The Impact on Developing Country Agriculture of the Global Economic Downturn and the OECD Fiscal Crisis; and key reforms needed in international assistance to agriculture

Rome, Sept, 2010
Kevin Cleaver
IFAD Associate Vice President, Programmes
(The views are those of the author and not necessarily IFAD)

The International Communities Millennium development goal # 1: halving poverty and hunger by 2015, will not be met

- Rural poverty and hunger is stable or increasing in much of Sub-Saharan Africa and some other low income countries in Latin America and Asia
  - About 1 billion hungry people in the world 1 billion live on less than $1 per day, 720 million of which live in rural areas
  - 2 billion live on less than $2 per day (about 1 out of every 3 persons)

Improvements in nourishment have been reversed
Number of under-nourished in the world, 1969-71 to 2009

And the problem areas are Asia and Sub-Saharan Africa

Undernourishment in 2009, by region (millions)

- Sub-Saharan Africa: 265
- Asia and the Pacific: 642
- Near East and North Africa: 42
- Latin America and the Caribbean: 53
- Developed countries: 15

Total = 1.02 billion
Why will Millennium development goal of halving poverty not be met?

- **Thesis 1**: The failure of OECD agriculture policies and of agriculture aid to address poverty and hunger in developing countries is contributing to the failure in achieving the MDGs.
- **Thesis 2**: Global economic downturn in 2008-2011, along with serious fiscal crisis in Europe, North America and Japan is exacerbating this situation.
- **Thesis 3**: The above justifies a drastic overhaul in OECD country agriculture policies domestically, and an overhaul of the international aid architecture.
- **Thesis 4**: The disastrous fiscal situation in OECD countries provides an opportunity to reduce agriculture subsidies and overhaul aid policies because this would be fiscally positive.

Where is most poverty located?
Most of the poor are rural (70% on average in developing countries, more in Africa)

(World Development Indicators)

<table>
<thead>
<tr>
<th>Country</th>
<th>Poverty Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>51 44 66 50 71 66 86 61 47 34 47 67 40 57 33 70 10 51 69 45 44 27</td>
</tr>
<tr>
<td>Urban</td>
<td>17 16 25 24 62 52 56 48 37 27 55 21 26 39 49 12 57 31 31 23 15</td>
</tr>
<tr>
<td>Difference</td>
<td>34 30 34 26 9 14 24 13 14 7 12 19 31 -6 21 -2 -6 38 14 21 12</td>
</tr>
</tbody>
</table>

Agriculture is important for poverty reduction because agriculture is the leading sector in low income countries, including most African countries
(World Development Indicators, 2007)

Agriculture is the most prominent sector in low-income countries…(including Sub-Saharan Africa and Asia)

Agricultural value added as percentage of GDP

Source: generated from WDI dataset 2010
But is the most productive only in high-income countries.

Agriculture growth has high economic pay-off and high poverty reduction pay-off

- A 1% p.a. increase in agriculture growth, on average leads to a 2.7% increase in income of the lowest 3 income deciles in developing countries (World Bank World Development Report, 2007)
- Agriculture is 2.5 to 3 times more effective in increasing income of the poor than non-agriculture investment (World Development Report, 2007)
- “Agriculture growth, as opposed to growth in general, is typically found to be the primary source of poverty reduction (IFPRI, 2007)
- The contrary is also true: a decline in agriculture growth throws many poor people into poverty, and explains some of the increase in developing country poverty and hunger in the past two years.
Why is agriculture production growth in developing countries increasingly problematic?

- Low investments in agricultural research: 0.42% of agricultural output in Asia, 0.65% in Africa, 1.1% in Latin America
  - Compared to over 5% in OECD countries
- Lack of agriculture investment and consequent reduction in productivity growth
  - Cereal yields increasing at 1-2% p.a. now, compared to 3-6% p.a. in the 1960s-1980s
- Transport, marketing and farm input price increases as oil prices increase
- Land degradation
- Substitution of bio-fuels for food (for maize)
- Government policy deficiencies, panic in food markets
- Climate change may be exacerbating the slow food production response

Rural environmental issues and climate change have larger impact on small farmers than previously thought

- Deforestation, groundwater depletion, salinization of irrigation areas, destruction of rural biodiversity, soil loss (see UNEP Atlas of Africa)
- Agriculture both a cause and victim of environment problems
  - 5 to 10 million hectares of agriculture land lost annually to severe land and water degradation (WDR 2008)
  - Agriculture uses 85% of fresh water withdrawals in developing countries - water getting scarcer
- Agriculture contributes 13% of green house gases
- **Rural environment problems** to worsen due to climate change (IPCC)

Government spending on agriculture in developing countries has been declining

<table>
<thead>
<tr>
<th>Year</th>
<th>Africa</th>
<th>Asia</th>
<th>Latin America</th>
<th>Total (Weighted Average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>6.4%</td>
<td>14.8%</td>
<td>8%</td>
<td>11.3%</td>
</tr>
<tr>
<td>1990</td>
<td>5.2%</td>
<td>12.2%</td>
<td>2%</td>
<td>7.9%</td>
</tr>
<tr>
<td>2002</td>
<td>4.5%</td>
<td>8.6%</td>
<td>2.5%</td>
<td>6.7%</td>
</tr>
<tr>
<td>2004</td>
<td>4.0%</td>
<td>7%</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

But it seems based on the IMF data available till 2007 that the onset of the crisis did not significantly reduce govt spending on agriculture.
Further problems being caused by global economic downturn and OECD fiscal problems

- The global downturn caused growth in developing country economies to fall from 8% in 2008 to 2% in 2009. World Bank estimates that this will send 64 million additional people into poverty.
  - Downturn reduces industrial country market for developing country agriculture exports
  - Reduces remittances from migrant workers back to developing country
  - Reduces industrial country aid budgets
  - Creates protectionist pressures.
- OECD protectionism and agriculture subsidy high, reducing market opportunities for developing country agriculture exports to OECD countries, and stimulating OECD agriculture exports of subsidized products to developing countries

We know the solutions: More domestic and international investment in agriculture and rural development is needed; public and private, for:

- Smallholder agricultural productivity improvement
- Investment in agricultural research and extension
- Rural employment generation through investment in smallholder farming, agro-industry, marketing, input supply
- Development of farmers’ organizations, to help manage village-level development
- Rural finance
- Marketing and input supply
- Water and irrigation

Solutions (cont’d)

- Rural infrastructure
- Land tenure and management of pastureland
- Forest and fisheries management
- Agriculture research and extension
- Nutrition and household food security
- Agricultural adaptation to climate change
- Management of the rural environment and rehabilitation of farmland
- Building decentralized public services in rural areas
- Agricultural policy support

IFAD agriculture projects containing these elements increasingly successful

- Independent evaluation of IFAD projects at completion
  - 2005 evaluation: 40% of them successful in reducing rural poverty
  - 2009 evaluation: 80% of projects successful in reducing rural poverty
Solutions are known, but are they widely applied?

- Harmful government policy responses in many developing countries
  - Export bans discourage farm investment
  - Farm price controls imposed to allow consumer subsidies at low public cost, discourage farm investment
  - Lack of public investment in agriculture and in rural infrastructure
- Subsidies are maintained for high greenhouse gas emission agricultural practices in both industrial and developing countries
- OECD subsidies for agriculture are huge (about $200 billion p.a.) and trade distorting, including bio-fuel subsidies and import barriers to developing countries agriculture products
- Industrial country aid policy puts too much focus on food aid, and not enough on developing countries agricultural productivity
- Not helped by fact that there are 263 multilateral and 156 bilateral aid agencies
- No agriculture policy response to climate change in developing nor in OECD countries

Conclusions

1. There is a problem of rural poverty and hunger in developing countries
2. There are known solutions
3. The solutions are not being applied on a large enough scale to reduce the problem
4. The economic crisis is making the situation worse
5. OECD country policy combined with broken international aid architecture are contributing factors

Increasing OECD budget constraints and failure of agricultural aid provide opportunity for restructuring OECD country farm policy and international aid architecture. Some proposals:

- **Eliminate OECD agriculture import barriers and agriculture subsidies** to OECD farmers (scrape the CAP and drop farm subsidies from US farm bills)
  - Would also reduce OECD fiscal deficits
- **Reduce cost of OECD farming by more freely allowing migrant workers to work in OECD agriculture**
  - Would compensate OECD farmers in part for declining subsidy, with cheaper labor
  - Added remittances to developing countries would substitute in part for declining aid

AND CHANGE FOCUS OF INTERNATIONAL AID FOR AGRICULTURE

- Improve **resilience** of developing country small farmers and rural people, in the face of environmental damage, climate change, economic downturn, conflict, natural disasters using climate change funding, and private sector funds in addition to aid
- To improve small farmer resilience, support innovative agriculture service provision through NGOs, local community managed, and private-public partnerships
  - Reduce R & D services provided by governments and foreign technical assistance
- Support **private input suppliers, marketing and processing** through private and NGO investment: less dependency on aid budgets
- **Better sharing of intellectual property, especially for biotechnology**
- **Reduce food aid**
  - Positive fiscal impact on OECD countries, and
  - Would force developing countries to invest in agriculture more seriously
Restructure the international and bilateral aid architecture for greater effectiveness.

- **Eliminate bilateral aid agency agriculture assistance** (and maybe the agencies altogether)
  - Would help improve OECD finances
  - Reduce the fragmentation of aid
  - Governments to pool aid funds through some of the existing multi-lateral agencies

- **Consolidate international aid agencies working on agriculture** for greater scale and cohesion, while absorbing some of the bilateral agency funding
  - Would reduce cost of multilateral aid and improve its coordination

- **Less government to government assistance**: more private and NGO investment
  - Would require incentives from OECD countries to stimulate private investment in developing countries
  - Would require principles of responsible private investment in agriculture to be widely introduced

- **Encourage South-South cooperation**
  - Middle Income countries can do more to assist low income countries

At the global level, much is still needed to meet the MDGs

Source: Global Monitoring Report 2010, World Bank

And Fragile States have made the least progress

Source: Global Monitoring Report 2010, World Bank