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Declining Assistance to Developing-Country Agriculture: Change of Paradign?

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Is the agricultural sector in developing countries now facing the same neglect that it did in industrial countries some 200 years ago? This concern arises because agricultural investments are declining and donors are paying scant attention to agriculture in their development strategies. Is the neglect of agriculture a one-way trend or is it a cyclical issue? Or is it simply a symptom that can be quickly remedied by new policy orientations? An important step in examining this issue is to identify phases in the macroeconomic and political thinking that have guided the actions of those concerned with developing countries since the 1950s.

Paradigms of Development Assistance

Paradigms of development models have served to justify different strategy priorities to induce economic growth in the past. During the 1950s and 1960s, when development assistance relied on the neo-Keynesian development model, an emphasis on industrialization and import substitution systematically led to neglect of the agricultural sector, or at least reduced it to a contributor to--and not the driving force of--growth.

In the 1970s, there was a swing to a demand-oriented approach. Labor was discovered to be a decisive growth factor. As it became clear that all of the labor from the agricultural sector would not be absorbed by the urban/industrial sector, there was a push to base development on agriculture. The basic needs approach, which advocated small-scale, labor-intensive technologies and development initiated from the grassroots, ensued. A glut of oil funds during this period played havoc with various developing countries' economies as their governments carelessly invested in risky projects. Even if official aid was still focusing on agriculture, there was little coordination and efforts were partly rendered inefficient by huge parallel investments of private bank money in spectacular and risky projects, many of them socially and economically deleterious.

The 1980s were marked by a conceptual swing toward a more supply-oriented approach to development, relying on market forces to regulate the economy. Many developing countries were heavily in debt by this time, with ruined and disintegrating financial and political systems, which pro¬vided an apparent justification for fundamental changes to curb their steep economic descents and to put them back on their feet. In the process, the agricultural sector was often institutionally dismantled, and many rural subsidies and services were cut. Parallel to this change in paradigm was a reduction in institutional capacities. This trend was further fostered by the failure of many rural development approaches, belatedly providing evidence for the need for greater prudence in preparing future investments in agriculture.

Do these changing paradigms result from the efforts of policymakers, scientists, donors, and recipients to identify the causes for failing growth models, and subsequently to develop and implement modified or more appropriate ones? Or do changes in growth paradigms for developing countries simply follow paradigm changes brought about by economic adjustments in the industrial world? Perhaps it is not the paradigms that fail, but rather the implementation of theories since there are cases of successful agricultural development in Europe and some developing countries.

The Dilemma

By the year 2020, an additional 2.8 billion people will have to be nourished. Since the potential for land expansion is limited, the necessary food production increases will have to be generated by productivity increases and technical progress. Will research and development be able to provide technology to areas where production increases must be achieved without destroying the resource base? Will there be enough financial and technical input to activate this necessary second Green Revolution?

There is growing evidence that this will not be the case in many developing countries. Official development assistance (ODA) and official development finance (ODF) have hit a plateau or even begun to decline during the past decade. This should not lead to declining growth potential for agriculture in developing countries unless national public or private investment also declines or accelerated technical progress cannot compensate for these declines. However, in many countries, ODA and ODF are the main catalysts for investments in agriculture.

Causes for Declining ODA/ODF

There is no single cause for the decline of ODA/ODF; the reasons are manifold.

1. Some development theories bluntly reject the positive role of investments in agriculture as a precondition for economic development; where this type of developing thinking prevails, investment will be depressed.

2. Agricultural projects have a discouragingly bad record in evaluations, generally ranking considerably below projects in other sectors. Only now is there growing awareness that although most of the economic growth in many countries stems from agriculture, many policy decisions for this sector are external to the sector (budget decisions, for example). Moreover, structural changes in agriculture require time; if decisionmakers do not understand from the outset that it may take a decade or longer to induce changes in sustainable systems in agriculture, they may suffer from fatigue.

3. During the 1980s, development assistance increasingly diverted finance to projects in environmental protection and natural resource management. When looking into causes of declining agricultural investments, the link between environmental programs and investments and increasing agricultural productivity has been overlooked. For example, where productivity is high, farmers will refrain from cultivating marginal areas, which is an essential part of the sustainable management of the resource base.

4. Structural adjustment programs in many developing countries have led to a drastic reorganization of institutions: wasteful, inefficient, and overstaffed institutions and systems have been dismantled to increase factor and resource productivity. However, these changes, which have led to considerable disinvestment in the agricultural sector, have systematically reduced the ability of these institutions to function effectively.

5. This structural transition requires mainly "software" (planning, programming, and legal and economic frameworking) to make full use of existing private investment to stimulate investment in new "hardware" (creation of irrigation schemes, supplies of materials, construction), further reducing financial support.

6. Poverty alleviation programs that are almost disconnected from agricultural production also divert funds away from agriculture. Generally, these programs are focused on gender, social, and institutional democratization and liberalization issues rather than on increased production.

7. Changes in multilateral and bilateral aid systems have led to intersectoral distribution conflicts such that funding for agriculture no longer ranks first. Different requirements within a changing assistance environment are associated with a breakdown in traditional assistance patterns. For example, for political, organizational, and budgetary reasons, financial and technical assistance, which is usually provided to populations not involved in immediate food crises, is continued even if entire economies fall into a semipermanent emergency status (Sudan, Somalia, and Mozambique are examples).

8. Economic recession and tight public budgets have prevented bilateral and multilateral assistance from generating enough funds to serve simultaneously the enormous financial requirements of both the developing countries and the former Soviet countries and Eastern Europe. Agricultural finance has been further pressured by these developments.

9. Growing emergencies contribute to further compression of funds available for agricultural development.

In summary, the agricultural sector is not only a victim of its intrinsic problems in seeking adequate finance, but it is also a loser in the present aid distribution struggle.

The Way Out

The above requirements, as well as those emerging from the structural adjustment of a number of economies, have led to a complete restructuring of assistance in most bilateral and multilateral development organizations: changes include a shift from projects to programs; insistence on policy changes first; and downgrading of technical issues in favor of sociopolitical issues such as gender issues, poverty alleviation, democratization, and decentralization. Although these are all necessary changes, it is the equilibrium of the aid system that is important. There is no doubt that questions of resource management and considerations of social factors play a decisive role in the development of the economy. If the shift of emphasis, however, leads to a neglect of the underlying sources of stress, the problem may be only reversed, not solved.

One way to alleviate growing pressures on aid funds would be to increase their efficiency for the agricultural sector. Preparing the sector to be more dynamic and to solicit investment from sources other than public and aid entities may be the right way. Apart from setting sector policy priorities and properly linking the sector with macro policy strategies, this would mean introducing a number of organizational measures, such as a framework in which formal and informal rural financial intermediation systems based on market interest rates and competition can mobilize the necessary capital. Further, decentralization and establishment of a continuous flow of information could intensify the dynamism of the sector by increasing flexibility to respond to domestic or international market changes and could allow for more demand-driven agricultural research.

What can and should be done, however, if there is an overall change in paradigm? This is not too far-fetched; perhaps never before in history have there been more investments in agriculture than at present, if one considers the current investment in developing biotechnology innovations. Will biotechnology bring about the next Green Revolution and fill the production gap? Or will it marginalize small-scale food production? Who can predict whether there will be an agricultural revolution and, if so, who will be the winners or the losers? Most of the biotechnology research is carried out by the private sector and subject to intellectual property rights. Transnational companies, with budgets larger than those managed by governments in many developing countries, anxiously protect the results of their research. Thus, contrary to historical "agricultural revolutions," innovations are no longer public goods. Under these conditions, the developing world could be the loser in this selection process by market forces and competition, unless increasing investment in agriculture provides adequate facilities to the developing countries.

If this foreseeable change in paradigm is realized, the pattern of food and other primary agricultural production will be transformed dramatically over the next decades. The changing paradigm will have to be monitored and conquered by the developing countries for their future well-being.

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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 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.