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Development Strategy for Rural Areas

by Professor W. von Urff, Heidelberg *

In September 1973, the President of the World Bank, Robert S. McNamara, made a challenging address to the Governors of the Central Banks of the member states of the International Monetary Fund. The main subject in his speech was the problem of poverty particularly in rural areas of developing countries, and the design for a strategy for its abolition.

To show the dimensions of the problem of poverty, McNamara reminded his audience of the fact that nearly 800 mn people or 40 p.c. of the total population of developing countries must live on an income which in terms of US purchasing power amounts to less than 30 cents per day, an income just sufficient for mere survival but implying malnutrition, illiteracy and squalor. Apart from millions of victims of poverty in urban slums, this particularly applies to rural areas where probably more than 100 mn families live below the absolute poverty line. Even in those countries where GNP growth may at first sight appear to be satisfactory, up until now these families have hardly had any share in economic advance. The external cause for this state of affairs is to be found in the low land endowment of these farms. More than 100 mn farms own less than 5 hectares, and of these more than 50 mn have less than 1 hectare. The situation is further aggravated by the fact that the rights of land use are uncertain for many of the small farmers. Many of them run their farms under tenure contracts, which do not concede them any long-term rights, and at rates of rent which amount to 50 p.c. of the production or even more.

Since land use is usually more intensive on small farms than on larger ones unless serious institutional obstacles exist, and since in regions with over-population and scarcity of cultivable land the first priority is to increase the productivity of land, McNamara recommends as long-term objective to increase the productivity of the small farms. By 1985 output shall be growing at an annual rate of 5 p.c. and shall be doubled by the end of this century. Although McNamara is well aware that this is indeed an ambitious goal, he obviously believes that only an ambitious objec-

tive can assure sufficient motivation and participation of governments in developing as well as in developed countries.

McNamara's Suggestions

For the attainment of this objective McNamara suggests an action programme basically consisting of the following elements:

- ☐ a speed-up in the rate of land and tenancy reform;
- ☐ better access to credit;
- ☐ an assured supply of water;
- ☐ expanded extension facilities backed by applied agricultural research;
- ☐ greater access to public services and
- ☐ as the most critical point: new forms of rural institutions and organizations promoting the opportunities and the productivity of the poor as much as the power of the privileged was protected.

McNamara underlines that these recommendations are not new and have long been urged for implementation. His proposal for an action programme should be considered as an attempt to get these recommendations out of the state of lip-service and pious wishes and to initiate at last serious efforts for their implementation. However, this implementation is primarily the task of the developing countries themselves. Developed countries and international development agencies can only make a supplementary contribution by providing financial aid as well as technological and organizational know-how.

As governments are making serious efforts to start anti-poverty programmes, all available government institutions providing extension and other services have to be partly redirected and have

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to be fully oriented to the needs of the small peasants. This requires advice on agricultural production techniques, the preparation of individual farm plans, the timely supply of inputs and credit and assistance in marketing and storing of the produce by coordinated efforts of all government institutions concerned.

Farmers' Associations Necessary

At the receiving end, not only the individual small peasant but also the peasants' own organization as an administrative and coordinating cell has to play a major role in this strategy of eradicating poverty. The latter's task would be to provide suitable channels of communication which reach the small peasants and assure their participation in integrated development programmes. The pooling of resources should be contemplated and if necessary some elements of compulsion be included if the role of agricultural cooperatives and farmer associations in supporting the weaker sections of the agriculturists as opposed to the highly competitive big farmers is to be strengthened effectively. Another function of such associations could be the use of the surplus manpower with a view to making them enter into the process of constructing capital on an interfarm level through employment in projects like bunding, levelling, drainage layouts, repair and construction of irrigation channels, tanks, dams, construction of roads, etc., which would exceed the labour potential of an individual small peasant household and which would not be done otherwise. Also ways have to be found to reduce the relative importance of the moneylenders' and merchants' capital in financing the farm operations of the peasants and to free peasants' associations and cooperatives from the detrimental influence of the landlords who so far managed to infiltrate the community development institutions and the cooperative agencies of the peasants.

Obviously McNamara is aware of the fact that the organizational reforms for the promotion of small farms dealt with in the last section of his action programme present the problem most difficult to solve. His ideas are centered around cooperation of individual farms on a local level linked with the administration and credit institutions via intermediate agencies. No concrete models are elaborated; on the contrary, McNamara emphasizes that many different forms are possible provided they ensure adequate participation of those concerned and are designed in such a way as not to force upon small farmers programmes developed by people neither familiar with their problems nor genuinely interested in their future.

In order to show how little novel the idea of participation and how difficult its implementation is,

the Indian community development programme may be cited. The originally envisaged ideal of combining government promotion measures with the initiative of the rural population concerned has never been achieved. The extension services have become a development bureaucracy, whose positive contribution to the introduction of technological innovations in some regions should by no means be overlooked but which remained largely inefficient in other regions. Establishing self-governing agencies in an unchanged social environment could not rule out their abuse by influential groups in order to secure their vested interests. If McNamara considers bold political leadership to be a prerequisite for orientating the administrative bureaucracy more towards the needs of the subsistence farmers, this is certainly as true as it is difficult to see where this bold leadership is to come from and where it can find its political support.

Undoubtedly developing countries are rightly reproached with not having made genuine development tasks, as opposed to purely administrative tasks, particularly attractive to university graduates who are mostly seeking a career in government service. It should not be too difficult a task to bring about a change here.

Land Reforms and Technical Innovations

The importance of a faster implementation of land and tenancy reforms for regions where the uncertainty of ownership relations and an inefficient tenancy system present major obstacles to the participation of the rural masses in the development process, has long been acknowledged as has the fact that so far only few reforms have been carried out that have substantially changed these conditions. Those groups who stood to lose through reform, often succeeded in delaying attempts at reform or in preventing their implementation on the local level. Mr McNamara views land and tenancy reform programmes combining reasonable ceilings on private ownership with equitable compensation and providing tangible improvements for the security of tenants as well as adequate incentives for cooperation as basically possible, and calls for stringent laws with no exceptions and loop-holes. Of course, here again the question may be raised of whether a government is politically strong enough to implement such programmes against the opposition of influential groups. Whether these groups can be convinced that in the longer run the abuse of their power can work against their own interest is an open question.

Assured rights of land use guaranteeing the farmer an adequate share in the fruits of his labour are a necessary but by no means a suf-

ficient condition for the adoption of technological innovations in an agricultural system characterized by small holdings. Since families living on the verge of the subsistence level are hardly in a position to save anything, new means of production like improved seeds, fertilizer or pesticides can only be introduced on the farms if credits for their purchase are made available. Thus it may happen in extreme cases in India that the new opportunity to switch from monocropping to double-cropping through irrigation is not made use of because many families are not in a position to purchase or to retain from their own production the seed required for the second crop.

Financial Aspects

The traditional sources of credit providing credits at annual rates of hardly less than 50 p.c. and often more than 100 p.c., are usually made use of in case of urgent family needs but not for productive purposes since such high cost of finance often makes the use of yield-boosting means of production uneconomical. Experience shows that commercial credit institutions are hardly in a position to satisfy the credit needs of the rural peasant population since the costs of the administration and the supervision are extremely high. This is why an institutionalized agricultural credit system adapted to the needs of the peasant population has long been called for. While at first glance the solution seems to lie in a cooperative system, the experience gained so far in many countries has not been very encouraging. The main difficulty stems from the fact that unless economically successful technological innovations are adopted by the farms on a large scale, cooperatives are hardly in a position to accumulate deposits so that their activity is limited to the lending out of funds made available to them by financing institutions, in many cases by the central bank itself.

The main difficulty is to recover the funds mainly lent out on a short-term basis, i.e. for the financing of one crop cycle. Since the utilization of the credits can hardly be supervised and since unproductive usage cannot be prevented because of urgent expenditure needs or existing indebtedness with local money lenders, cooperatives frequently fail to recover the funds lent out; as a consequence the debtor will not be granted further credits or the financing institution will refuse to continue to refinance the cooperative. Even nationalized commercial banks have hardly become active in the field of agricultural credit so far.

Basically, the problem of agricultural credit should not be insoluble. As McNamara rightly empha-

sizes, the high interest rates of the traditional agricultural credit and the frequently high profitability of the use of means of production to be financed by credit make it unnecessary to subsidize the rate of interest down to e.g. 6 p.c.; rather, the borrower would be much better off if he could really obtain the funds required at a realistic rate of interest covering the risk and the supervision costs. Generally speaking, the problem can only be solved by a much closer interconnection between agricultural credit and extension services where the latter would have to assess the credit required for sound measures that improve the repayment ability of the farmer and to make a contribution to the supervision of the appropriate use of the credit.

Irrigation Projects

The application of yield-boosting means of production like fertilizer, pesticides and improved seeds will usually produce additional yields that cover the cost only when the water supply for the plants is ensured. In large parts of the tropics and in particular of the subtropics irrigation is required. According to estimates cited by McNamara the 85 mn hectares presently irrigated in the developing countries can be extended by another 90 mn hectares if the necessary investment amounting to 130 bn dollars can be made. Here capital aid is no doubt presented with a great challenge. Large irrigation projects, which will continue to play an important role in the future, have the disadvantage of not only being very capital intensive but also of requiring a considerable period of time for their implementation. That is why smaller projects which, like the building of small water tanks or the digging of wells, can be carried out and maintained by the population itself, are also to be promoted. Here the main problem is that they exceed the capacity of a single farm and can only be implemented soundly as joint enterprises, which presupposes prior provisions for all farmers concerned to adequately benefit from the project use. So far, this was often frustrated by the power structures prevailing in the villages.

The governments of the developing countries should give closer attention than they have so far to those small interfarm solutions that can be carried out either in the form of cooperatives or through a local, government supervised organization charged with making water available at an adequate price. Furthermore, in the case of larger projects, the organization in charge should not only be entrusted with the construction of dams and main canals but also with the entire network of distribution to the peasants' fields in order to facilitate immediate use of the water. The ex-

perience gained so far has shown that too little attention to this last step has led to a situation where insufficient use was made of irrigation facilities created within the framework of larger projects at a very high cost.

Promotion of Extension Services

Even when the means of production, water in particular, plus the credit required for their application, are made available, there is still the task of introducing existing technological innovations on the farms, to help them in decision-making and, in the case of the adoption of such innovations, to give them advice in all required work outside the scope of their tradition-oriented knowledge. This is the task of the rural extension service. It is estimated that in developed countries there is on an average one agricultural extension worker to 400 farms while in the developing countries the ratio is only 1 to 8,000.

In McNamara's view the costs of an extension service do not present an unsurmountable obstacle because they amount to a very small portion of the budget even if a sufficient number of personnel is employed in the extension service. What seems to be more difficult, however, is the recruitment of a sufficiently trained staff, a problem which can only be solved in the long term via adequate training programmes.

In this respect, however, there are considerable differences among developing countries. In countries like India, which started fairly early in establishing an extension service that can almost compare to that of the developed countries in terms of the advisor-farm ratio, the problem is not primarily of a quantitative nature but one of adequate qualification and, still more important, of motivation. As long as adequate incentives are lacking, motivation remains low. The setting of quantitative targets, e.g. for the area to be cultivated with high-yielding varieties, or for the application of fertilizer, induces extension workers to primarily seek the cooperation of larger farmers. This tendency is reinforced by the fact that the latter are in a better position to reward them for the services rendered.

In other countries there is the paradoxical situation where on the one hand agricultural colleges turn out graduates in agriculture (most of them with insufficient practical knowledge, however), who cannot find any employment for years, while on the other hand there is either no agricultural extension service at all or only a very marginal one. In such cases a lack of determination on the part of the government to take major steps toward the improvement of the situation of the rural masses must be assumed to be the cause for such situations.

New production techniques or new varieties cannot simply be transferred from developed countries or from developing countries with different ecological conditions; rather, one should first find out by applied research which practices and varieties are really adequate in each particular context, whereby the further development of existing varieties with a view to the given ecological conditions plays a decisive role. This problem which was not given sufficient attention in the past is increasingly being realized by developing countries as the foundation of respective research institutes shows. In this connection the international institutes working for large climatic areas and plant groups are of particular relevance.

The remedies suggested by McNamara are based on the concept of making adjustments with regard to the unequal distribution of land and of giving more incentives to tenants combined with public agricultural investment resources as well as extension personnel geared to petty peasants. The behavioural assumption is that the economically rational small peasant will — with the help of improved agricultural inputs and price support, which has brought substantial gain to bigger farmers — also maximize the return on his agricultural activities to the fullest extent possible. But the small farmer is severely disadvantaged by the limitations of his resource basis which prevent him from making full use of expensive inputs and from adopting a more capital intensive technology, and also by his involvement in asymmetrical power relationships with dominant groups who in effect usually have a claim to a part of his production, his labour or even his land. Finally the production orientation of subsistence peasants towards feeding primarily their families and towards maintaining social obligations and ceremonies hardly allow a mere return maximization behaviour. It may be doubted whether the rigidities of the present tenurial pattern can completely be swept away.

Introduction of Dry Farming

In India, therefore, one is realistic enough to understand that the capital intensive new agricultural strategy based on fertilizer cannot encompass more than the 20–25 p.c. of the total cropped area that is under irrigation. This area is usually owned by the economically stronger section, namely medium and big farmers. But the majority of the subsistence cultivators has to make a living off a few acres of rainfed land which can hardly be brought under irrigation by individual efforts of the peasants alone and which remains unutilized for half the year. Instead of inducing the rural masses to adopt more capital intensive cultivation with modern inputs, it would be much less expensive at this stage of development to

apply a strategy of extending primitive irrigation with traditional inputs and to improve the methods for dry farming. Dry farming has been defined as the system of growing agricultural crops under low rainfed conditions through a system of soil and water management and efficient use of soil moisture. Such programmes of moisture conservation on rainfed lands would involve such measures as

- ☐ conserving rainfall through induced infiltration by mulches, tillage and contour operations;
- ☐ minimizing evaporation losses;
- ☐ adapting cropping and cultural patterns to moisture deficient conditions;
- ☐ utilizing seasonal opportunities for supplementing soil moisture (tanks, etc.).

Furthermore, it would be worthwhile to direct the resources not only to crop production but to explore the potential of the small peasants in activities like livestock production, fruit gardening, vegetable cultivation, fishery development, etc. These activities should be reserved to some extent for the petty peasants, particularly if they can be organized in small peasant organizations by functioning in a businesslike manner and pooling their members' resources.

Other Remedies

There are other remedies suggested for eradicating poverty in the countryside which are not dealt with in detail in the McNamara concept. In connection with government measures to improve rural infrastructure by a rural works programme as another means to raise the agricultural productivity of individual farms he is concerned with tackling the problems of those among the rural poor who have no land to cultivate at all and who will never get a chance to obtain land by redistribution measures unless the concept of economically viable holding is completely disregarded.

With the provision of employment opportunities by a public rural works programme which will give wage employment and income to the swelling numbers of unemployed and underemployed, the question arises of how to make the financial and physical resources available for such a programme. Developing countries who want to tackle the problem of rural poverty efficiently should start with redistribution of income from the pockets of their rich in order to be able to provide gainful employment for the rural poor, thus creating purchasing power with which to cover their daily needs, namely foodgrains, pulses, oil, vegetables, milk, fish, sugar, salt, spices, cloth, household articles, simple tools, mud bricks and timber, etc.

How can the increase of demand following such an employment policy be accompanied by a corresponding increase in the supply of these wage goods? In case the available resources in the economy are already fully employed, those needed for the production of wage goods have to be transferred from the consumer goods sector to the wage good sector, thus curtailing the production of luxury goods. The tools of planning should be applied and decision makers have to be associated more closely with the problems of the poor so that the 5 p.c. increase of productivity in crop production can be paralleled by a corresponding increase of the wage good sector. In this way the needs of the rural poor can be satisfied by the use of traditional or less sophisticated intermediate technologies absorbing a part of the rural artisans and craftsmen who otherwise are pushed out of their traditional occupations. Needless to say that this programme should include measures seeking to improve intervillage trade and transport of these goods.

Finally, McNamara mentions better access to public services as another element of his action programme. Indeed, adequate provision of public services, in particular in the field of education and health, is of great importance, not only to create the preconditions for production increases but also to make life in the country worth living. So far rural regions have largely been neglected in this respect.

LDCs' Own Responsibility

As the brief summary and interpretation of the elements of McNamara's action programme may have shown, most of the relevant measures are the responsibility of the developing countries themselves. It is they who must recognize the problem of rural poverty and take adequate steps to solve it while the developed countries are called upon to make a contribution to the material resources required.

As a first step in this direction the World Bank in its second five-year-programme (1974–1978) increased the funds provided for agricultural projects to 4.4 bn \$ as against 3.1 bn \$ during the first five-year-programme (1969–1973) and only 872 mn \$ (in terms of the dollar's purchasing power of 1973) from 1964 to 1968. No doubt these funds are far from being sufficient. If the developing countries themselves give the fight against rural poverty more than just verbal priority in the introductory chapters of their planning documents and really take decisive steps in the right direction, then the developed countries should support this fight for the reconstitution of human dignity for 700 to 800 mn people more generously than has been the case up to now.