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AID TO DEVELOPING-COUNTRY AGRICULTURE: INVESTING IN POVERTY REDUCTION AND NEW EXPORT OPPORTUNITIES

by Per Pinstrup-Andersen and Marc J. Cohen

Asia’s economic crisis continues to reverberate globally, demonstrating the pivotal place of developing countries in world trade. By May 1998, U.S. exports to Asia had fallen nearly 21 percent, from the pre-crisis level of US$18.5 billion a year earlier to US$14.7 billion. U.S. farm exports to Asia are expected to fall 15 percent in fiscal 1998. Weak Asian demand in 1998 is also likely to cut the European Union’s trade surplus by US$100 billion and to cause trade losses equivalent to 2 percent of gross domestic product (GDP) in Australia. Thus, Asia’s economic well-being affects export earnings and employment in industrial countries.

It is now well established, if counterintuitive, that broad-based agricultural growth in developing countries boosts their agricultural imports. Past agriculture-led, broad-based economic growth in Asia, for example, expanded trading opportunities, which were captured largely by countries that supported growth with aid. Africa offers similar but as yet unrealized opportunities. Agricultural assistance, whether in Africa, Asia, or Latin America, can lead to a rise in exports from donor countries. Support for small-scale agriculture also contributes to achieving the primary goal of aid: poverty alleviation. Yet aid to developing-country agriculture has declined dramatically for 10–15 years. Reversing this trend would benefit both developing and developed countries.

AID TO AGRICULTURE RAISES IMPORTS AND LOWERS POVERTY

Helping boost agricultural productivity in the developing world promises benefits to donors. On average, each dollar increase in developing-country farm output leads to 73 cents in new imports, including 17 cents of agricultural and 7 cents of cereal imports. Also, each dollar of aid invested in international agricultural research means 29 cents more developing-country imports, including 7 cents of agricultural and 3 cents of cereal imports.

South Korea’s experience is a good example of the connection between agriculture aid and agricultural imports. From the 1950s to 1980, that country was a leading recipient of U.S. aid, including considerable agricultural assistance. Today, the country receives no U.S. aid but is the fifth largest U.S. agricultural export market. Likewise, in the 1970s, some U.S. farm groups complained that agriculture aid was making Brazil a competitor in global markets. But by 1997, Brazil was importing US$500 million in U.S. agricultural products.

Agricultural development reduces poverty, too. In the poorest countries, agriculture provides livelihoods for 69 percent of the workforce and 76 percent of economically active women, and it accounts on average for half of GDP. Seventy percent of poor Africans live in rural areas. For these reasons, agriculture is the most viable sector for leading economic growth in low-income countries. In Africa, each new dollar in farm earnings adds two to three dollars to the overall economy because as farmers produce more and earn more, they demand more goods and services, stimulating employment and incomes in other sectors. Domestic agricultural production generally cannot keep pace, so imports increase.

When poor people earn higher incomes, their diets tend to shift from cassava, corn, and rice to wheat, meat, milk, and prepared and processed foods. Some of the latter products, particularly wheat, are difficult to produce in many developing countries, and meat demand often drives feed imports.

Exports from industrial countries to low- and middle-income countries more than tripled between 1985 and 1996, and agricultural exports more than doubled (see table). Industrial countries' exports to low- and middle-income countries grew 10.3 percent annually between 1986 and 1996, while their exports to other industrial countries grew by only 8 percent per year. In 1997, industrial countries shipped 30 percent of all exports to developing countries, up from 23 percent in 1990. The European Union sold 22 percent of all exports to developing countries in 1996, including over 2.5 billion ecus' (US$3.1 billion) worth of agricultural products to low-income African, Caribbean, and Pacific countries. Today, more than 40 percent of U.S. exports go to developing countries. About 50 percent of U.S. agricultural exports go to developing countries, mostly in Asia. Continued rapid growth in farm exports from the United States and other industrial countries to developing countries will require rapid recovery from the Asian crisis and faster economic growth in Africa.

Industrial-country exports to low- and middle-income countries, 1985–96

Type of export	1985	1996
	(US$ billion)	
Food	24.7	58.9
Cereal	10.4	17.9
Agricultural raw materials	5.9	14.7
All agricultural exports (food and agricultural raw materials)	30.6	73.6
All exports	229.5	715.0

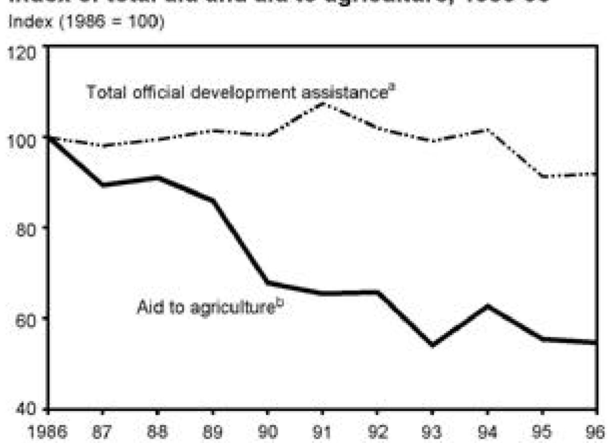
Source: World Bank, World development indicators 1998 (Washington, D.C., 1998).
Note: Data for 1985 include Greece, but data for 1996 do not.

Between 1993 and 2020, 84 percent of increased global cereal demand is likely to come from developing countries, whose net cereal imports will more than double because of population and income growth. The United States and Australia, especially, will benefit. Aid to agriculture in poor countries will add to the payoff and is a better long-term guarantee of developed-country farm income than short-term surplus disposal through food aid, which is needed if agricultural growth does not occur.

DECLINING AID

The case for making agriculture a priority aid sector is overwhelming. However, agriculture aid plummeted almost 50 percent in real terms over 1986–96. Total development aid dropped nearly 15 percent between 1991 and 1996 (see figure). In 1997, aid from members of the Organisation for Economic Cooperation and Development's Development Assistance Committee (donors that provide 95 percent of all assistance) fell to 0.22 percent of their collective gross national product (GNP), the lowest share ever. The U.S. figure was just 0.08 percent. Only 4 of 21 donors—Denmark, the Netherlands, Norway, and Sweden—met or exceeded the United Nations target of 0.7 percent of GNP. Most of the decline resulted from reduced aid from the seven wealthiest countries; other donors' aid has remained stable.

Index of total aid and aid to agriculture, 1986-96



Source: Food and Agriculture Organization of the United Nations, <www.fao.org>, accessed 6/30/98; personal communication from Pratap Narain, FAO statistician; Organisation for Economic Co-operation and Development, <www.oecd.org/dac>, accessed 6/30/98.

Note: Data are adjusted for inflation and exchange rates. Figure for aid to agriculture in 1996 is provisional.

[a]Annual expenditures.

[b]Annual commitments.

Private capital flows to low- and middle-income countries ballooned nearly 400 percent over 1990–96, but most of these funds went to a handful of middle-income countries. Agriculture in low-income countries attracted very little foreign investment.

This gloomy picture has some bright spots. Several donors significantly increased support for agricultural development in 1997. The U.S. Agency for International Development has made strengthening agriculture a strategic goal and is thus investing more resources in agriculture. Denmark will increase the share of its aid going to agriculture from 6 to 20 percent over the next few years.

PUBLIC INVESTMENT AND SUPPORTIVE POLICIES NEEDED IN DEVELOPING COUNTRIES

Aid can play a catalytic role in agriculture-led growth, but developing-country governments bear primary responsibility. They must create and maintain rural infrastructure; facilitate small farmers' access to inputs and credit; invest in agricultural research, basic education, primary health care, and nutrition; and offer incentives to protect natural resources. The 1996 World Food Summit urged not only donors but also developing-country governments to increase their investment in food production.

But in the 1990s, many developing countries are cutting public spending on agriculture, as donors press for smaller government. The results speak for themselves. During 1990–96, agriculture grew less than 3 percent annually in low-income countries (excluding China and India) and 2 percent in Africa— not enough to keep up with population growth. In 1997, staple food output per capita grew only slightly worldwide and actually fell in low-income, net food-importing countries.

Still, there are some encouraging signs, particularly in Africa. Peace has come to several war-torn countries. Many nations have established democratic and transparent governance. Some governments have made food and agriculture a higher priority. Agriculture and overall economies have grown since 1995. Open markets have replaced inefficient, sometimes corrupt government grain monopolies. Ghana doubled maize production between 1986 and 1996. Nigeria's maize production grew 50 percent from 1990 to 1996. Since Mozambique's devastating civil war ended in 1992, agricultural production has jumped 50 percent. Since 1988, Uganda has doubled or tripled output of major crops, although per capita food production remains below 1971 levels.

CONCLUSION

Sustaining these successes and extending them to other poor countries will require donors and developing-country governments to revise current priorities. If they can find the political will and tangible resources to support agricultural development, both developing and developed countries can expect to achieve gains.

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"A 2020 Vision for Food, Agriculture, and the Environment" is an initiative of the International Food Policy Research Institute (IFPRI) to develop a shared vision and a consensus for action on how to meet future world food needs while reducing poverty and protecting the environment. Through the 2020 Vision initiative, IFPRI is bringing together divergent schools of thought on these issues, generating research, and identifying recommendations. The *2020 Briefs* present information on various aspects of the issues."

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