large part work against products from developing countries, especially agriculture.

Shocks. In rural areas of developing countries, there is very little to cushion people or their assets from disasters. The first responses to shocks—humanitarian aid and reduced consumption—tend to be poorly targeted and can have long-term detrimental effects. More than two-thirds of aid dollars are dedicated to emergency response, and that which is left is directed at long-term development. It is a finite purse, forcing activities to be designed more creatively, with a view toward deriving long-term benefits—food-for-work programs, for instance, or nutritional and vocational training at relief camps. After Hurricane Mitch devastated Honduras and Nicaragua, agricultural experts rehabilitated food production through a multi-million dollar "seed relief" program. Using geographical information systems, analysts can now pinpoint areas where crops have been destroyed and where communities have been isolated, enabling aid workers to more effectively deliver new seed supplies and avoid a major food shortage.

Is There a Way Out?

Gains from the first Green Revolution have stagnated in many countries and never materialized in others. A second Green Revolution may now be needed that will be much more difficult than the first. It will have to be regionally comprehensive and capitalize on the wealth of indigenous knowledge. Its goals should be similar to a mutual fund's—preserving capital and attaining moderate growth.

Now, however, funding is miniscule, with the United States spending 0.0006 percent of its gross domestic product (or one of every 200,000 dollars) on agricultural development. The UN Millennium Challenge to halve the number of hungry people and the proportion of poor people by 2015 will be impossible to attain without boosting these numbers and directly addressing the issues of the rural economy. Real changes at the household level can only occur when natural and human capital are given as much attention as financial and physical capital.

Chris Barrett *is an associate professor at Cornell University working in poverty and international development. He is well recognized for his work in international, agricultural, environmental, and micro economics, as well as econometrics. IRG Vice President* ***Doug Clark*** *managed the USAID Environmental Policy Indefinite Quantity Contract (EPIQ) from 1996 to 2002, and has worked on numerous economic development projects around the world in environment, natural resource management, rural development, irrigation, and agriculture.*

Forum Feedback

- How do donors change the paradigm? Should aid be targeted only toward countries that have made improvements in their systems? There isn't enough funding for everyone, so perhaps donors should pick and choose those that, through policy commitments, offer the greatest potential for the greatest advancements. However, the countries that don't take positive steps toward change tend to be the ones that have the most problems, requiring the largest amount of humanitarian assistance.
- Poverty is concentrated mainly among women and children. Family planning initiatives may be the most effective way to aid their development, but donors must be careful to respect local culture and customs while trying to improve the standard of living.
- While the world is being rapidly urbanized, the gulf between urban and rural living is large—a dollar inside the city doesn't go as far as a dollar outside the city. But merely attacking poverty among city-dwellers is ineffective, as benefits do not pass on to rural people or new city residents.
- In some areas, population growth has closed the door on agriculturally led development. The population is so dense that farmers do not have enough land to feed their families, much less a surplus to sell. Thus, non-farm opportunities will be a critical driver for rural development.
- Ownership and access have not been properly emphasized by the United States and other major donors. The poor understand the importance of natural assets, but tenure is vital—people don't nurture and invest in things that belong to other people.
- The Green Revolution never reached Africa, where fertilizer use is 6 kilograms a hectare—1/25 the level of Southeast Asia.
- The term "natural capital" approaches resources from the economic perspective—one that has not necessarily worked in places like the U.S. West, where money has been poured into vulnerable areas. Soil and other assets are irreplaceable and cannot be restored with dollars.

United States Proposes Agricultural Trade Reform

In July, the United States submitted a two-pronged proposal to the World Trade Organization on reforming agricultural trade. During the first phase export subsidies would be eliminated over five years; during the second phase all tariffs and trade-distorting domestic support would be eventually eliminated. Among its recommendations:

Food aid. "Expand reporting requirements in the WTO to increase transparency of food aid activities and to strengthen the market displacement analysis."

Tariffs. Use "a harmonizing formula (the 'Swiss formula') for reducing all agricultural tariffs (out-of-quota duties and tariff-only items) that will cut high tariffs more than low tariffs, ensuring no individual tariff exceeds 25 percent after a five-year phase-in period."

Trade-distorting domestic support. Use "a formula to limit all countries' use of trade-distorting support to 5 percent of the total value of agricultural production."

State trading enterprises. Eliminate "export monopolies, thus allowing any producer, distributor, or processor to export agricultural products… [and] ending special financial privileges granted state traders and expanding their WTO transparency obligations."

Source: USDA Foreign Agriculture Service, www.fas.usda.gov/itp/wto/proposal.htm.

About the IRG Discussion Forum

The IRG Discussion Forum is a monthly roundtable for the Washington-area policy community. Building on the Central Asia Speaker Series held at IRG in spring 2002, the Discussion Forum focuses on public and private sector issues affecting international development—agriculture, energy, sustainability. Each session is informal, and off the record; guest speakers and attendees are participating in a personal capacity.

With the Discussion Forum, IRG hopes to foster an environment for sharing experiences, exchanging ideas, and creating new approaches to development.

Henri-Claude Bailly, chairman of the IRG Advisory Board and senior advisor to the president, moderates the IRG Discussion Forum. Mr. Bailly is the former chairman and CEO of Hagler Bailly, an international management and consulting firm to the energy and utility industries. He is a director of the Alliance to Save Energy and a member of the Advisory Council of the Energy Future Coalition.

Schedule

Thursday, December 5	Agriculture and the Rural Economy
Thursday, January 23	Monetizing Carbon Credits
Thursday, February 20	Privatization in the Energy Sector—Lessons Learned
Thursday, March 20	Business-Driven Sustainable Development

For more information, email discussionforum@irgltd.com or call International Resources Group at 202-289-0100.

International Resources Group (IRG) is an international professional services firm headquartered in Washington, DC, that provides practical solutions to complex problems for public and private sector clients worldwide. Since 1978, IRG has completed more than 600 contracts in 120 countries. Our state-of-the-art services help governments, institutions, and communities understand and better manage resources, address emergencies, and capitalize on new opportunities. IRG's professional staff includes world-renowned specialists who have pioneered analytical techniques employed in their fields. Our ability to provide management, economic, and technical advice is enhanced by the diversity, cross-cultural experience, foreign language skills, and management capabilities of these experts, working from 20 offices around the world.