Simon Brandt Address: Agricultural and Rural Development: Painful Lessons[1]

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1. Introduction

Some countries have stumbled onto successful agricultural and rural development strategies as if by accident (but usually as the consequence of bitter political and/or military conflict), and have been lucky enough to stay with them. Others had to experience dramatic failures and painful learning from their own and other's experience before they abandoned poor policies. Some stubbornly continue to cling to misguided prescriptions of the past, supported by political equilibria which do not provide adequate voice to large segments of their poor or their rural populations. Severe external shocks and adverse policies of developed countries have often contributed to their poor performance. Poor agricultural and rural development performance has retarded economic growth and increased poverty, both rural and urban.

In this address I first review the theories and misconceptions which have provided the intellectual and ideological underpinning of misguided agricultural and rural development policies. I then discuss the major misguided policies which were supported by these intellectual traditions and either singly, or in combination have been shown to reduce agricultural growth, and to harm the welfare of the rural poor.

In the next section I propose a (nonexclusive) classification of countries into four groups, distinguished by their adoption or non-adoption of these misguided policies and discuss their growth, rural development and poverty reduction performance. In the process I briefly touch on some issues of degradation of the agricultural resource base.

In the final section I discuss rural poverty and rural development programs designed to alleviate it. The failure of integrated rural development and its explanation are discussed, and ways in which countries could foster rural development via administrative, fiscal and political decentralization, and via special attention to the empowerment of their rural poor.

2. Agriculture in early development theories

Backwardness, low supply response and low productivity

During the early days of "development economics" in the 1950s rural poverty was often explained by the backwardness of traditional smallholder agriculture. The sector was considered to have almost no potential for development. In his seminal work on *Transforming Traditional Agriculture* Theodore Schultz characterizes the then prevailing views:

"The doctrinal answers run as follows:

- the opportunity for growth from agriculture is among the least attractive of the sources of growth;
- agriculture can provide a substantial part of the capital that is required to mount industrialization in poor countries;
- it also can provide an unlimited supply of labor for industry;
- it can even provide much labor at zero opportunity costs because a considerable part of the labor force in agriculture is redundant in the sense that its marginal productivity is zero;
- farmers are not responsive to normal economic incentives but instead often respond perversely, with the implication that the supply curve of farm products is backward sloping;
- and, large farms are required in order to produce farm products at minimum costs.

In addition, international commodity markets for agricultural goods were regarded as hostile, exposing countries which relied on them for growth to undo risks. Agriculture could be taxed with little adverse consequence for economic growth or poverty reduction.

The solution to rural poverty is in agricultural modernization and urban growth

It is therefore not surprising, that the solution to the reduction in rural poverty was almost universally seen as being associated with urban growth and rural-urban migration. Rural population and employment should decline, if not in absolute terms, at least as a proportion of the labor force for Columbia, for example, Blakemore and Smith (1995), summarized these views, as follows: "during the 1940s and 1950s ... there emerged a school of opinion, voiced most strongly by Lauchlin Currie, that suggested that the best method of increasing the efficiency of Colombian agriculture would be to allow fewer, more technically sophisticated farmers, using all the technological aids available, to farm land vacated by the majority of what can only be considered as inefficient agriculturists. These would be permitted, or should be persuaded, to migrate to the towns"

These views have been thoroughly discredited by research, much of it from agricultural economists. Yet they also provided the ideological justification for patterns of agricultural policies and programs which have been highly detrimental to rural populations, especially the poor.

3. The key misconceptions

Underestimating supply respons

A vast literature demonstrated early that individual crop supply response is highly elastic, as individual crops can expand by withdrawing factors of production -- land, capital and labor -- from other agricultural sectors. Aggregate supply response, however, is highly inelastic in the short run, because technical change, investment and changes in migration patterns are required to bring such a response about. As Mundlak and his various collaborators have shown, in the long run these factor reallocations do take place and lead to a very large long run supply response of the sector (Binswanger *et al*, 1987).

Believing in the superiority of large farms

Both communist countries as well as many market economies have paid an enormous price for assuming--without much empirical evidence--that large farms are more efficient than small ones. Large farmers are often deeply committed to agricultural development, technologically sophisticated and dynamic. Their farms are often well managed with technically efficient and high volumes of output yet their economic costs of production exceeds that of smaller enterprises relying primarily on family labor. Their production is capital intensive and they generate very little employment. Because small farms have less wealth and or access to credit markets they use an input mix which relies much more on labor then capital, and thereby generates much more employment and self-employment then their large counterparts.

In communist countries the belief in the superiority of large scale farming was one of the motives for the failed collectivization of agriculture. In market economies it led to costly differential policies and programs in their favor, including via subsidies to inputs and investments, marketing and especially credit.

Genuine economies of scale only exist in the so-called plantation crops: sugarcane, bananas for export, tea, and oilpalm. They arise not from economies of scale of the farming enterprise, but from economies of scale in processing or shipping which, in these commodities must be coordinated with the harvest of the crop. Yet even these economies of scale can be circumvented by contract farming, as world class competitors in sugar for example.

In other commodities technical economies exist where large machines must be owned by farmers themselves, and because of economies of scale in information gathering about technology, marketing and credit. These technical economies are offset by the superior incentives of family labor in farms which rely primarily on family, rather than hired labor Thus in most commodities economies of scale are exhausted by the farm size which one family can handle relying primarily on family labor. The larger the size, the larger the opportunity cost of the family labor and management skills outside of agriculture, and therefore optimal farm sizes tend to grow with economic development (Binswanger et al, 1994). But even in the developed world, much of the observed growth of family farms is fueled by distortions such as tax incentives to mechanization.

This does not mean that small farm size or fragmentation could never be a constraint to agricultural growth. But recent experience in China, Vietnam, and Albania suggest that these fears are vastly exaggerated. China's agricultural growth has broken all world records for the last sixteen years. Yet the average farm size is half a hectare, fragmented into an average of 9 plots.

Assuming technological backwardness

The spectacular adoption of green revolution technologies by smallholders in most of Asia, Latin American, North Africa, and selected sub-Saharan countries has long dispelled all notions that smallholders are necessarily backward. Smallholders rarely lag more then a few years behind their larger counterparts in technology adoption. Not only have they adopted divisible technology such as fertilizers, new seed or pesticides, they have also adopted machines, through rental arrangements and markets where economies of scale are pronounced.

Ignoring rural nonfarm linkages

Dynamic, smallholder-based agricultural growth has fueled nonfarm activities and employment via forward, backward and consumer-demand linkages. Consumer demand for rural goods, housing and services tends to play the major part. The linkages have been strong in Asia and Latin America where taxation of agriculture has been less than in Africa and rural incomes and technology are higher (Haggblade and Hazell, 1989).

Underestimating the poverty reduction impact of agricultural growth

That agricultural growth can have a major impact on poverty reduction has been amply demonstrated. It reduces consumer prices of non-tradables or semi-tradable foods (unless their markets are heavily protected or monopolized, of course.) It can generate rapid growth of rural employment and self-employment in rural areas. The corresponding tightening of the labor market raises rural wages and has spillover effects to urban informal sector wages. The modest government support which smallholders require in research, extension, infrastructure and marketing can usually produce many jobs at a very low budget cost per job (unless, of course, the support is diverted to large scale enterprises.)

A recent study of India quantifies the contribution of rural and urban consumption growth on poverty reduction in India during the 1951-1990 period (Ravallion and Datt, 1994). Growth in each of the sectors reduced poverty within the sector. But rural growth had a much stronger effect on reducing urban poverty than the other way around. Rural growth clearly tended to reduce national poverty measures. The same could not be shown for urban growth, due to the sector's smaller share of the poor, and the relatively low intra-and intersectoral poverty-reduction effects of urban growth.

The misguided policies

These and other misconceptions have provided the intellectual justification for a number of misguided policies which are discussed below. The mix of these policies varied a lot across countries and over time. Some countries have consistently applied all of them, while others have used only a subset, or abandoned some or all of them in the course of the last 30 years. We will look at their respective performance in the following section.

Excessive agricultural taxation

In a comparative study Maurice Schiff and Alberto Valdes compare agricultural policy patterns for 18 developing countries from 1960 to about 1983. (Schiff and Valdes, 1992). Krueger (1992) provides a political economy interpretation of the policy patterns found. Interventions varied widely across countries, and within countries by commodity, over time, and sometimes by region. Nevertheless some patterns emerged:

- All but two countries (Taiwan and Portugal) taxed their agricultural sectors over the 25 year period studied.
- Taxation was most severe in the three African countries studied (Ivory Coast, Ghana and Zambia) where on average about half the value added was extracted by policies.

- A middle group taxed agriculture to the extent of 30 to 40 percent (Argentina, Colombia, Dominican Republic, Egypt, Morocco, Pakistan, Philippines, Sri Lanka, Thailand and Turkey).
- Low taxation between 8 and 22 percent was applied by Brazil, Chile, and Malaysia.
- On average three quarters of the taxation derived from indirect measures, overvalued exchange rates and industrial protection.
- Only one fourth of the taxation derived from direct agricultural policy measures.
- Direct interventions tended to tax export commodities, both food and nonfood, where countries had strong comparative advantage.
- Direct protection, on the other hand, was concentrated on importable food commodities with little or no comparative advantage.
- The countries with the highest degree of discrimination against agriculture had the lowest rates of economic growth, and vice versa.
- These protection patterns cannot be explained by the desire of policy makers to increase foreign exchange earnings, or provide cheap food for industrial development or to poor urban consumers. While many governments raised revenues through direct taxation of agriculture, the taxation was highly inefficient.
- The only policy goal consistently achieved by these policies was some stabilization of domestic, relative to world market prices.
- Direct support to agriculture via subsidized credit, infrastructure investment, research and extension etc. did not compensate for the losses of the agricultural producers on account of heavy taxation.

Urban bias in development expenditures

Urban bias of policies was not confined to industrial protection and agricultural taxation. Michael Lipton (1977) documents that many countries had a pervasive urban bias in public expenditures on productive infrastructure and social services . These are reflected in the poorer health and nutrition status of rural compared to urban populations, and in lower educational attainment in virtually all developing countries. Many compensatory social programs, especially food subsidies, have also been concentrated on urban areas in countries as diverse as India, Brazil, Zambia and Mexico. An ironic implication is that hunger and malnutrition is often the most severe where food is being produced, namely in the rural areas.

Compensating inefficient food sectors in the name of national self-sufficiency

In developed and developing countries alike farmer interests have used national food security objectives to justify direct interventions in favor of agriculture, some with more, others with less success. Interestingly it is often importable commodities with little comparative advantage which have received the highest direct protection, such as maize in Mexico, wheat in Guatemala, Nigeria and Brazil. Such policies make food more expensive for all net buyers of food, including many rural poor. They may reduce, rather than increase household food security.

Compensating the Rural Elites

Politically articulated farmer groups have also been able to obtain producer subsidies in the form of subsidized or not repaid credit, irrigation investment without cost recovery, agricultural extension, parastatal marketing, and sometimes monopoly marketing or trading rights. They also often obtained tax privileges in income, land and capital gains taxation.

While insufficient to offset the losses the farm sectors suffered via indirect and direct taxation, the compensatory programs were usually heavily concentrated towards large farmers. The concentration is partly explained by the fact that virtually all these supports are proportional to business volumes. The lower administrative costs of dealing with large farmers than small ones in credit or extension provides additional explanation. But additional concentration towards the large farmers is explained by their better ability to manipulate the administrative systems which provide the support. In extreme cases privileged farmer groups were able to monopolize either production or marketing of certain commodities.

Many of these compensatory policies drive land prices above the capitalized value of farm profits, because they provide the better-off with additional income from farming such as tax shelters or access to subsidized credit. Such capitalization of nonfarm benefits of land ownership makes it unfeasible for the poor to buy land, even if they were offered credit at market rates similar to those available to large enterprises. The policies thus contribute to the concentration of land ownership much beyond what would be warranted on account of economies of scale.

Misguided land policies

Policies for the allocation of landrights and for land titling have often led to the extinction of rights of previous occupants of land and their eviction, explaining much of the concentration of ownership in Southern Africa and Latin America. Subdivision acts and other restrictions to ownership transfer have been used in Brazil, the US and Southern Africa to prevent the purchase of land by politically emancipated black populations.

The inability of the poor to ascend the tenancy ladder via the purchase of land has been aggravated in many countries by the destruction of the lower rungs of the tenancy ladder via misguided land and labor policies.

The most common pattern is the elimination of the option of long term tenancy of small farms from large owners. In some cases tenancy or "indirect exploitation" is prohibited outright (South Africa or Colombia). In other cases such as India or Brazil ceilings on land rental or crop shares, and /or the acquisition of permanent rights of long term tenants make tenancy unattractive to owners under all but the most informal and short-term arrangements.

In these cases land owners have reacted by either mechanizing their farms -usually with the help of credit subsidies-, or have converted their crop farms into extensive livestock ranches, freeing them of tenants or large long term hired work forces. The effect has been the conversion of farm internal tenants/workers into rural or semi-urban proletariats which derive a precarious existence as seasonal harvest workers. The lowest rung of the tenancy ladder has therefore also been eliminated, namely the ability to acquire farming skills by participation in the entire production cycle as a worker.

Elimination of the access to land via rental or sales markets leaves the poor with few land access options. They can intensify farming on good land in their holdings via labor-intensive land investments, giving rise to remarkably productive and sustainable farming systems all over the world. They can farm marginal lands in their holdings or on mountainsides, usually with disastrous consequences, since such land rarely warrants sufficient investment in erosion protection. They can migrate to frontiers, but in many countries such as Colombia or Brazil, most fertile frontier land is already allocated to large scale farmers by the time it receives infrastructure. Much of the resulting smallholder migration may therefore be to marginal frontier areas with adverse environmental consequences. These are some of the linkages between failed policies, poverty, and environmental destruction.

Protectionism in the developed world

Farmers in the developed world receive enormous protection against international competition. Protection is most extreme in the countries with the least comparative advantage in agriculture such as Norway, Switzerland or Japan. The European Community's Common Agricultural Policy is a sophisticated machinery to protect their producers. Countries with strong comparative advantage such as the New Zealand and Australia provide relatively little protection to their own producers. The US provides very heavy protection to sectors where it faces stiff international competition from the tropics or subtropics such as sugar, tobacco, peanuts and citrus. Many surplus producers use the international market for costly disposal of commodities, such as European sugar. Increasingly they restrict the production of these commodities to reduce fiscal costs. Others such as the US subsidize export credit and shipping costs. Only a small fraction of the surpluses is provided in the form of concessionary food aid.

The price depressing effects of these policies have been evaluated in a number of studies. For several commodities they are substantial, such as sugar and dairy products. For others such as maize or soybeans, the impact is mitigated by the supply reducing measures of the US, and more recently of Europe.

Many developing countries who are net importers of food benefit in the aggregate from these policies so that the gains for the developing world as a whole outweighs the losses. Farmer groups who are net sellers of food lose, and rural areas in the aggregate lose as well. Losses transmit themselves to rural workers via direct and indirect employment effects. Undoubtedly these developed country policies have contributed to rural poverty in the developing world.

Under the recently concluded Uruguay Round Agreement agriculture for the first time has come under GATT rules. The agreements include:

- conversion of all existing nontariff barriers into bound tariffs, and agreements to reduce them over time
- guaranteeing minimum access quotas to guard against the impact of initially high tariff rates,
- restrictions on expenditures on for subsidizing exports and on quantities of exports subsidized,
- Limits on expenditures for those kinds of domestic support policies which are heavily trade-distorting (i.e. outside those in the "green box".

These are very welcome steps, and will in the long run reduce the negative impact of the developed countries policies on international prices and trading opportunities. The International Agricultural Trade Research Consortium (IATRC) has evaluated these policies and concludes:

"The extent to which the Agreement will lead to greater market access, curb export subsidies and modify domestic policies in the next few years can only be determined from a detailed inspection of the Schedule of commitments made by the individual countries. Paradoxically, the immediate impact on national policies is likely in most cases to be small. Many countries have been engaged in a process of reducing government support to agriculture, and making such support more closely targeted to needs, in advance of the outcome of the Round. Policy reforms in the EU, Canada, Sweden, Australia and New Zealand, along the much of Latin America, have been strongly influenced by the negotiations in the Uruguay Round. The Agreement thus takes on the task of supporting and locking-in such reforms, and encouraging them in other countries." (IATRC, 1994:iii)

They make the following other points:

- "The most far-reaching element in the Agreement is a change in the rules regarding market access. With very few exceptions. all participating countries have agreed to convert all existing non-tariff barriers (along with unbound tariffs) into bound tariffs, as well as tariffs already bound earlier, according to Schedules included as a part of the Agreement.
- "Tariffication" will impose changes in import policies for a number of countries. Canada will replace import quotas for dairy and poultry products with tariffs, initially at a high level. The European Union will replace its variable levy with tariffs, though a maximum duty-paid price for cereals has been negotiated which puts a limit on the tariff charged. ... The US will forgo the use of Section 22 import quotas and the negotiation of voluntary export restraint agreements with beef suppliers ... Japan and Korea have been allowed to delay tariffication in the case of rice for the next few years.
- The agreement provides in cases of tariffication for "minimum access opportunities", to guard against the impact of high initial tariff rates. ...
- Under the Agreement countries accept commitments on reducing expenditure on export subsidies as well as on the quantity of subsidized exports. This will limit export subsidies by the EU and other countries, for such products as wheat, dairy products and beef, and should lead to firmer world market prices in these commodities.
- The Agreement also sets rules and commitments for domestic support policies. It defines a set of policies which are deemed to be less trade-distorting than others, and allocates them to a "green box" which is broadly immune to challenge. Other policies not sheltered in this way are subject to reduction through a limit on the total support given by domestic subsidies and administered prices.
- Along with the provisions on domestic and trade policies in the Agreement, participants also concluded an Agreement on Sanitary and Phytosanitary Measures (the SPS Agreement). The goal was to make it easier to distinguish between genuine health and safety issues and disguised protection." International Agricultural Trade Consortium, 1994:iii,iv).

Four patterns of development

Countries differ greatly in the extent to which they have implemented the misguided policies discussed above and to which they have been affected by developed country's protectionist policies. Depending on these factors we can distinguish four broad paths of agricultural and rural development across which most countries cluster.

A few countries which either did not use or abandoned the implied policy mixes early, such as Taiwan, Indonesia, Malaysia, Thailand, or China have had spectacular successes in agricultural growth and rural poverty reduction. Others such as India or Kenya, have abandoned parts, but not all of the implied policy prescriptions, but at least provided substantial support to their smallholder sectors. These countries have had acceptable rural growth rates and some rural poverty reduction. Others such as Brazil , Colombia or South Africa, have heavily subsidized their modernizing commercial farm sectors and experienced rapid agricultural "modernization". In the process they have prematurely evicted workers from their agricultural sectors, only to find them piling up in rural and urban slums. Many countries where discredited policy recommendations have not been abandoned at all have experienced spectacular failures of agriculture to grow rapidly, as many African countries or Argentina, with catastrophic results for the rural poor.

Successful rural development and poverty reduction

Countries in this cluster include South Korea, and Taiwan which, after early land reform efforts, consistently implemented policies and programs supportive of smallholder agriculture. More recently they have been joined by Indonesia and Malaysia. China joined this group in 1978 when it abandoned excessive agricultural taxation and farm collectives, and since then has broken all world records in rural growth and poverty reduction.

All these countries either did not have or reformed their large scale ownership holdings into owner-operated family farms, with the exception of the plantation crops discussed above. Even in these crops they have pursued smallholder strategies based on contract farming and the share of these crops grown by smallholders has steadily increased. They invested heavily in agricultural infrastructure or in the case of China inherited the investment from the period of collectivization. They have invested heavily in agricultural technology for smallholders, and have largely refrained from heavily subsidizing credit. They have either not taxed or only lightly taxed their agricultural sectors via indirect or direct discrimination.

These countries have experienced rapid agricultural growth, modernization of technology, and sharp reductions in rural poverty.

Agricultural Stagnation

At the opposite extreme are countries such as Argentina, Zambia, Tanzania, Guinea and others which have heavily discriminated against their rural sectors, primarily via overvalued exchange rates, and industrial protection. They have either not provided much government support to their sectors, as in the case of Argentina, or provided it via parastatal investments which often were unsuccessful and sometimes became fiscal drains and instruments of further taxation of agriculture. Public investment for agriculture was inadequate both foe their commercial farm sectors as well as their smallholder sectors These countries' agricultural and rural sectors have not grown fast or stagnated, leading to increasing poverty, especially in rural areas.

Modest taxation and heavy public investment

A third group of countries has discriminated against agriculture, via indirect and direct taxation, but attempted to compensate for the discrimination via heavy investment in road and irrigation infrastructure, research and extension, and via subsidies to credit, electricity, irrigation water and fertilizers. They have directed substantial support to both the larger commercial farmers and to their smallholder sectors. They made substantial but not radical land reform efforts. India, Mexico, Kenya and the Philippines fall into this category.

These countries have experienced adequate agricultural growth based largely on Green Revolution Technologies, and their food supplies have grown faster than population growth rates. They have also seen some reduction in rural poverty. However, the quality of their public expenditures has steadily eroded as a consequence of rent seeking farmer groups and bureaucrats, shifting increasingly to untargeted credit and input subsidies at the expense of investment. The quality of government expenditures has also suffered from a shift in expenditures to wage and salary costs in the large parastatal sectors serving agriculture. In some countries growth rates have faltered as a consequence.

All these countries have started to reduce indirect and direct agricultural taxation and reform their public expenditure policies for agriculture and rural development, with Mexico being the most advanced in its reform effort. Their growth and poverty reduction rates have not yet started to accelerate.

Premature expulsion of labor

A final group of countries inherited very unequal land ownership distributions at the end of World War II, and did very little to change them via land reform. They include Brazil, Colombia, Guatemala and South Africa. These countries imposed relatively modest taxation on their agricultural sectors and concentrated the bulk or almost all of their public sector support on their large scale farming sectors. This support took the form of subsidized farm credit, infrastructure investment without cost recovery, and assistance in marketing via parastatals or statutory monopoly rights. Most Central American countries pursued similar policies until the early 1980s when they led to civil war.

These countries successfully abolished "feudal" land-labor relations in their large scale farming sectors and modernized them into large scale commercial farms, although at a heavy fiscal cost. They have fostered a dynamic, technologically sophisticated and politically articulated class of commercial farm owners. At the same time they have seen most of their smallholder sectors decay and sink deeper into poverty, except where special rural development efforts were made. Rural labor forces have been largely excluded from participation in the modernization process and converted to slum dwellers in rural towns and the cities.

The fiscal burden of supporting the technologically sophisticated but economically inefficient large scale farming sectors has proved to be unsustainable in all of these countries. Credit and other subsidies have been substantially reduced, tax privileges are threatened, and protection at the border or via monopolies is being eliminated. Farm land prices have declined. A new effort at macroeconomic adjustment in Brazil is likely to lead to a wave of farm bankruptcies. In Colombia bankruptcies could be stemmed only via blanket debt relief and backsliding on agricultural policy reforms which will only prolong the life of these subsidy-dependent farms.

The promised elimination of rural poverty via migration to the cities has not materialized. These countries today contain two to three times as many poor rural people as in 1950. Much of the massive population transfer to the cities has been into the informal sector and into slum areas. Most of these countries are characterized by high rates of rural violence and urban crime. And many of these countries have undergone decades of land related uprisings and land invasions.

Smallholders who cannot access land via purchase, rental or land reform turn to environmentally destructive cultivation of very marginal land, to petty production and trading activities or to crime.

4. Rural development and poverty reduction

Persistent rural poverty

Substantial declines in rural poverty has only occurred in the first group of countries. In all other countries today there are many more rural poor than there were 45 years ago. In many countries the number of rural poor have doubled or tripled. There is little comfort in the fact that the proportion of the population living in rural areas and the proportion of the rural population in poverty has declined in the group which taxed modestly and provided for public investment. Even in this group the gains have been very modest, and in the other two groups major disasters have taken place.

The bankruptcy of the urban strategy

The time is long overdue for declaring urban development strategy to rural development bankrupt. In most of the developing world the rural areas today contain many more poor people than they die in 1950 when this theory first became fashionable, in many countries two to three times as many.

In many countries where rural poor populations have shifted to urban slums, urban poverty is seen today as a more severe problem than rural poverty, ignoring the fact that it is the premature shedding of labor from the commercial farm sectors and the failure to make alternative arrangements for the rural labor forces in expanding and modernizing smallholder sectors which has been a root cause of the urban poverty problem.

Often advocates of an urban migration and development strategy suggest that it is highly unlikely that the urban poor will find rural livelihoods attractive. This ignores several factors. Many of the urban poor have grown up in rural areas and maintain links to them, which they activate in times of hardship in urban areas. In many countries urban people who get unemployed during periods of recession return temporarily or permanently to rural areas, if they have land rights or can work on farms of relatives or acquaintances. And rural populations continue to grow, despite migration, in all but the most advanced developing countries, providing a new supply of farm workers and operators, if only there are opportunities for them. The neglect of a small farmer development strategy should have left undeveloped many opportunities for small farmers which commercial farmers would have found unattractive since their development would have required heavy labor input which policies made them reduce. Finally, just because one has proceeded so long on an erroneous path does not imply that a drastic course correction would not be beneficial.

The Evolution of World Bank policy

Ever since the World Bank made rural poverty reduction a priority in the early 1970s it has advocated smallholder development as the main strategic element, under the enlightened leadership of an eminent South African, Montague Yudelman. By and large the Bank followed its own prescription in lending via integrated rural development programs and in subsector programs for irrigation, research and extension.

But the smallholder strategy had far from universal support, even among Bank staff. It was undermined especially in Bank support for agricultural credit. While these projects consistently tried to limit subsidies and direct more credit to the smallholder sectors, good intentions affirmed in loan documents and loan covenants were often undermined in practice. This failure to prevent mis-targetting of credit has led to a sharp reduction of agricultural credit operations in the Bank's portfolio, and partly explains the decline in agricultural lending by the Bank.

Since the early to mid 1970s Bank policy was also supportive of land reform. Several attempts were made to translate this commitment into lending programs, e.g. in the Philippines, Zimbabwe and Brazil, but the political climate did not permit this. The Bank's commitment to land reform has been reaffirmed in a recent agricultural strategy paper. The demise of the cold war, the fiscal unsustainability of large scale commercial farm sectors, and new approaches to land reform (see below) may finally open opportunities in this area.

The Failure of Integrated Rural Development

The opposition to land reform in many countries, such as Colombia, made integrated rural development directed at smallholders the next best smallholder strategy. Many programs and projects were supported by the Bank. It consists of an integrated package of support to smallholder agricultural development for a specific area or region. Some of these projects were called area development projects.

The projects typically consisted of synergistic interventions in agricultural extension, research (if little technology was available), marketing, input supply, credit, rural roads, water supply and electricity infrastructure and small scale irrigation. Sometimes the projects included social infrastructure such as primary schools and health centers.

These interventions were planned by technicians from the countries, with assistance of Bank teams. Methods for beneficiary consultations were developed and applied. Execution of the components was generally delegated to government organizations, often highly centralized ministries or parastatals. Coordination proved difficult and the key remedy was to introduce project management units which were staffed by Bank-selected professionals and maintained authority over the disbursement of funds and supervision of procurement and implementation efforts in the project area.

These projects typically proved unsuccessful. Diagnosis on the causes of failure differ, but the following elements are generally agreed on:

- Adverse policy environment-It quickly became apparent that these projects, when pursued in an adverse policy environment for agriculture as a whole, or for the small scale sector, amounted to pushing on a string, and could not succeed. Reform of the policy environment was seen as a prior condition for success. The greater success rate of integrated rural development projects in Asia compared to Latin America and Africa supports this diagnosis.
- Lack of government commitment-Often governments did not provide the counterpart funding required for implementation of the programs, to the entire programs or to vital components thereof, despite assurances given in negotiations.
- Lack of appropriate technology-This proved important in un-irrigated areas, especially of Africa, where there was no history of past commitment to agricultural research, or where colonial research efforts had decayed. An early remedy was to include project-specific research components, most of which failed and in addition undermined the national agricultural research systems by robbing them of talented researchers.
- Lack of beneficiary participation-The programs were often designed in a top down approach within which beneficiaries were not given any authority for decision-making or program execution. Even if they were consulted in advance, they could not be sure that their preferences were being given adequate weight. Most often they therefore chose the only decision making option they had, voting with their feet.
- The complexity or coordination problem-It is ironic that complexity should have become the Achilles heel of rural development. After all building rural roads, small scale infrastructure or providing agricultural extension must be dramatically simpler tasks than the construction of large scale irrigation infrastructure or ports, where the Bank did not encounter a coordination problem. The coordination problem emerged as a consequence of delegating subprogram execution to government bureaucracies or parastatals which were typically highly centralized and had their own objectives. Many of them were out of touch with beneficiaries, who could much more easily have coordinated the relatively simple task at the local level. There the issues are often quite simple and information is readily available to local decision makers. Indeed one might classify integrated rural development as the last bastion of central planning, swept away by reality like all other central planning schemes.

The failure of integrated rural development has left experts interested in rural poverty reduction inside and outside the Bank in disarray. The Bank has retreated from the ambitious agenda of the 1970s into the support of subsector-specific programs or project, each dealing with a specific component of rural development, such as agricultural extension, small scale irrigation, rural roads, primary education or health care, etc. This means that support for rural poverty reduction has become highly selective within the Bank's program, even spotty, as nowhere has it been possible to support the full array of interventions which are required for successful rural poverty reduction.

The worst consequence of the failure, however has been the inability to assist countries with advice on policies and programs which would enable them to successfully implement rural development programs and reduce rural poverty. Policy advice rightfully concentrates on eliminating direct and indirect distortions, supporting infrastructure and social investment in rural areas and for the poor, implementing land reform, reducing interventions via parastatals, strengthening agricultural research and extension, etc. How to implement the investment and support strategies which are recommended in the rural areas of entire countries is left unanswered. By withdrawing from rural development the Bank has left the complexity and other implementation problems in the hands of the country governments. They have not disappeared just because the Bank has withdrawn from them.

Administrative and fiscal decentralization

Countries, other donors and multilateral lenders, as well as the Bank have of course tried to find alternatives to integrated rural development. Most of these initiatives deal with decentralization, administrative and/or fiscal, and greater involvement of beneficiaries, discussed below.

The first approach has been privatization of infrastructure and service delivery to the private sector, especially of marketing functions. This relieves the government of a fiscal burden and often improves the delivery of services once the private sector has taken over the functions. The private sector can provide most production and infrastructure services to large scale entrepreneurial sectors, often at a lower cost than government. But partial or full government finance is required for poverty reducing rural development efforts based on a small farmer strategy.

Another approach is channeling resources for specific small scale productive or social projects to beneficiary groups, either directly or via inter-mediation through non-government organizations. This approach has flourished in countries where bureaucratic or political institutions have been severely discredited including for example Zambia or South Africa. Governments, bilateral donors and multilateral lenders have increasingly resorted to this method. Social funds delegate planning and execution to beneficiary groups or their NGO agents, but they leave ultimate approval and disbursement authority with central project units, the Social Fund administrators.

A more radical evolution of rural development programs has taken place in Mexico and Colombia and recently on a pilot basis in Brazil, where the programs have evolved into matching grant mechanisms for rural municipalities or districts or for poor beneficiary groups without necessarily losing their multi-sectoral approach. Matching grants will be further discussed below. Within these programs genuine decision making power over project funds is delegated to municipalities and/or beneficiary groups, through such mechanisms as municipal funds. Within certain budget limits the municipalities are empowered to chose form a menu of poverty-reducing community projects. Project selection takes place according to rules which increase transparency of decision-making to the ultimate beneficiaries and assist in proper targeting to the poorer groups.

Many countries have recently gone much further with administrative and fiscal decentralization of rural development. Administrative decentralization can take place either via deconcentration of administrative powers in government bureaucracies, and/or via delegation or devolution of rural development functions to lower level governments and/or communities. Fiscal decentralization involves the assignment of revenue sources to lower level governments, and/or the transfer of resources to such governments via unrestricted revenue sharing and/or via restricted or matching grants.

An extremely successful fiscal and administrative decentralization effort occurred in China in the late 1970s, along with the elimination of collective farms and the reduction of farm taxation. In China all revenues are collected by local entities and shared with higher level governments. The extraordinary rural development performance which followed has already been commented on. However the central government has found itself in great fiscal difficulties and is currently reforming the tax and revenue sharing system to resolve the fiscal imbalances which have emerged.

Much administrative deconcentration and delegation of functions has occurred in Mexico under the Solidaridad and other public sector reform programs, and in Indonesia. These have been associated with greater revenue sharing for poorer regions, and the development of sophisticated matching grant mechanisms to lower jurisdictions and community groups. Enormous improvements have occurred in productive and social infrastructure, water supply and sanitation as a consequence of these decisions.

Similar successes have been achieved in the State of West Bengal, India, where fiscal and administrative decentralization was associated with political decentralization in the form of a revival of the elected governments at village, block and district levels. This approach is now being generalized to the whole nation by the ratification of a constitutional amendment mandating the same elected government structure and fiscal commissions for all states of the Union.

Colombia has gradually and fairly carefully transferred additional fiscal resources to municipalities , much of it earmarked for health and education. At the same time it has reformed and strengthened central government matching grant systems such as the Integrated Rural Development program (DRI) and a social fund program. These changes are still being implemented.

But decentralization has also had its failures (Crook and Manor, 1994, Meenakshisundaram, 1994). In Ghana and the Ivory coast elected local governments were created, but the enthusiasm created dissipated rapidly because the new local governments were starved of resources. In Karnataka, India, a reform effort similar to that in West Bengal was reversed for political reasons.

In Brazil the 1988 constitution transferred....percent of government fiscal resources to states and municipalities through general revenue sharing without assigning corresponding responsibilities, only deepening the fiscal crisis of the central government. Nor did it reform the matching or conditional grant systems of central ministries, missing a major opportunity to influence spending of lower level jurisdictions in socially productive ways. Some lessons emerge from these experiences.

- Decentralization is not a simple panacea or a recipe. It matters how it is put together. The many different elements, fiscal, administrative and political, must be consistent with each other to avoid fiscal imbalances, failure, or backlash.
- It is politically difficult since most bureaucrats and central politicians tend to oppose the implied loss of power.
- It appears to work better if deconcentration has preceded or accompanies delegation by placing professional staff into local offices.
- It cannot work if elected governments are not given adequate fiscal powers or transfers from higher level governments.

These lessons do not imply that centralization works better. There is plenty of evidence that it does not, viz. the failed integrated rural development strategy. But it does imply that it must be done deliberately, consistently and carefully.

Empowering the Poor

Another lesson emerging from these experiences is that consulting the poor is not enough to empower them for their own development, even with the most genuine intentions. Nor is administrative and fiscal decentralization sufficient. In Karnataka, for example, the decentralization effort improved the match of development expenditures with local preferences, accelerated implementation without increasing costs, and made local government employees such as teachers more assiduous in their attendance. It also reduced the amount, if not the frequency of corruption by shifting it from the state level to lower levels. But it neither improved nor reduced the effectiveness of targeting development programs to the poor (Crook and Manor, 1994).

Additional steps will be required.

- The first is the earmarking of conditional or matching grant resources for poverty alleviating projects or programs and the delegation of their execution to poor communities, where technically feasible. This is done in Social Funds or Municipal Funds programs discussed earlier.
- The second is to strengthen the political representation of poor and disadvantaged groups in local political bodies, as has been done by reserving seats for women and scheduled and backward casts in the constitutional reform of the Panchayat Raj system in India.
- Where such constitutional change is not feasible, as in Mexico or Brazil, the rules of earmarked matching fund systems can be designed to ensure greater representation. In Mexico all decisions of fund allocations must be taken in open assemblies at the municipal level and a proportion of the funds is allocated to outlying settlements, which usually are poorer than the municipal headquarters. In Brazil a special municipal council has been created for the allocation and administration of the funds, which ensure adequate statutory representation of poor rural communities in these nonelected bodies.
- Accountability to the poor can also be improved by additional rules which encourage openness and transpaency such as representation of small farmers, women and rural workers on boards of research stations, supervisory committees of extension systems, or on land or labor committees which deal with rural land and labor issues.

Market-assisted land-reform

Even where countries attempted land reform, they often entrusted it to a centralized Land ministry or to a parastatal, a Land Reform Institute. The government acquired land via expropriation, with or without compensation, depending on the historical development of legal provisions. Much of land was acquired after it had already been invaded and the arrangement amounted to regularisation of a fait-accompli. These arrangements were costly and slow.

Where land was acquired or regularized by purchase a bilateral bargaining game ensued between each of the sellers and the government, where each could threaten to use provisions of the law to improve its bargaining position. Economic theory does not suggest any reason to expect such a process to lead to low acquisition prices if the sellers are wealthy and the government is under political pressure from the peasants.. Where land was expropriated with no or minimal compensation, each case led to protracted legal battles, frittering away the energies of the peasants and the land reform agency alike into thousands of legal battles, many of which were lost.

Disillusion with the slow pace often led to loss of political momentum and budget erosions for land acquisition. Using these processes it took Mexico some 60 years after the end of the revolution until the task of redistribution was achieved. And Mexico has been the most successful of all Latin American countries in transferring land in a peaceful manner.

Market assisted land reform avoids the bilateral bargaining game and leads to competition on both sides, the buyer groups and the sellers. It avoids years of delays associated with disputes about compensation levels. It privatizes and thereby decentralizes the essential processes. The process should not be left unsupervised. District land committees, reporting to regional and national committees, are a promising policy. And parties will ultimately have to be provided with recourse to the courts. A decentralized land or agrarian court system can ensure this, to which disputes can be appealed which cannot be resolved through arbitration or by the land committees.

The conditions for such a process to work are well known: Beneficiaries must receive partial grants to enable them to buy land without starting out with impossible debt equity ratios. A decentralized structure capable of assisting with the provision of infrastructure and social and agricultural services is needed. And policies and programs must not reward large scale farming via privileges.

Employment generation

This section discusses approaches to additional rural employment generation.

Additional rural employment generation can be achieved by insisting that rural infrastructure is constructed with labor-intensive techniques. Many countries have gradually improved their ability to ensure this via their contracting procedures and other means. Employment generation programs are also a useful tool, especially during periods of macroeconomic recession, sharp agricultural price declines, or drought. Zambia and others have shown how such programs can be implemented in decentralized way, with much involvement of NGOs and community groups.

Employment generation may also be needed where there are few agricultural or nonagricultural development opportunities, and where nevertheless an immobile labor force is unemployed and poor. They may be immobile because of legal or economic limitations on migration, or, in the case of poor women, because they also have child rearing responsibilities.

5. A Brief Summing Up

The profession of agricultural economists, and of other development professionals has examined the development theories, measured the impacts of various development policies, and painstakingly sifted through the experiences of many countries in an effort to fathom what makes the difference between success and failure. While there are many areas where knowledge is still limited, a pretty clear picture has emerged. This picture is constantly being blurred and obfuscated in heated debates, usually with the purpose of defending vested interests of specific farmer or producer groups or of bureaucrats and politicians, confusing the novice and well-meaning observers and policy makers. The broad professional consensus includes the following key elements:

- The foreign exchange, trade and taxation regime should not discriminate against agriculture, but tax it lightly, preferably using the same progressivity and instruments as for the urban economy.
- An open economy, employment intensive and small farmer oriented strategy is both economically efficient and most likely to reduce poverty, both rural and urban.
- Providing privileges or reducing competition in output, input and credit markets is costly to consumers and taxpayers and ends up hurting small farmers and the rural poor, even if such an effect is unintended.
- Where land is unequally distributed such a strategy requires a substantial prior or concurrent effort at land reform. Constraining land rental and insisting on expropriation without compensation has a perverse impact on the rural poor. Centralized ministries or parastatal bureaucracies are not good at implementing land reforms.
- Rural areas require substantial investments in economic and social infrastructure, and in health, education and farm support programs. Concentrating these investments into urban areas is not less costly and misses an important opportunity.
- Successful and cost-effective implementation of such development programs requires the mobilization of the skills, talents and labor of the rural population, via decentralized administrative, fiscal and political systems conducive to their genuine participation, and via private sector involvement.
- A special effort is required in the design of decentralized mechanisms so that the poor can effectively participate in decision-making, execution and accountability. Otherwise rural elites of any color will appropriate most of the benefits of the rural development programs.

These lessons have been acquired with much pain by poor and nonpoor citizens of the developing world. They have been synthesized with much effort by our profession and others. They can only be ignored at a high social cost- for economic growth, for the fiscal balance, for the environment, for the rural and urban poor, and for social peace.

Notes

These remarks are not an official position of the World Bank but represent the author's own views.

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