MEKELLE UNIVERSITY
COLLEGE OF BUSINESS & ECONOMICS
DEPARTMENT OF ECONOMICS

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Compiled by: Kidest G.

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Chapter One
Introduction

1.1 Concept of Rural Development

- Rural development is the expression which composed of two basic terms rural and development.
- Rural**:** refers to areas where there are a relatively
  - ✓low population density
  - ✓agriculture and related primary activities usually dominate the landscape and economy
  - ✓Socio-economic infrastructures like health, education, transportation, etc are poor

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- Development**:** refers to the process of overall improvement in the quality of life (i.e. economic, social, political, technological, environmental and cultural dimensions) of a given economy.
- It is a multidimensional process which involving;
  - ✓changes in structures, attitudes and institutions
  - ✓the acceleration of economic growth
  - ✓improvement in socio-economic facilities like health, education, transportation and communications, etc
  - ✓the reduction of inequality, and eradication of absolute poverty and unemployment within an economy.

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- Thus, Rural development refers to the process of improving the quality of life and economic well-being of people living in relatively isolated and sparsely populated areas.
- When we come to the definition of rural development, it is the overall development of rural areas with a view to improve the quality of life of rural people.
- Rural development, which is the part of a given countries development, is a comprehensive and multidimensional concept.
- It encompasses the development of:
  - ✓ agriculture and allied activities
  - ✓ village and cottage industries and crafts
  - ✓ socio-economic infrastructural facilities
  - ✓ human resources, and sustainable resource use, etc

Why we concern about rural development?

- First, the larger part of the society of the developing countries, and even about 46.1% of the world population is a rural society.
- Second, in many developing countries, the contribution of rural economy (agriculture and allied activities) to GDP and employment of the labor force is very large.
- For instance, in Ethiopia, more than 70% of the population is employed in the rural economy and the rural economy contributes around 40 % to GDP.
- In addition, rural areas are the source of;
  - malnutrition (food) for both rural and urban society
  - medicines for medical services
  - natural resources which regulate the ecosystem services, etc

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- Third, the majority of extremely poor population lives in rural areas.
  - out of the world's 1.2 billion extremely poor people, 75% live in rural areas (Anriquez and Stamoulis, 2007).
- Thus, improving the quality of life in rural areas implies improving the quality of life of the majority of poor.
- Fourth, there was urban bias development which causes the rural urban migration problem and hence the problems of over population, sanitation, unemployment, etc.
- Therefore, rural development is crucial to enhance a given county's economy as well as to improve the sustainability of environmental services.

1.2 Socio-economic Factors in Rural Development

1.2.1 Population and Development

- The relationship between population and economic development is highly debatable issue.
- There are three views towards the effects of population growth on economic development.

1. Pessimistic view

- Population growth restricts economic growth. **According to the pessimists**, population growth;
  - ✓ can hinder human capital development
  - ✓ hamper employment creation
  - ✓ has pressure on the environment
  - ✓ result in poor public services, etc

2. Optimistic view

- Optimists argue that, population growth promotes economic growth.
- According to optimists, the higher population size leads to further economic progress by ensuring the supply of;
  - labor force
  - potential innovators to create new ideas and innovations, and
  - also by enlarging the market for produces
- For optimists, population is not the problem but the following are.
  - Underdevelopment
  - Resource depletion and environmental degradation
  - Population distribution
  - Subordination of women

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- Optimists also believe that, large population creates scale of economies and hence helps to attract both domestic and foreign investment in many economic activities.
- As a result, there will be high employment opportunities, technical progress, and growth in output.
- There are also indirect economic benefits of large population size. These include:
  1. large population size implies large number of strong military power which maintain of national security
  2. large population also has its own influence on international diplomacy

3. Neutralist view

- Neutralist do not suggest extremely about the effects of population size on economic development.
- For neutralists, there is no unique statistical relationship between population and economic growth.

Malthus population theory

- Malthus argue that, population tends to grow at a geometric rate, doubling every 30 to 40 years.
- Food supplies only expand at an arithmetic rate due to diminishing returns to land (fixed factor).
- **Malthusian population trap:** due to unbalance between population and food supply, countries would be trapped in low per-capita incomes (per capita food), and population would stabilize at a subsistence level.
- So, in order to stabilize population at subsistence level, the following checks must be undertake.
  1. **Preventive checks:** these checks lead to a reduction in the birth rate through birth control.
  2. **Positive checks:** these checks lead to an increase in the death rate through war, plague, famine, etc.

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- To sum up, population growth has its own implications for the rate of economic development.
- On one hand, if the population growth is faster than the economic growth rate, per capita income will be depressed.
- On the other hand, the higher population growth will result in the higher productive labor force which helps boost in the economy.
- The net effect is depend on whether the boost in economy is outweighed by the decrease in per capita income or not.
- The common consensus made by economists is that, to achieve sustainable economic development, economic growth must outweigh population growth (that is, there must be at least a room for improvement in per capita income).

1.2.2 Gender and Development

- Traditionally, sex and gender are used interchangeably. However, they are different concepts.
- **Sex:** refers to the biological differences between men and women.
- It can’t be influenced by race, religion, class, ethnicity, and culture, age, marital status, time, economic status, etc.
- **Gender:** refers to the socially constructed differences between men and women.

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- Gender differences vary depending on race, religion, class, ethnicity, and culture, age, marital status, time, economic status, etc.
- Gender equality is a situation that permits women and men equal enjoyment of:
  - ✓human and democratic rights
  - ✓socio-economic and political access
  - ✓ownership over resources
  - ✓benefits from development results, and so on.

Why we bother about gender involvement or equality?

- Almost half of the total world's population is women. So, any developmental strategies, policies and goals cannot be realized without equal participation of both women and men.
- In reality however, there is gender bias in education, employment opportunity, access to assets, and decision making in social, political and economical matters.
- These bias are common and have significant adverse impacts in the realization of economic development.
- In order to realize development therefore, the potential human resource has to be mobilized by treating both men and women equally.

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- Rural as well as the overall development can be effective if and only if there is women empowerment in the following dimensions.

1. **Social empowerment:** giving equal social status and creating equal participation in Education, Health, etc.
2. **Economic empowerment:** creation of equal opportunities in economic decision making, access to and ownership over economic resources, employment opportunities, etc.
3. **Political empowerment:** women should represent in key decision-making positions like in the public sector and civil society at regional, national and international levels.

1.3 Elements of Rural Development

- Rural development constitutes and can be measured in so many different ways. But,
- More broadly, there are three basic dimensions that to be considered to constitute the ‘true’ meaning of rural development.
  - ✓ **basic need dimension**
  - ✓ **economic welfare dimension**
  - ✓ **capability dimension**

1.3.1 Basic need dimension

- In rural areas of developing economies , peoples' main problem is not lack of income to buy more goods and services, but lack of basic needs of life.
- Due to this reason, objective of development can't be maximization of welfare, but minimization of maximum suffering that can be faced by any one.
- According to this school of thought, development in developing economies, in general, and rural developing economies, in particular, has to be measured by majority's access to basic needs of life.
- That is; the main focus of development has to be on improvement of peoples' access to basic goods and services of life, political freedom and self respect.

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- Based on this school of thought, elements of rural development are:
  →Having access to basic needs of life
  →Having freedom
  →Having self respect
- Basic needs of life include access to minimum nutritional requirement, basic education, basic health care, basic shelter and basic clothing.
- Freedom is related to economic, social, cultural and political side of life. Freedom implies emancipation from alienating material conditions, servitude to man, nature, ignorance, misery, institution and dogmatic beliefs. So it means expansion of peoples' choice to develop and use their potential as they choose by avoiding economic, social and political constrains in the way.
- To have self respect, a person must have decent life in relation to the community standard and must be respected by the community.

Theoretical and practical shortcomings of basic necessity dimension

1. The actual definition and measurement of basic needs in practice is vague.
   - Without considering the social, cultural, political and economic structure of a given location, it is difficult to define what is basic and what is not basic. That is; the actual definition and measurement of basic needs, in practice, is still vague.
   - Example: Car which is luxury good in Ethiopia may be a basic need in USA.
2. The link between the supply of basic needs and the generation of sustainable economic growth is not clearly understood.
   - Currently, it is understood that government supply of basic needs for the mass is not a guaranteed recipe for success in the long run.
   - In general, the school's recommendation is that, the state has to fill the gap in people's access to basic needs of life through welfare programs.
   - However, even though this action is beneficial to receiving families in the short run, in the long run it creates dependency problem among the poor and will bankrupt the state.

1.3.2 Economic welfare dimension

- According to this school of thought, if an economy has functional market to supply private goods and services, and functional and democratic state to supply public goods and services; more income means more goods and services to be consumed to generate utility.
- That is, having functional market and state, a person with more income or expenditure will have more capability to consume more goods and services.
- Moreover, assuming people are rational enough to be the best judges of their own welfare; people will only use their income in goods and services that can maximize their utility, in best possible way.
- In addition, under democratic systems by using their voting power, people will determine the optimal taxes and public expenditures needed in order to have optimal supply of public goods and services.

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- Under such conditions, more income or expenditure will mean more goods and service.
- As a result, the economic welfare school tries to measure development by income or expenditure.
- Fundamentally, the school tries to measure development by utility; with the assumption that: more utility means more development.
- However, utility generated from given income, is neither observable nor comparable between different persons.
- Utility is unobservable psychic satisfaction, which is not possible to measure.
- As proxy, they use income or expenditure as measure of development, assuming people with more income will have more goods and services to generate more utility. But this can be realized:

1. If there are functional market & state or other institutions to create exchange entitlement
2. If people are rational enough to be the best judges of their own welfare

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- But, if the market and state are not functional and if there are no alternative institutions that can fill the gap, having more income means having more paper, nothing more than that.
- In general, families and locations with higher income or with higher expenditure are assumed to be more developed (having better life) than other families and locations in this school of thought.
- The dimensions or elements of rural development in this school of thought are:

  →Income per capital & its distribution

  →Expenditure per capital & its distribution

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- This measurement of rural development has its own theoretical and practical shortcomings.

1. As utility is psychic in its nature, it is impossible to use utility as a direct measure of development since comparison among individuals or groups is difficult.
2. In practice, it is difficult to find the well functioning market without any intervention.
3. The utility of an individual or group is not depends only on the income level but also on other non income gains like autonomy and freedom.

1.3.3 Capability dimension

- The capability dimension focus on the ability of individuals or groups to functioning well.
- Under this dimension, development is measured in terms of the ability of individuals or groups in having the quality of life that they prefer.
- In capability dimension, elements of rural development includes access to:
  - ✓health care, educational, and other infrastructural facilities
  - ✓market
  - ✓employment opportunity
  - ✓all necessary information
  - ✓political freedom
  - ✓having decent life by community standard and so on

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- ✓However this dimension of rural development is interesting in its theoretical aspect, it requires the distribution of income from rich to poor which may cause social disorder.

Stakeholders in Rural Development

1. Rural development as part of the developmental process of a given country is mainly the mandate of government.
   - The primary tasks of any governments is to improve the livelihood of its society particularly the poor.
   - Government is responsible in designing, implementing and monitoring the developmental policies and strategies based on a strong philosophy of people first and foremost.
   - It is also the task of the government to design and enforce rules and regulations that encourages the society to work.
   - Governments also need to provide basic socio-economic services and facilities such as health care and education, infrastructures and investments where the market is absent.

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2. Rural Development has wide coverage or scope
   - Rural development requires the change in economic, social, political, environmental, and cultural practices.
   - It involves:
     - ✓agrarian reform through the use of science and technology
     - ✓sustainable use of natural resources, control of climate change, and proper waste management
     - ✓development of communication, transportation, health centers, schools, and other infrastructural facilities, etc.
   - Due to these facts, rural development requires the mobilization of huge funds and resources. Thus, in addition to governmental activities, rural development process needs the involvement of:
     - ✓private sectors, NGOs, local community, research centers, extension workers, etc

1.4 The Role of Agricultural Research and Extension in Rural Development

- Agricultural Research and Extension concerned with the generation and diffusion of new technology designed to increase the productivity of resources in farm production.
- Generation refers to the undertaking of research, and diffusion to the provision of extension services or spreading of information among farmers.
- In order to transform the subsistence state of agricultural products to market oriented production system, agricultural research and extension services are crucial.

1.4.1. Agricultural Research

- As agricultural products are essential for the life to persist, agricultural research is crucial for the development of the sector.
- Agricultural research helps to:
  - ✓ generate new or improved production techniques and technologies
  - ✓ Improving agricultural productivity in terms of quantity and quality (e.g., selection of drought-resistant crops and animals, development of new pesticides, simulation models of crop growth, etc)
  - ✓ increase and generate agricultural income and foreign exchange
  - ✓ moderate food prices by increasing production
  - ✓ reduce pressures on the natural resources

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- Agricultural research can be categorized into basic research, applied research, adaptive research, and testing research.
- **Basic research:** develops knowledge with little or no specific practical use.
  - In includes; studies of evolution, genetics, biochemical process, etc.,
  - It is the base to discover fundamental principles of substantial significance to more applied researchers.

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- **Applied agricultural research:** is aimed at solving particular biological, chemical, physical, or social science problems affecting one or more countries or areas in a state or region.
  - Development of new plant varieties, methods for controlling specific insects and disease in plants or animals, and animal nutrition research are examples of applied research.
- **Adaptive research:** takes the results of applied research and modifies or adapts them to local conditions within a country or region.

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- **Testing research:** is conducted on local experiment stations or on farms to assess whether research results from other locations are suitable for solving local problems or not.
  - Improved pesticides, management practices, or plant varieties are examples of research results that may be tested.
  - All countries conduct some testing research, but for very small countries with limited resources, testing may represent a large portion of total research. Much testing is conducted by farmers themselves.

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- In recent years, a number of countries especially developing countries focus on agricultural researches in order to shift the agricultural production system and hence the rural world.
- In Ethiopia for example, public sector research is a long-standing cornerstone in agricultural sector.
- It goes back to the late 1940s and currently, public expenditure on agricultural research and staffing has shown significant improvement. There are about 62 agricultural research centers in the country.

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- The Ethiopian Agricultural Research Policy Objectives focus on generating, improving and adopting highly productive:
  - ✓ farming technologies and practices
  - ✓ variety of crops
  - ✓ developing close collaboration with farmers regarding planning, implementation and use of agricultural research results.
  - ✓ providing advices for the government on agricultural research policy formulation

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- As a result, there is a significant improvement in the agricultural production of the country especially since 2003.
- Despite the modest achievements of agricultural research on development in Ethiopia in the past few years, there are some serious challenges facing Ethiopia's agricultural research system.
  - ✓ the introduction, diffusion and use of newly generated technologies and highly productive seeds to farmers are slow due to limited financial and infrastructural facilities.
  - ✓ the coverage of wider range of varieties of crops and areas in the country is low due to limited financial and skilled man power.
  - ✓ there is also fluctuation in rainfall as the countries agriculture is mainly depends on the seasonal rainfall.

1.4.2 Agricultural Extension

- Extension service is one of the institutional support services that provided to the farmers in order to:
  - ✓ educate and train farmers in order to increase their awareness on improved farming technologies
  - ✓ adopt new innovations to increase farm yields and hence income which helps to improve the living standard of farmers
  - ✓ use its resources efficiently
  - ✓ conserve environmental resources

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- Agricultural extension service also facilitate:
  - ✓ the interaction between research centers and farmers, and among farmers themselves
  - ✓ the supply of credits and inputs
  - ✓ markets for the products and develops business management skills for the farmers
- In general, agricultural extension bridges the gap between available technology and farmers' practices through the provision of technical advice, information and training.

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- Since 2003, the Government of Ethiopia has been promoting extension services to increase the production and productivity in view of achieving food security.
- It has established more than15,000 Farmer Training Centers (FTCs) and gave training for more than 45,000 development agents (extension workers).
- They are expected to:
  - ✓ introduce modern farming techniques and use of inputs
  - ✓ form strong linkages between farmers and research centers in order to share experiences
  - ✓ give all necessary advices to the farmers in order to increase their productivity.

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- Despite to the commitments taken by the government, there are many challenges in providing successful extension services. These include:
  - ✓ provision of adequate material, infrastructural and financial support is limited
  - ✓ the technical capacity of extension workers and their commitment in delivering new technologies and practices is not successful.
  - ✓ there are also weak linkages among farmers and research centers, between farmers and market, among extension workers and farmers, and experience sharing among farmers are still low.

Exercise

- Why does rural development matters?
- Discuss the difference between pessimistic, optimistic and neutralist views.
- Briefly explain the concepts of basic need, economic welfare and capability dimensions of rural development.
- Discuss the role of agricultural research and extension service in rural development.

CHAPTER TWO

Institutions for Rural Development

Think about the following questions.

1. Why are some countries rich and others poor?
   - Is it because the riches are more intelligent?
   - Because they work harder?
   - Because they are morally more just?
2. Why are the citizens of some countries more free to realize their potential than others?
3. Why are some organizations more efficient and effective at what they do than others?

2.1 Definition and Concepts of Institution

- Different authors define institution in different ways of expressions which are quite similar in spirit. For example,
- North (1991) defined institution as “humanly devised constraints that structure political, economic and social interaction among a given society.”
- According to him, institutions consist of both informal and formal constraints. Where,
  - informal constraints include sanctions, customs, and codes of conduct, and
  - formal constraints are constitutions, laws, property rights.

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- Ostrom (2005) defined institutions as "**prescriptions** that humans use to organize all forms of repetitive and structured interactions including those within;
  - families, neighborhoods, markets, firms, governments, etc at all scales".
- ***Institution is therefore defined as, a system of enforceable rights and obligations in the form of recognized,***
  - ***formal as sanctioned by law, or***
  - ***informal as sanctioned by social norms.***

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- Institutions can be sanctioned by;
  - community,
  - state or/and other economic agents to coordinate the effort of each and every agent towards specific goal.
- The definition of institutions and organizations are traditionally overlapping and peoples use them interchangeably. But they are quite different.
- For instance, North (1990) defined institutions pithily as the **‘rules of the game’.**
  - He uses a football analogy, where the rules of football game are institutions and the team of players is an organization.

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- Thus, organization is a functional body that organized within the rules set by institutions to achieve particular goals.
  - Organization can be family, particular community, firm, group of individuals, ministry, and so on.
  - Where as, institutions are marriage, the constitution, property rights, the market, state, and etc that guide organizations.
- Institutions and organizations are important because they generate incentives that govern human behavior.

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- Incentives are;
  - rewards and punishments that accrue to individuals (or groups of individuals) due to certain actions or behaviors.
- Different organization can create different institutions, and different institutions create different incentives, which directly affect how well they achieve their organizational goals.
- Thus, the proper design, implementation, and periodical modification of development institutions are essential to achieve organizational goals as they are important to;
  - increase human freedom and the accomplishment of obligations which facilitates developmental process.

2.2 Demand and supply of institutions

- Institutions are demanded to move organizations towards higher levels of efficiency and effectiveness.
- They directly affected by change in the knowledge, development level, technology, factor endowment, cultures, and the intended goals of an organization.
- As the economic environment changes, there must be a need for institutional arrangement, periodical formulations and revisions of institutions to assure the sustainability of development process.

NB

- although formal rules may change overnight as a result of political or judicial decisions, informal constraints embodied in customs, traditions, and codes of conduct are much more resistant to deliberate policies.

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- The demand for institutions is depends on how they are effective in achieving the desired goals.
- There are five criteria to differentiate better and effective from worse institutions.

1. **Efficiency and growth:** better institutions are more complex, larger scale, cost minimizing, and tend to increase growth.
2. **Autonomy and freedom:** better institutions allow ‘freedom to choose’ based on competition and free discussion.
3. **Diversity and pluralism:** better institutional systems use different kinds of agency to provide political, economic, or social services to meet the needs of the whole people.

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4. **Equity and justice:** better institutions create equality of opportunity, performance based rewards, and elimination of exclusion and insecurity.
5. **Connectedness and voluntary cooperation:** better institutions increase voluntary interdependence, and capacity to cooperate freely with each other.

- The supply of institutions depends critically on:
  - the balance of power among interest groups in a society
  - culture of a given community which includes customs, believes, religion, and ideology.
  - advances in knowledge and technologies also lead to institutional innovations for their implementations.

2.3 Market as institution and rural development

- Under the market-oriented economy, everybody assumed to act rationally to maximize their own welfare. That is,
- In product market,
  - ✓ producers produce to maximize profit
  - ✓ individuals intended to maximize utility
- In the labor (factor) market,
  - ✓ firms try to hire resources at least cost
  - ✓ workers are trying to have better paying job with better working environment
- In the foreign market,
  - ✓ countries are trying to have more foreign income and more inflow of foreign investment, and so on.
- Thus, free market is an important institution for all economic agents so as to maximize their rational objectives.

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- The final outcome of such rational action will depend on the availability of property right.
- Property right is the only institution that promote efficiency in the market.
  - Enforceable property right provides all market agents a right to negotiate and make a decisions based on their consents to interact with their environment.
- Farmers as a producers and consumers need a free market mechanism. As a producers, free market:
  - ✓ create efficient and just price for their agricultural output
- And, as consumers, free market:
  - ✓ will provide them agricultural inputs at just price
  - ✓ Will provide them with free financial markets which facilitate their access to credit

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- However, agricultural marketing services in many developing nations are costly and exhibit less productive due to:
  - ✓ traditional way of production hence low quality of outputs
  - ✓ lack of high storage space
  - ✓ high transportation cost (due to poor road infrastructure)
  - ✓ few processing activities and/or high cost of processing
  - ✓ traditional marketing system
- Thus, transformation of traditional agricultural marketing is required to accelerate the rate of growth of the rural economy through increasing the intensity of product which raises innovation and productivity through competition.

2.4 Market outcome under its restricted assumptions

- The fundamental assumptions of free market include:

1. **There are large number of buyers and sellers**: both product prices are determined only by the force of the market. Thus, each buyer and seller are price takers.
2. **There is given and fixed technology**: technology assumed to fixed and given.
3. **There is perfect mobility of factors of production**: all factors of production assumed to move from firm to firm and/or from place to place without any restrictions.

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4. **There is perfect information/knowledge**: all economic agents have equal and perfect knowledge about market price, quality of output, market demand and supply level, and so on.
5. **Entry and exit is free for all**: all economic agents are free to join or leave the market.
6. **There are no public goods and externalities**: there is a property right. Thus, any benefits and costs are taken by those who are responsible either for the consumption or production.
7. **Economic agents are rational**: economic agents are assumed to maximize their respective objectives rationally.

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- Under these assumptions, market-oriented economy is always efficient in allocation of resources.
- That is, there will be Pareto optimal allocation of resources which is the cornerstone of any development effort.
- At the Pareto optimal point it is impossible to make someone better-off without making somebody else worse-off.
- That is, there is no home for the improvement of the allocation of resources.

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- **At the Pareto optimal point, there are:**

1. **Pareto efficiency in consumption:** consumers achieved their best utility from the limited resource that society posses. Thus, it is impossible to increase utility of any customer by changing the composition.
2. **Pareto efficiency in production:** it is impossible to increase the level of production by changing input composition and efficiency of input use.
3. **Pareto optimality in distribution:** the limited resources that the society posses are distributed among firms, and goods and services that can be produced from those limited resources are distributed optimally among consumers. So, there is no further distribution.

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- Thus, market is an important institution to coordinate the rural development effort in specific, and the overall economy development effort, in general.
- The efficiency of free market in rural development mainly depend on fundamental institutions which include:
  - ✓ property rights under the protection of law
  - ✓ Property exchange based on the consent of involved parties
  - ✓ freely agreed contract which enforced by state or other third party to reduce uncertainty and risk

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- Although free (perfect) market is efficient in allocation of resources for economic agents under its restricted assumptions, the perfection of market is unrealistic in our real world.
- Thus, even though market is an efficient institution in providing poor rural society with agricultural inputs, credits, and just price for their outputs, it fails:
  - ✓ in providing all socio-economic infrastructural facilities (especially in providing public goods and services)
  - ✓ due to the existence of externalities and information asymmetry

2.5 Institutions to deal with market failure

2.5.1. The need for government intervention in agriculture and rural development

- Due to market failures, inefficient marketing services, and missing markets, market allocation will not result on the best possible resource allocation.
- Market forces alone is therefore, will not result in best possible rural development.
- Thus, we need alternative institutions to give complementary signal and to coordinate diverse activity of many agents toward achievement of fast and sustainable development.
- The role of state in rural development as complementary to market and its rationales are given below:

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1. To provide public goods and services:

- If the supply of public goods and services are left for the will of the people, there is an incentive to be a free rider than paying for supply of public goods and services.
- As a result, the supply of public goods and services will be sup-optimal.
- Thus, in order to supply optimal public goods and services like roads, schools, defense, public administration, and so on people expected to pay a mandatory taxation.
- Using the tax revenue, state is needed and expected to supply the efficient (optimal) public goods and services which are essential for development.

2. To internalize externality:

- If market demand is the same as social marginal benefit and if market supply is the same as social marginal cost, market forces will result in the best possible resource allocation.
- However, when there is negative externality, social marginal cost will be higher than private marginal cost.
- As a result, market institutions will over supply good or service.
- To make the private marginal cost equal to social marginal cost, mandatory tax has to be laid .
- When mandatory taxes are laid in production, market forces will result in efficient and optimal production of good or service.

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- For example, factories produce goods and services to maximize their private profit by ignoring the negative externality exerted on society in terms of river pollution, air pollution, etc.
- By laying taxes, cost of production will rise and hence, firms forced to reduce the production of the good or service that generate externality.
- The tax revenue can be used to compensate the adversely affected parties and/or to invest on the purification of pollution.
- When there is positive externality, social marginal benefit is higher than private marginal benefit.
- For example, education, health care, sanitation and other social goods and services have positive externality on society's welfare.

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- So, market mechanism result in sub-optimal supply of social goods and services.
- Therefore, state has to subsidize the supply of education, health care, sanitation and other social goods in order to enable people to be more educated, healthy, clean, etc.

3. To deal with imperfect information and risk:

- Given rural areas are highly dependent on farming and farming in turn is dependent on random natural events, there is high level of risk in rural areas.
  - Information, insurance, financial intermediation and future markets are either missing or highly imperfect.
- Thus, there is a need for state intervention in the form of price stabilization, safety net, drought relief and other forms which have significant impact on rural development.

4. To create egalitarian society:

- Even if markets are Pareto optimal (efficient), the final distribution of benefits may not be egalitarian (equal) if the initial distribution of capabilities (education, wealth, asset, social network and so on) is unfair.
- Such distribution of quality of life may not be acceptable to society, given the fact that the social value of the poor persons' benefit can over weight the social loss of the rich.
- Thus, it requires the distribution of resources and capabilities from rich to poor through tax or subsidies.
- Since market is not perfect in developing countries in general and rural areas of developing countries in particular, government intervention to distribute factors of production and capabilities is crucial to achieve rural development.

5. The need to create rural-urban balance:

- Missing markets, missing public goods(services) and missing administrative services are common reality of rural areas of developing economies. These facts coupled with low organizational capital of rural population, can make development highly urban biased phenomena.
- To solve this challenge, state intervention to organize rural population into functional political body, economic organization, and to improve the provision of goods and services is critically needed in rural areas.

6. Need for leapfrogging or to compress the gestation period of development:

- If market forces are left for themselves, they will self-correct and efficiency can be achieved over a very long run; and it can be lead to economic development.
- But, the implication is that we have to wait 200 to 300 years in order to reach the level of development attained by developed economies.
- Due to this fact, there is a need for complementary local institutions that deal with market failure.
- That is, with appropriate and selective intervention of the state, government possibly shorten the gestation period of development in maximum of 50 years (as Japan) or in minimum of 20 to 30 years (as China).

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- In developing countries like Ethiopia, where majority of the population is living in rural areas, any leapfrogging effort that ignore rural areas is a faulty business.
- The leapfrogging will call for optimal government intervention in rural areas, where series market failures and missing markets are widely observed.

2.6 Market Failure

- As we have seen in the previous topics, the neoclassical school of thought argue that, free market will result in efficiency in consumption, production, and distribution under its some restricted assumptions.
- In practice however, there is a market failure in providing the Pareto-efficient level of production and consumption.
- A market failure is a situation where free markets fail to allocate resources efficiently from society's point of view.
- Economists identify the following points which possibly causes the market failure (Productive and allocative inefficiency).

2.6.1 Traditional Market Failures

1. Existence of externality

- Under perfect (free) market, market expected to provide the socially desired level of output and price through the forces of demand and supply.
- Under this condition, transactions are assumed to be undertaken based on the consent of the involved parties and the benefits and costs of transaction would be assumed to affect only the parties that involved in the transaction.
- But in reality, the action of those parties can affect the third party that was not in the transaction.
- That is, consumers and producers who attempt to pursue their own self interest may fail to take into account the effects of their actions on third-parties, *such effects are called externalities*.

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- An externality is an effect on a third party that is caused by the consumption or production of a good or service by the parties in the transaction.
- With the existence of externalities, the market will not produce the supply of the good that is socially optimal – it will be over or under produced. That is, equilibrium quantity and prices will be altered.
- Example,
  1. A firm who produce chemical products to maximize its own profit might damp residuals to the river which harm the health and livestock of the local society that reside around the river.
  2. The horticultural farm can benefit beekeeping farmers.

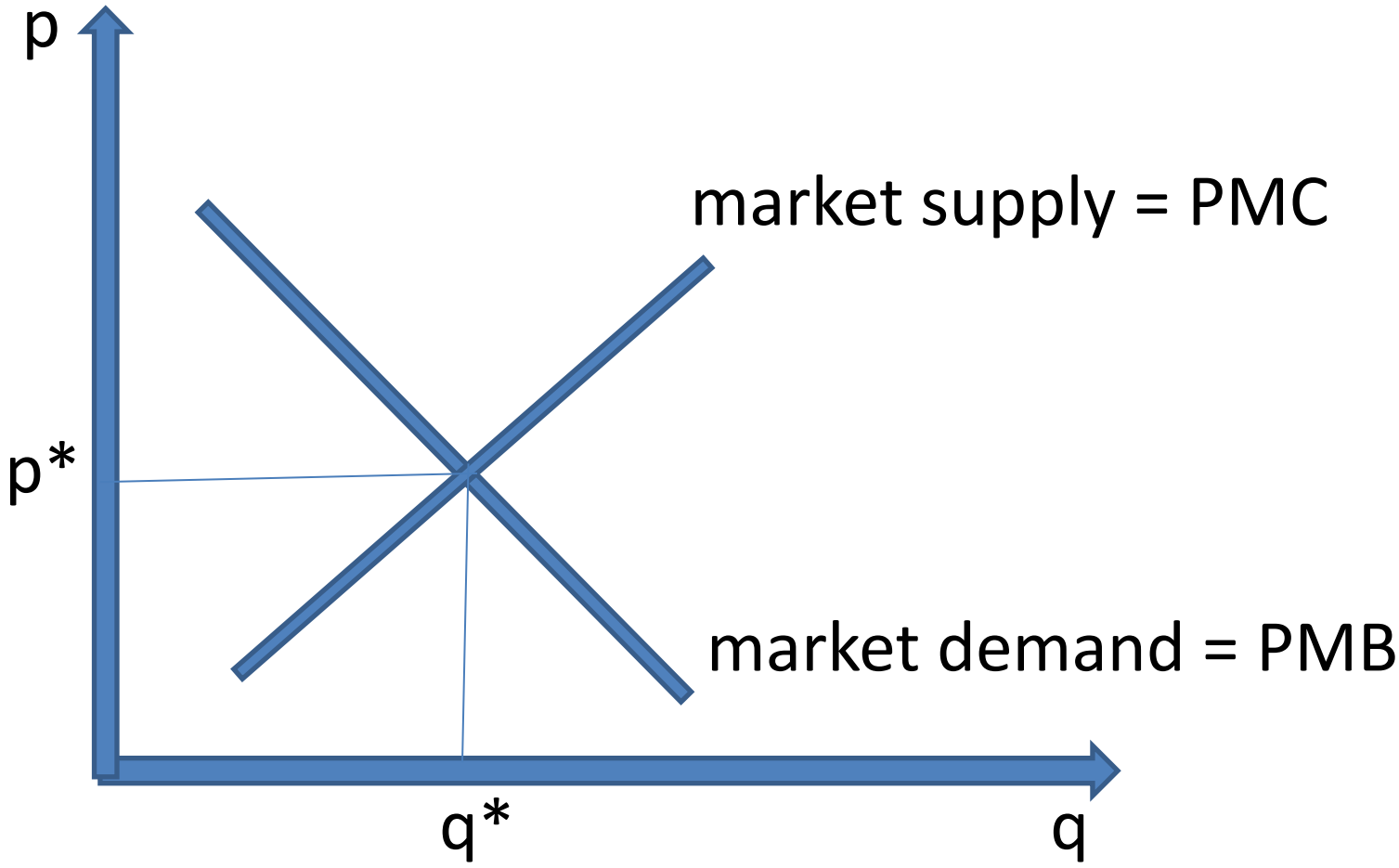

Fig.1 Market allocation through demand and supply forces

The case of negative externality

- A negative externality is a negative spillover effect on third parties. In free market, such effects are not taken into account by the producers or the consumers.
- For example, producers recognize only costs of production that they directly incur (only prices of factors of production). Hence, they set their products' prices based on only those costs.
- With negative externality however, there could be costs to the society which are not considered by the firms (health and environmental damage due to water and/or air pollution for example).
- Consequently, since the costs of those externalities are not accounted in the price of the good, the price is lower than it should be, and too much of the good is produced and consumed.

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- Figure 2 illustrates that, based on the market demand (benefit) and supply (cost) curves, the market offer the optimal level of output and price.
- qm and Pm are therefore, the market clearing quantity and price which maximizes both producer and consumer surpluses respectively.
- If there are negative externalities exerted on other economic agents and/or the environment, social cost would be higher and it will not be equal to the private marginal cost of each additional output.
- As a result, qm cannot be a Pareto optimal point since the social marginal cost is higher than the marginal benefit (i.e. since there is a deviation between cost and benefit).

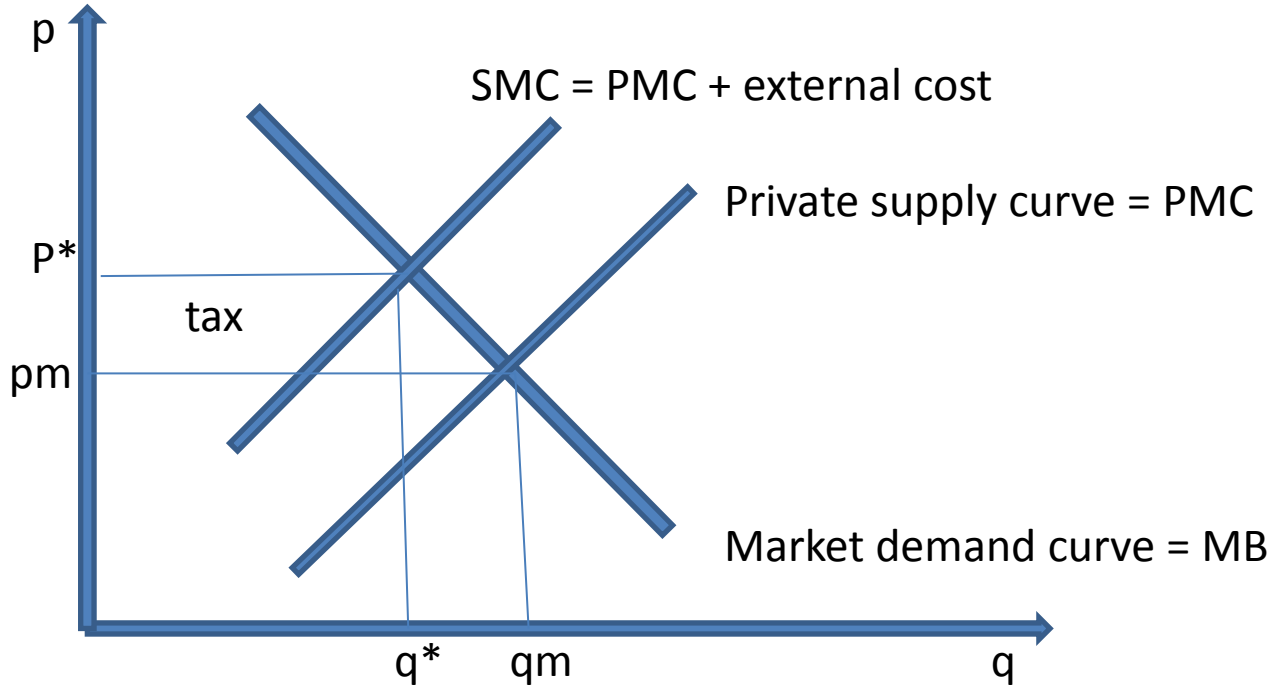

Figure -2: Negative externality

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- Fig.2 clearly shows that, when there are negative externalities, market allocation will not result in Pareto optimal resource allocation.
- The society want less supply of the good which generate negative externality. Thus, by introducing taxes equal to P* - Pm, socially desirable level of resource allocation can be attained.
- Taxes raise the cost of producers and it forces the private marginal cost curve to shift upward and equal to the social marginal cost curve.
- The intersection between social marginal cost and marginal benefit will therefore, gives us a socially desirable level of quantity (q*) and price (P*).
- Any production beyond q* will cost more than the benefit it can generate to society.

The case of positive externality

- Positive externalities are consequences that benefit society. Under market mechanism, such benefits are not accounted in the price of the good.
- As a result, the price is higher than it should be, and too little of the good is consumed and produced.
- Merit goods and services like education, health care, etc will not only benefit the individual person, but also the society.
- Educated person for example, can have better production and management skill and will earn high payment for his/her services on one hand.
- On the other hand, educated person will benefit the society by introducing and providing better production techniques and managerial services.

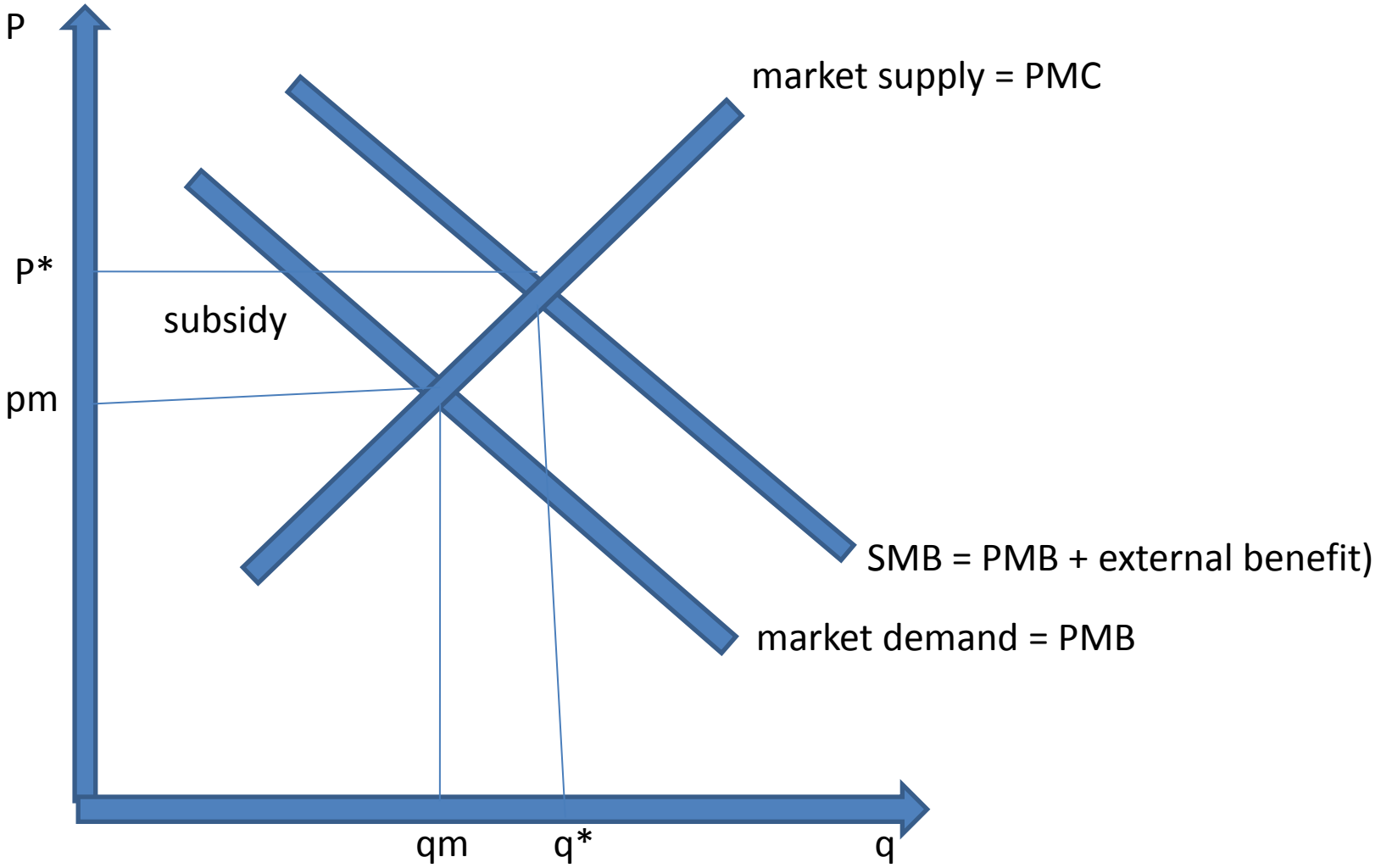

Fig.3 positive externality

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- qm and Pm in the above figure are the optimal level of output and price based on market allocation. However, qm is not the optimal level of output with positive externality.
- This is because, at qm social marginal benefit is much higher than the social marginal cost of production. This permits increment in social welfare by producing and consuming more output.
- Socially optimal level of output (q*) can be supplied at efficient price P*, if a subsidy equal to P* - Pm is given to the providers of education services and to their customers.
- Summing up, the state or other third party must use tax in case of negative externality and subsidy in case of positive externality in order to improve market inefficiency with the existence of externalities.

2. Monopoly Power

- Markets may fail to control the abuses of monopoly power.
- In real world, markets are imperfect. There are restrictions to firms to enter the market, there are also restrictions on the mobility of factors of production.
- These situations limit the degree of competition and leads to the suboptimal supply of output at higher price.

3. Property Rights

- Markets work most effectively when consumers and producers are granted the right to own property, but in many cases property rights cannot easily be allocated to certain resources. Failure to assign property rights may limit the ability of markets to form.

2.6.2 Market failures related to imperfect information and missing markets

1. Information Failure

- Markets may not provide enough information during a market transaction, it may not be in the interests of one party to provide full information to the other party.
- In real world there are manipulative middle man who are working between producer and consumer to signaling information.
- market is the most effective institution in allocation of resources iff there is perfect mobility of factors of production. But, since information is imperfect, factors cannot be freely move certainly from one firm to the other or from one sector to the other.

2. Unstable Markets

- Sometimes markets become highly unstable, and a stable equilibrium may not be established.
- Example, agricultural product markets, foreign exchange, and credit markets are not stable. Such volatility may require intervention.

3. Inequality

- Markets may also fail to limit the size of the gap between income earners, the so-called *income gap*.
- Market transactions reward consumers and producers with incomes and profits, but these rewards may be concentrated in the hands of a few.

4. Missing Markets

- Markets may fail to provide all goods and services to meet a need or want of the society. Public goods and services such as, defense, street lighting, highways, and so on cannot be provided by the market mechanism.
- By their nature, such goods and services are non-excludable and non-rival. People normally reject to pay for the provision of public goods like for road construction, but if road is built on the expense of others, they will use it without any exclusion. That is; people want to be a free rider.
- The provision and administration of such goods also requires high cost especially in rural areas since it needs the coverage of wider areas. Private sectors will therefore not provide them since they cannot profitable from them.

- For such goods and services private (market) allocation will result in sub-optimal resource allocation and the state has to supply them by imposing mandatory taxes in order to meet the need of the society.

5. Incomplete Markets

- Markets may fail to produce enough merit goods, such as education and healthcare.

6. De-merit Goods

- Markets may also fail to control the manufacture and sale of goods like cigarettes and alcohol, which have less merit than consumers perceive.

2.7.The Role of State in Rural and Agricultural Development

- According to Robert Chambers (1989), the state has three universal functions which are fundamental for the rural poor. These are:
  - Maintaining peace and democratic rule of law
  - Provide basic infrastructure and services
  - Manage the economy

Maintain peace and democratic rule of law

- Peace and rule of law are the base for any development. In many developing counties, civil disturbance and war were the critical problems which resulted in underdevelopment due to:
  - fear, pain and torture
  - the destruction
  - theft or loss of property
  - the insecurity of tenure
  - the disincentive to invest
  - less production and productivity when adults are fighting, guarding or killed
  - the interruptions to education
  - the disruption of services due to corruption, etc

- However, sustainable development requires the prevalence of peace and security as well as the rule of law in order to encourage peoples to work and invest.
- Therefore, the state has to maintain peace to change the above bad situations in order to achieve the overall development and rural development so as to improve the quality of life of the rural poor.
- Maintaining rule of law is also another fundamental role of the state. There must be equal treatment of the citizens of the country without any discrimination to achieve the desirable development.
- The maintenance of peace and security, the fairly administered rule of democratic law, and accessible and equitable justice (which are the role of the state) matters to improve the quality of life of the rural poor.

Providing basic infrastructure and services

- With the absence of market, it is the role of the state to provide the rural society with basic infrastructures and services.
- The provision of social and economic infrastructures such as, roads, schools, health care, agricultural and veterinary extensions, water supplies, telephones and electricity supplies, basic information, etc are the fundamental role of the state.
- Although, NGOs and other civil organizations can complementarily deliver such infrastructures, the state remains the logical long-term institution to provide and maintain much of a country's basic infrastructure and services.

Manage the economy

- Managing the economy, both internally and externally is a legitimate and necessarily function of the state.
- Starting from the formulation of rural development policies strategies, there are three points in which the state should mange the economy in the rural areas.

1. To stabilize the price of agricultural products
    - in order to help the farmers and urban poor.
2. To create efficient marketing organizations
    - In order to support the exchange of agricultural products by providing necessary market information
3. To fulfil basic necessity needs
    - In order to eradicate the absolute poverty, the state has to provide basic goods and services to fulfil the basic needs of the society.

2.8 State failure to coordinate rural development

- State can solve some market failures, but it cannot solve every market failure problem everywhere. The state may fail due to:

1. **Information asymmetry and managerial diseconomies from the state side**:

- state faces series information asymmetry related to economic agents actual income and wealth, actual provision and managerial costs related to public goods, and the behavior of individuals in the use of public goods and services.
- If the state lacks adequate information on economic agents' income and wealth, expenditure, the demand for and behavioral use of public goods, it is difficult to the sate:
    - to provide public goods, and
    - to internalize externalities.

2. Information asymmetry from public side

- The society might be less or miss informed about the states policies and strategies importance, implication and possible outcomes.
- This situation gives higher freedom for politicians to divert from their electoral promises they made to the society and helps them stay in office.

3. The failure of voting to consider intensity of want

- In democratic system every person is given equal voting right. For example, if there is newly introduced policy, all citizens given equal chance to vote.
- However, some group of the society may support it and others may reject it. In this case, the application of the policy depends on the vote of majority.
- Such application of policies does not consider the intensity of wants of the whole society. Thus, voting can’t necessarily lead to maximum social welfare.
- Some states are also weak in maintaining peace and securities of the society and also are politically and economically corrupted and fail to meet the want of the society.

4. Lack of incentive and high inefficiency in public sector

- The bureaucratic system in public sectors are less flexible and the incentive that given for public servants are lower. These situations lead to:
    - Corruption
    - less productive, inefficient and ineffective public servants
- These undesirable practices and inefficiency in public sectors hindering the development process and slowing its pace.

2.9. Institutional innovation to deal with market and state failure in rural development

- With the prevalence of perfect market and well functioning state, both institutions are the most important for the development.
- In such case, what is to be needed for efficient attainment of development is just the mix of market and state institutions.
- However, in our real world, we have imperfect market and state. Due to this reason, we need complementary institutions in order to improve the efficiency of the market and state.
- Some of the complementary institutions include: service cooperatives, Value chain and contract farming, Microfinance institutions, Social Capital and community development, Civic societies and NGOs etc.

2.9.1 Service Cooperatives

- In order to improve the bargaining power of small scale farmers and to minimize their transaction cost and to close the information gap, there is a need to organize them into service cooperatives.
  - This will enable them to have more market power that can balance the power of manipulative middle man.
  - It also helps them to have access to credits at least cost
  - It helps them also to use new farming technologies, experience sharing, and efficient use of their resources

2.9.2 Value Chain and Contract Farming

- Contract farming refers to the formation of linkages among farmers and other economic agents such as exporters, a wholesalers and manufactures, research centers and extension workers to insure the provision of agricultural inputs and hence the supply of agricultural outputs.
- Such activity can solve lack of credit, lack of appropriate farming technology, lack of extension service, and market uncertainty.
- Value chain on the other hand refers to adding value to the agricultural products, and managing the process of collection and the transaction of an output from farm land to the final consumer.
- It helps to insure the supply of quality product that demanded by the consumers.

2.9.3. Microfinance Institutions (MFIs)

- Rural economy is mainly depend on the risky and uncertain natural random which affects agricultural products.
- So, it is impossible for the formal and modern banks as well as insurance companies to provide credits and to insure the agricultural sectors.
- In addition, banks request collateral that farmers may not have to lend their money.
- Local money lenders are also inefficient in providing credit for small scale farmers since they can exploit farmers by forcing them to pay high interest rate.
- Due to these facts its MFI which has the nature of formal and informal money lenders can play a great role in providing efficient financial support and credits for the farmers.

2.9.4 Social Capital and Community Development

- The use of socially developed cultures, norms, beliefs, and established community networks help the process of development at high rate.
- Socially developed practices and norms help:
  - to shape the behaviour of individuals and groups towards the desirable goals.
  - to solve the problem of information asymmetry and work ethics
- Participation of community in the development process help to formulate and implement the socially desirable development policies.

2.9.5 Civic Societies and NGOs

- Since state has inflexible system and less efficient civil servants, it fails to provide public goods and services in an optimal way and to correct all market failures.
- thus, it is important to allow Civic Societies and other None Governmental Organizations (NGOs) to provide and hence meet the need of the society.
- Civic societies and NGOs are basically established based on individuals or groups consent to provide voluntary services to the society especially for the poor rather than their self interest.
- Due to this fact, their participation is important in the provision of public goods where market and states are inefficient in providing such goods.

- In general, development as general and rural development specifically requires the integrated participation of market, state, local community, civic societies, and NGOs.
- But, even if NGOs and Civic Societies are important to improve the life of rural society, they are basically established based on the financial support from donors especially from foreign donors.
- In addition, most NGOs have the tendency to spend significant portion of their budget on wages and salary of workers. As a result, they will not have enough finance to achieve their stated development objectives or goals.
- So, it is important for developing countries to examine and evaluate the interests of those donors and the practical outcome of NGOs before rushing to accept them.

2.10 The Institution of Property Right

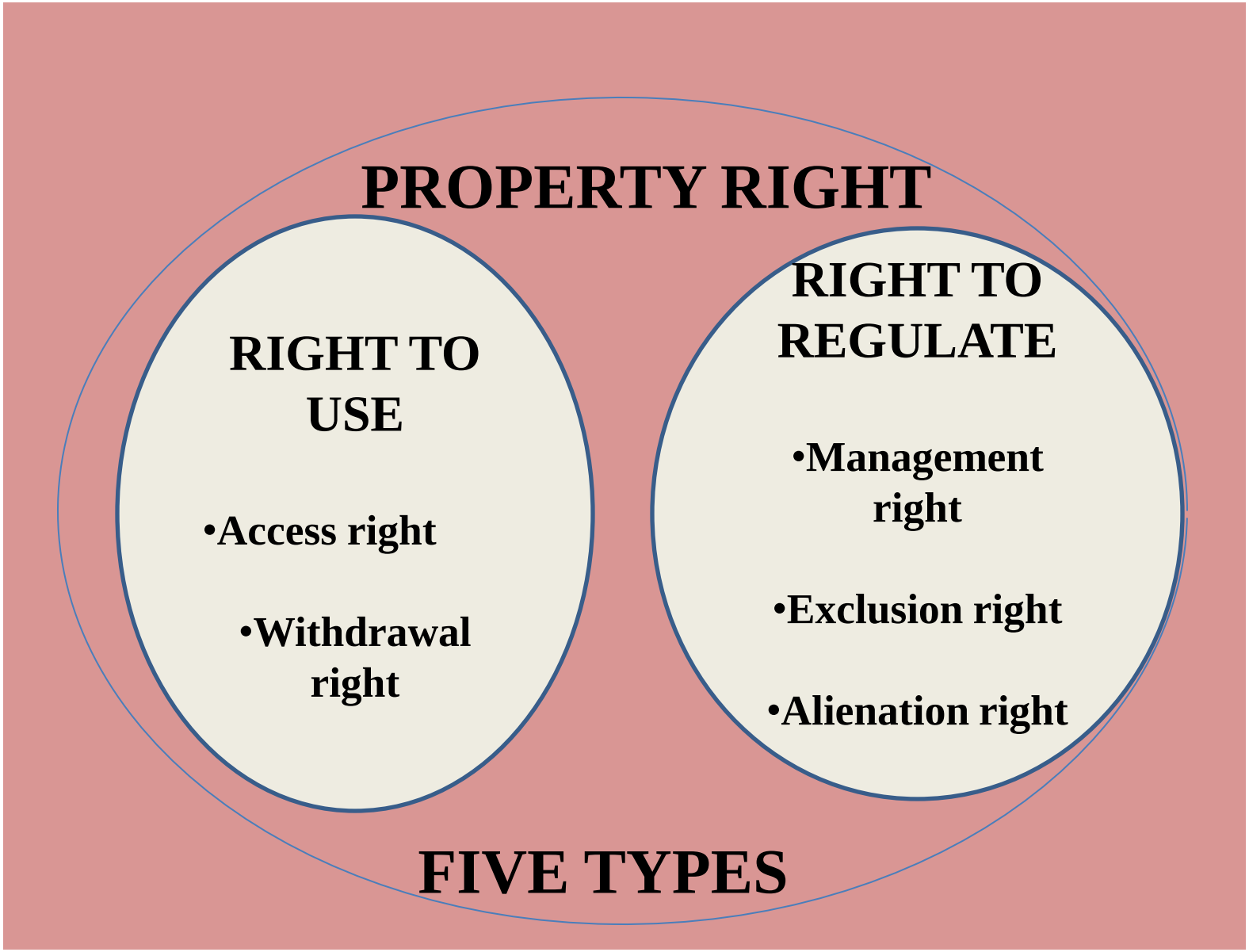
- Property is considered as an asset that benefits the owner, and right is a set of actions and behaviors that allows the owner of the property to use and to prevent others from using its own property.
- That is, property rights over assets consist of the rights, or the powers, to consume, obtain income from, and alienate these assets.
- Under free market, producers and consumers can make their transaction based on their consents iff they possess property rights over their assets.

Efficient property rights structures

- The structure of property rights that could produce efficient resource allocations in a well-functioning market economy has three main characteristics:

1. **Exclusivity:** All benefits and costs accrued as a result of owning and using the resources should accrue only to the owner.
2. **Transferability:** All property rights should be transferable from one owner to another in a voluntary exchange.
3. **Enforceability:** Property rights should be secure from involuntary seizure or encroachment by others.

Types of property rights based on the degree of control



- Based on the nature of the property and right holders, there are four property right regimes.

1. **Private property:** Individuals have a complete control over a specified resource.
   - The right-holders enjoy both the right to use and the right to regulate resources.
2. **Common Property:** Common Property is the private property of a group of co-owners.
   - The users abide by common rules in relation to the specified resource.
   - Individuals have only rights to use but have no right to exclude others.

3. **State Property:** The state retains direct control over the resources and will determine to what extent individuals have the access and uses.
   - For example, in many developing countries, land belongs to the state and agriculturalists and other stakeholders have only the right to use.
4. **Open access:** When resources are owned by no one and are used by all without any restriction, they are called open access resources.
   - In such case there is no property right and it leads to resource destruction and increases behavioral uncertainty.
   - This is often termed as “tragedy of open access” or formerly coined as “the tragedy of the commons”.

Exercise

- Briefly explain the difference between institution and organization.
- What is market failure? and discuss its causes.
- Briefly explain the concept of externality and its types.
- Why there is a need for government intervention in agriculture and rural development?

CHAPTER THREE

Theories, Models and Approaches to Rural Development

3.1 Lewis's Model of Economic Development with Unlimited Supply of Labor

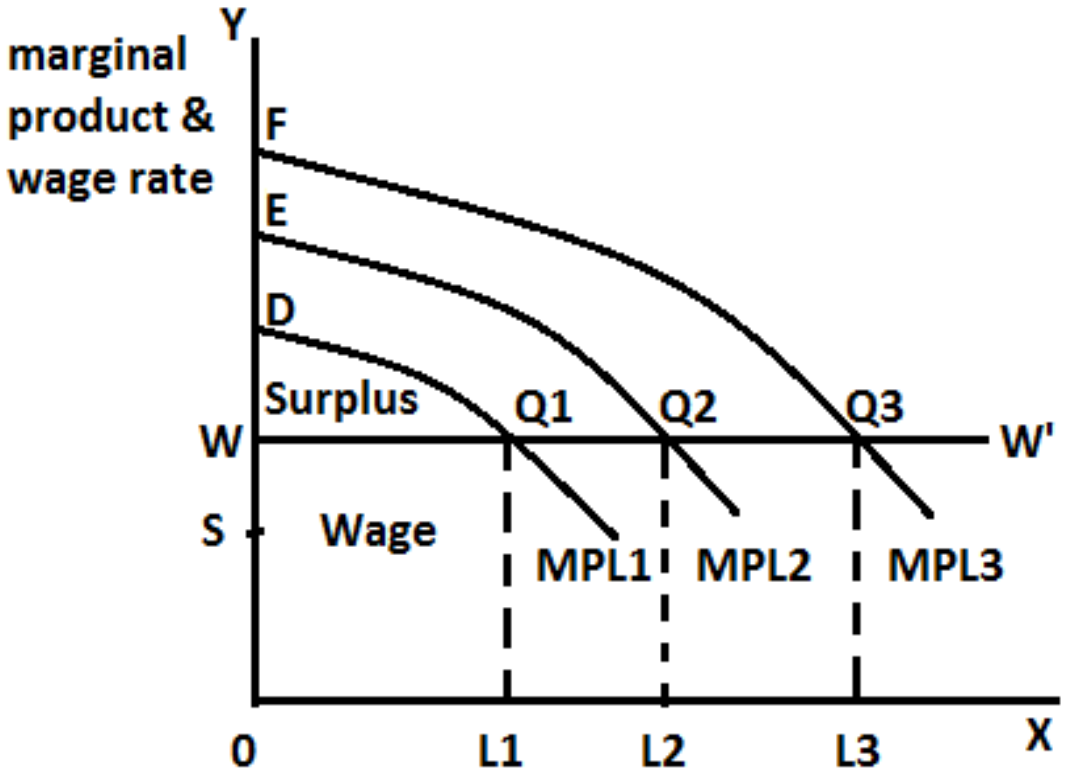
- The well-known development economist Arthur Lewis put forward his model of Economic Development with Unlimited Supplies of Labor in 1954.
- According to him, a given economy has dual economic structure.

1. Modern manufacturing industrial sector
    - This sector uses reproducible capital
    - Production is for market and profits
    - There is modern methods of industrial organization, and labor is employed on wage basis

2. Agricultural sector: it is assumed to represent the subsistence or traditional sector.
    - This sector uses non-reproducible land on self-employment basis (family base without payment)
    - Output is produced mainly for self-consumption with inferior techniques of production
    - This sector containing surplus labor in the form of disguised unemployment
- Therefore, as long as high population exists in rural areas, the marginal productivity in agriculture is taken to be zero where as the average productivity is assumed to be positive and equal to the bare subsistence level.

- In the modern sector however, the productivity or output per head is assumed to be much higher than that in agriculture due to low population density.
- Thus, the demand for labor is high in modern sectors of urban areas.
- In addition to this, since laborers are hiring on wage payment and output is producing for profits, the modern urban industrial sectors will draw surplus labor from the subsistence agricultural sector.
- According to Lewis, given unlimited supply of surplus labor from rural agricultural sector to urban industrial sector, the wage rate in the modern sector is determined by the average productivity in the agriculture and assumed to be constant.

- However the wage rate is assumed to be constant, Lewis suggest that, urban wages have to be at least 30% higher than average rural income.
- This is in order to attract laborers from countryside to the urban industries as well as for meeting the higher cost of urban living.
- In this setting, the model shows how the expansion in the industrial investment and production (capital accumulation) outside agriculture will generate sufficient employment opportunities so as to absorb all the surplus labor from agriculture and elsewhere.
- The process of expansion and capital accumulation in the modern sector and the absorption of labor by it is explained by the following figure.



Capital Expansion and growth in Labor Employment

- OS represents the real income which a worker would be getting in the subsistence agricultural sector. And, OW is the wage rate which is fixed and higher than OS by 30% in the modern sector.
- So, as long as surplus labor exists in the economy any amount of labor will be available to the modern sector at the given wage rate OW, which will remain constant.
- With a given initial amount of industrial capital, the demand for labor is given by the marginal productivity curve MPL_1.
- Thus, given wage rate OW, the modern sector will employ OL_1. With this the total share of labor in the modern sector will be OWQ_1L_1 and WQ_1D will be the capitalists' surplus.

- Now, Lewis assumes that all wages are consumed and all profits saved and invested. When the capitalists reinvest their profits for setting up new factories or expanding the old ones, the stock of capital assets in the modern sector will increase.
- As a result, the demand for labor will increase or marginal productivity curve of labor will shift outward, for instance from MPL_1 to MPL_2 in the diagram. With MPL_2 , OL_2 amount of labor will be employed in the modern sector with a given OW wage rate.
- In this new equilibrium situation profit accruing to the capitalist will be equal to WQ_2E which is larger than the previous WQ_1D.

- The new profits of WQ_2E will be further invested and capital stock will increase and the demand or marginal productivity curve for labor will further shift upward, say to MPL_3 position and employment of labor will rise to OL_3.
- In this way, the profits earned will increase and reinvested and again modern sectors will expand more. As a result, surplus labor will be absorbed from the subsistence sector until all the labor surplus is fully absorbed by productive employment.
- To sum up, Lewis model with unlimited supply of labor illustrates that, high wage rate in modern sectors will attract and absorb the surplus labor in the agricultural sector and this leads to the increment in the profits of the industrial sectors.
- Profits in turn are the main source of capital formation. The greater the share of profits in national income, the greater the rate of savings, capital accumulation and further expansion through investment.

- The process of transferring surplus labor from agriculture to industry (modern sector) and reinvestment of profits helps;
  - to change the productivity of backward agrarian economy
  - to create industrialized modern economy which in turn helps the reduction of unemployment
- Although the Lewis two-sector development model is simple and important in analyzing the agricultural and industrial sectors linkages, it roughly reflects the historical experience of economic growth in the west and some of its key assumptions do not fit the institutional and economic realities of most contemporary developing countries.

The main shortcomings of this theory are:

1. It is difficult to assume, there is high unemployment (labor surplus) in rural areas and full employment in urban areas. In most developing countries the reverse is true.
   - There is seasonal labor shortage in agricultural sectors even in densely populated areas. So, unlimited supply of labor is not realistic.
   - In addition, even if the productivity in rural area is low in relative to urban areas due to high population, it is not zero.
2. There is no guarantee that the capitalist will reinvest its profit. If it did, it may use labor-saving technologies. So, the creation of employment for surplus labor cannot be met.

3. This model assumes, fixed wage rate in the modern sector by assuming competitive labour market.
   - In reality however, labour market is not competitive.
   - For example, labour unions may have monopoly power over labour supply and hence they can raise the wage rate. At high wage rate, firms demand less labour. As a result the absorption of surplus labour again cannot be met.
4. In developing countries, the mobilization of labor from agriculture to industrial sector is not an easy task. This is due to;
   - extremely low capacity of modern sectors in absorbing all surplus labor
   - traditional practice and customs of the community
   - the problem of housing and high cost of living in urban sector, and so on

5. Lewis model neglect the importance agricultural sector in absorbing surplus labor.

- It is possible to increase the productivity and production and hence possible to more employment opportunities through;
  - Capital accumulation in agricultural sector
  - Adaptation of proper and modern technologies and practices
  - Institutional reform and property rights

3.2 Human Capital Centered Model of Development

- The model stresses the importance of investment in human capital in the process of economic and social development.
- Human capital implies the mental and physical quality or ability of people. This can be improved by education, training, health care and pursuit of some spiritual methods.
- The classical and neoclassical economists did not explicitly include the quality of human resources in their theoretical framework.
- It was Theodore Schultz (1964) who elaborated the concept of human capital, and explicitly considered the investment in human capital as important determinant of economic development.
- He illustrated that, human capital is a precondition for efficient utilization of any means of production and general flexibility of the economic system.

- The human capital approach to rural development is based on the following two assumptions, which have been ignored in the classical theory of development;

1. Human physical and mental capabilities are partly inherited and partly acquired, and they vary from individual to individual.
2. Human capital directly contributes to development through its positive effect on productivity. It also assumed to help reduction in resistance to the diffusion of new technologies especially in the rural sectors.

- This model thus focus on physical capital formation through human capital formation since human capital development is the base for any development process.
- This model is appropriate for developing countries where there are a lot of underdeveloped human resource but is a potential to achieve the development.

- Thus, since the implementation of any development policies and strategies are dependent on the available skilled, experienced, innovative, and healthy human resources, human capital formation must be the priority than physical capital formation.
- However, unnecessary emphasis on education without appropriate employment creation is found to lead to the creation of unemployed people.
- So, in the formation of human capital it is necessary to give due attention;
  - to the demand for educated person and their professions
  - for provision of educational services and its qualities
  - for the creation of self reliable individuals rather than dependent and work seeking individuals

- In rural development, the importance of human capital formation include;
  1. It directly improve the productivity of agriculture
  2. It improve the probability of getting off farm employment
  3. It leads to improved family planning
  4. It improves the health and nutrition of the people
  5. It widens the horizons of knowledge and facilitates diffusion of new technologies by reducing resistance of rural people
  6. It build the risk taking behavior and managerial (decision making) capacity of the farmers

3.3 Uni-modal Approach /theory/

- The central element of a uni-modal approach is the development and diffusion of highly divisible innovations that promote output growth through wide spread increase in the productivity of land and labor in the agricultural sector.
- Uni-modal approach of development theory focus on the progressive modernization (transformation) of the entire agricultural sector based on widespread use of a sequence of technological innovations which compatible with the socioeconomic structure and demographic characteristics of the society.
- It helps to exploit the large potential that exists in the rural economy. That is, it makes possible to raise the productivity of the agricultural sector by improving of resource uses (use of labor and land).

- In uni-modal theories, institutional innovations are essential to achieve the rural development through efficient uses of the existing resources. That is,
  - Creation and provision of cooperative services in order to increase the negotiation power of farmers in the market
  - Creation of microfinance institutions to facilitate access to credit
  - Creation and use of civic societies and local community participation in order to participate the potential human resource
  - Development of research centers and extension services to generate and diffuse modern way of production and resource use are important.

3.4 Bi- modal theory (approach)

- Agriculturalists are differentiated and have distinct classes. There are large scale farmers (agricultural capitalist), small scale farmers, and land less agricultural employees
- Bi-modal approach is a modernization strategy that focus on the transformation of resources to the highly commercialized sub-sector.
- Bimodal theory focuses on the necessity of the development of large-scale farm units to agricultural development.
- According to this theory, agrarian change in can be achieved by creating capitalist farmers and agricultural wage laborers.

- Advocates of this approach argue that, large scale farms have strong advantage over small scale farms. These advantages are related to technical, financial, and marketing economies. For example,
- large scale farmers have **production economies** of scale which related to:
  - The use of modern and advanced machines
  - Benefit from high level labor specialization
  - Better utilization of their farm capacity
  - Take advantage of research and development

- Large farms also benefit from **marketing scale economies** such as transport, storage, information collection and capacity to build social capital and capacity to bargain for fair price.
- In addition, large farms have **capital market economies**. That is they do not seek to have external finance, if they want they can easily access it at lower interest rate to finance their expenditure which is not possible to small farms.
- Thus, bimodal theory states that, large farm scale is important for the improvement of the agricultural sector. Thus, peasant farming should be turned to capitalist farming since it helps employment creation even for small peasants and landless society through agricultural laborer on payment.

- Moreover, given high productivity and efficiency, the resource allocation will be efficient. That is, peasant will be able to enjoy the fruit of his/her labor.
- In addition, much of the produced agricultural surplus will be marketed for the generation of profits which helps to achieve economic growth and development .
- According to this approach, once economic growth is achieved, it is possible to create employment opportunities by expanding industrial sectors even when labor-saving technologies are used in the agricultural sectors.
- However, the process of creating large farms may create high **income inequality,** and also it leads to landless peasants which may result in higher **unemployment** since it is difficult for the industrial sectors to absorb all surplus labor.

- If the non-agricultural (industry) sector does not develop and fails to absorb the labor force displaced from agriculture due to mechanization, it can create economic and social problems.
- These further result in **political power imbalance** between the rich capitalists and poor peasants.
- In addition, there is no guarantee and practical evidences that illustrates large farms are productive and efficient than small farms in all aspects.
- The application of this approach may also leads to the **exploitation and improper utilization of resources.**
- This approach of rural development is difficult to apply especially in developing countries. Its application is limited to the existing lack of human and physical capital.

3.5 Integrated rural development

- The development efforts before 1970s were become effective and efficient in improving the quality of life in many countries through trial and errors. But, their results are different from country to country and even disappointing for some countries.
  - They were not participative and caused the problem of inequality
  - They were up-bottom approach. That is, they didn't take into account the valuable socio-economic practices and the interests of the society.
  - Population growth could not be absorbed by the existing rural system or any other systems, this leading to massive migration to cities, and resulting in a virtual breakdown of urban societies.
  - The measures of improvement were based on improvement in the productivity and national income without considering the issue of wealth balance among the society and areas.

- Thus, in order to promote equitable, participative and wide areal coverage development efforts, the concept of integrated rural development has been introduced and widely accepted.
- Integrated rural development is an ongoing process which involving;
  - policy intervention and local aspirations
  - mobilization and participation of all potential human and non-human resources including the past disadvantageous groups like women and other isolated social groups in the development process.
  - identification and formation of linkages among all economic sectors and all concerned development agents in order to achieve and sustain the long term viability and wide-range benefits of the rural community.

- In an integrated system, local and central development systems should work in a dynamic cooperation with each other.
- That is, both up-bottom (centralized) and bottom-up (decentralization) decision making practices are important.
- Centrally designed Strategies and operative decisions will be negotiated with local communities in order to;
  - motivate and participate them in the development process
  - implement those strategies in line with the interest and cultural values of those communities.

- Integrated rural development also focus on "**area development schemes**" which involve a broad range of activities that designed to improve;
  - production and productivity
  - infrastructural facilities and services
  - living standards of the community in a given area, etc based on the existing features of that area.
- That is, integrated rural development take into account geographical, political, cultural, economical status and comparative advantages of each areas.

- The concept of integrated rural development is built based up on real facts;
  - Rural development is part of the overall socio-economic development. But, it was ignored in past development process.
  - Development is a system of interrelated social change. That is, it requires the overall changes in the existing practices, socio-economic and political conditions to the better level.
  - Agriculture has a multitude functions in the development process. Basically, it is the source of food and raw materials for rural society, for non-rural community as well as for growing industry.

Objective of Integrated Rural Development

- Integrated rural development is a self-employment development process. It intended to raise the income generation capacity of the rural society. This can be achieved through rural institutional innovations to provide;
  - productive assets, capital subsidy, credits and agricultural inputs
  - education and health services to improve productivity and skills
  - mobilization of existing human and non-human resources

Components of Integrated Rural Development

- Integrated rural development projects should consider the inclusion of the following components.

1. Income generating sectors

- **Agriculture**, including crop production and animal husbandry and the associated hunting, fishing and forestry
- **Manufacturing industry**, including workshops, handicrafts, cottage industry, traditional products and products for which the region is particularly suited.
- **Trade**, including the encouragement of markets for local products, serving other areas, sales through traffic etc.
- **Tourism**, including agro-tourism, special interest and environmental tourism

2. Institutions

- Market for agricultural and processed manufactured products
- Storage for agricultural outputs and inputs.
- Transportation services for people and goods.
- Supplies of inputs and materials.
- Credit for investment and family requirements.
- Strong community and resource management systems

3. Research

- It is necessary to conduct research in order to generate new technologies which improve production and productivity of the society through efficient use of resources.

4. Education and Training

- Education and training are important to produce skilled labor force to raise productivity in agricultural sector as well as to encourage manufacturing industry and tourist development.

5. Infrastructure

- **Roads**: transportation is among the most serious constraints that has to be addressed.
- **Utilities**: infrastructural services such as water, telephones, sewerage and electricity are also essential for development and improved living standards.
- **Irrigation**: in arid and semi-arid areas irrigation is the major input for improved farm productivity.

6. Social Services

- **Education**: Including pre-school which is important for the labor supply (releasing young mothers for work), primary and secondary.
- **Health**: Provision of medical services, notably doctors, hospitals and medical services
- **Welfare**: Research is needed on welfare needs (care for old and retarded people, social problems of the very poor etc.).

7. Recreation facilities

- The lack of recreation facilities in rural areas is a major factor causing young people to migrate to urban areas.

Advantages and Disadvantages

Advantages

- Integrated rural development is the process of development which involves formation of linkage among all economic sectors; among government, local community, NGOs and other concerned development agents as well as institutions.
- Thus, such participative development activities bring better and effective development results.

Disadvantages

- It requires high cost to mobilize all development potentials
- It may makes the management of the development process complex since it requires integrated and comprehensive development programs.

❖ Summing up, the success of integrated rural development programs depends on the degree to which a population can be motivated.

❖ This in turn depends on how much their interests, their felt needs are taken into account, and to what extent they are involved in the planning and decision-making process.

3.6 Models of Agricultural Development

- A number of agricultural development models were developed and introduced by economists to give detail analysis about the ways to bring agricultural development.
- Those models are important and can give policy alternatives for the decision makers in designing and implementing agricultural policies and strategies.
- In this section, we will see the following five important models.

    1. The frontier model
    2. The resource conservation model
    3. The urban-industrial impact model
    4. The diffusion model
    5. The high pay-off input model

3.6.1 The frontier Model

- This model also known as resourse expansion model. It suggest that, increase in agricultural production occurs as a result of the expansion in area cultivated.
- The model assumes that, surplus land and labor capacity will enable peasant producers to expand production rapidly under the stimulus of new markets even if they will have poor technology.
- That is, underutilized natural resources should be exploited to generate growth in agricultural output.
- Population pressure resulting in the intensification of land use in the existing villages should followed by pioneer settlement programs and the establishment of new villages, and the opening up of forest or Jungle land to cultivation.

Example:

- The opening of new continents such as North America, South America and Australia has created new settlement for European countries centuries ago.
- Similar events were also seen in Asia and Africa, and to some extent in the case of Ethiopia in Derg and current regime settlement programs.
- The major problems (criticisms) of the model are:
  - It doesn't give any emphasis to the sustainability of natural resources.
  - It also doesn't give due attention for the generation and use of new technologies and agricultural inputs in increasing production and productivity on small farm land.

3.6.2 The Resource Conservation Model

- The conservation model developed at the time of English agricultural revolution of 18th century. It supported by English economists such as Malthus, David Ricardo and John Stuart Mill.
- The model is based on two assumptions:
  1. the model assumes that land and other natural resources for agricultural production is scarce
  2. it also assumes that soil exhaustion to occur which result in reduction in production.

- This model suggest that, high priority should be given to;
  - resource-saving agricultural crop production that strives to achieve acceptable profits together with high and sustainable production levels.
  - maintaining soil productivity at its present level/to return soil to its original productive capacity/; and this can be realized through integrated crop-livestock husbandry since livestock will provide manures.
- This model also focus on the conservation of biodiversity, organic and pollution free agricultural product production.

Criticism of the model

- This model explains the importance of resource conservation strategy for the sustainable development.
- It also illustrates the importance of pollution free healthy environment and the production of organic agricultural products.
- Besides to these importance, this model doesn’t explain the importance of industrial inputs in increasing production.
- The production of organic fertilizer takes time and requires the balance between crop and livestock production. Imbalance between the two will causes difficulty in getting enough supply.

3.6.3 The urban- industrial impact model

- Urban-industrial impact model asserts that, the urban industrial developments stimulates agricultural development since the demand for food as well as industrial raw materials is become higher.
- According to this model, urban centers create markets for the agricultural products and act as a motive force behind the emergence of agricultural intensification around areas with proximity to urban centers.
- Moreover, the model emphasizes the inherent complementarities between industry and agriculture. In addition to the creation of market for agricultural products, industrial sector supports the agriculture sector through production and provision of agricultural inputs.

- Development polices based on the urban-industrial impact on agricultural development appear to have limited scope in the poorest of the less developed countries.

A. It may causes the problem of imbalance development between urban surrounding areas and areas far away from urban centers.
B. However urban industrial area helps in absorbing growing excess labor force from rural areas, it may cause the problem of housing, sanitation, and requires high cost to provide social services and utilities.
C. The technology necessary for rapid agricultural growth is not available.

3.6.4 The diffusion model

- The model suggests that, the diffusion of better husbandry techniques and practices and of crop and livestock varieties has been a major source of productivity in agriculture.
- In stead of generating new techniques and practices, this model illustrates the importance of effective dissemination of existing experiences and technical knowledge to narrow dispersion in productivity among individual farmers and among regions.
- However, this model doesn’t give any attention for the importance of the generation of new technologies and practices in assuring rapid growth in agricultural output.

3.6.5 The High Pay-Off Input Model

- This model is also known as the transformation approach or the quick-fix approach and focuses on two aspects:
  1. how to create and provide to farmers the new, higher-payoff technology embodied in capital equipment and other inputs
  2. how to increase the productivity
- The model suggests that, economic growth from the agricultural sector of a poor country depends upon the availability, distribution and adoption of modern high-pay off inputs (fertilizers, higher yielding seeds, technology, skilled human resource).

- In order to provide those productive inputs and technologies, there is a need to invest on;
  1. agricultural experiment stations to produce new technical knowledge,
  2. industrial sector to develop, produce and market new technical inputs, and
  3. education to train farmers to increase their knowledge on the use of modern agricultural factors effectively.

Criticism

- The model is incomplete. The mechanism by which resources are allocated among education, research, and other alternative public and private sector economic activities is not fully incorporated into the model.

3.6.6 Indian Green Revolution Experience

- The Green Revolution was a period when the productivity of global agriculture increased drastically as a result of new advances between 1940s and 1960s.
- During this period, new chemical fertilizers and pesticides were created and result in higher productivity and hence increase yield.
- The beginnings of the Green Revolution are often attributed to a 1970 Nobel Laureate Dr. Norman Borlaug, an American scientist who was honored for his work in the 'Green Revolution,' saving millions of lives from famine in India, Mexico, and the Middle East.

Green Revolution in India

- In India there were sever famine in 1940s, and around 4 million people died of hunger by 1943.
- Thus, action to increase yield came in the form of Green Revolution to the period from 1967 to 1978 basically in the parts or Haryana and Punjab.
- At this stage concern was to change the traditional way of farming especially on Wheat and Rice.
- Methods used in Green Revolution include;
  1. Multiple Cropping System
  2. Seeds with superior genetics (HYV seeds)
  3. Proper irrigation system
  4. Pesticides and fertilizers
  5. Modern machines
  6. Expansion of farming areas

Effect of Green Revolution

- By the late 1970s, the Green Revolution raised rice yields by 35%, wheat yields by 70%, millet and corn by 20% in India.
- The country became self sufficient in food grains by 1974 and became grain exporter in 1978-79. in general green revolution brought changes in India through;
  - Increase in production
  - Capitalistic farming
  - Rural employment
  - Import of food grains
  - Development of industries
  - Economic growth
  - Change in thinking of farmers

Important aspect of Green Revolution

- In addition to producing larger quantities of food, the Green Revolution was also beneficial; because
  - it made it possible to grow more crops on the same amount of land with a similar amount of effort.
  - the ability to grow more food on the same amount of land was also beneficial to the environment because it meant that less forest or natural land needed to be converted to farmland to produce more food.

Issues regarding Green Revolution

- Green Revolution has done a lot of positive things, saving the lives of millions peoples and exponentially increasing the yield of food crops.
- But, environmental degradation makes the Green Revolution an overall inefficient, only short-term solution to the problem of food insecurity.
  - Air and water pollution due to extensive use of chemical pesticides.
  - Soil erosion due to extensive use of land, high exploitation of natural resources and deforestation.
  - Unemployment among uneducated farmers and deadly disease were a serious challenges and harmful for farmers.
- So, more sustainable and environmental friendly system of cultivation needs to be practiced.

Exercise

- Briefly explain Lewis model and its shortcomings.
- Bimodal approach to rural development underlines that large farmers are more efficient than small farmers. Discuss on reasons that makes large farmers more efficient.
- Briefly discuss the integrated rural development model.
- Briefly explain the frontier model and its criticism.
- What is green revolution?

CHAPTER FOUR

Strategies and Policies of Agricultural and Rural Development

4.1 Strategies of Agricultural and Rural Development

- Agricultural Development mainly aims at increasing agricultural products such as crops, livestock, fish and etc.
- On the other hand, rural development is the activity which intended to improve the quality of life people residing in the rural area; and it includes agricultural development activities.
- Development cooperation focusing on agriculture and rural development is a very important component for poverty reduction; and now seen as an important part of development strategy in many countries for the following reasons:

- Currently, more than 3.3 billion people live in rural areas and this number will remain around 3.2 billion past 2050.
- Out of 1.2 extremely poor people over the world, 75% of the are residing in the rural areas.
- Many poor people in cities are migrant workers and farmers who have left rural areas.
- Therefore, effective rural development strategies are going to be necessary to improve the life of the society through sustainable development goals in order to account the growing population over time.
- The potential rural development strategies that can be followed and implemented by each country are summarized briefly as follows.

4.1.1 Growth Oriented Strategy

- This strategy is developed based on the assumption that, rural people like any other people are rational decision makers, who will try to maximize their income when they given adequate opportunity and a proper environment.
- The regulation and coordination of the activities of private and public agencies is primarily through market mechanisms.
- The role of the state in this strategy is to build infrastructure, and maintain a favorable climate to stimulate the growth of rural enterprises.

- The objective of this strategy is to achieve rapid increase in agricultural production at the farm level through:
  - Effective management and use of resources
  - Intensive land use
  - Intensive use of high yielding variety seeds and other inputs
- But, this paradigm failed to make any contribution in solving the basic problems of unemployment and inequality.

4.1.2 Welfare Oriented Strategy

- This strategy seeks to promote the well-being of the rural poor population through provision of large scale social programs. These programs include;
  - Applied Nutrition Program
  - Mid- Day Meals Program
  - Old age pension program, etc
- This strategy focus on insuring facilities and amenities to the society by fulfilling basic need necessities through safety net programs to motivate societies towards development activities
- However, strategies that fail to motivate the society towards development will may result in the problem of dependency.

4.1.3 Responsive Strategy

- This strategy is aimed at helping rural people to help themselves through their own organizations and other support systems.
- Its concern is with responding to the felt needs of the rural people as defined by them.
- The role of the government is to facilitate the self-help efforts of villagers by providing technologies and resources that are not usually available.
- The critical assumption of this strategy is that the rural poor will identify and resolve their problems if provided with minimal support and otherwise left to their own devices and initiatives.
- Community participation and control of project activities is the primary performance indicator of this strategy.

4.1.4 Integrated or Holistic Strategy

- This strategy combines all the positive features of the earlier three strategies, and is designed to simultaneously achieve the goals of growth, welfare, equity and community participation.
- This strategy is comprehensive and integrative. Its main objective is to alleviate the problems of poverty, unemployment and inequality, and seeks to address the physical, economic, technological, social, motivational, organizational and political bases of these problems.
- The multiple goals of this strategy are sought to be achieved by building the capacity of the community to involve itself in development in partnership with the government.

4.2 Policies of Agricultural and Rural Development

- Generally speaking, policy implies state intervention in the economy so as to enhance and ensure the economic progress.
- The general success of any county economic growth and development depends on the strength and applicability of country's general and sector level economic policies.
- Governments' general objectives for economic development are usually defined in the form of policy statements.
- They specify the major goals to be achieved and the forms of suitable economic organization for resource ownership and management. Consistent with this are then drawn up sector policies, sub-sector policies, etc.

- In the case of agriculture development, typical objectives may include faster **growth of agricultural output, peasant sector development, reduction of rural poverty, more efficient marketing, more stable prices of agricultural products, more equitable rural land distribution and more attractive rural land tenure system**, etc.
- In order to meet these objectives, there are different distinct policy interventions that widely used in all developing as well as developed countries.
- Among those policies, agricultural price policy, input policy, market policy, credit policy, land reform policy, and food security policies will be discussed in this section.

4.2.1 Agricultural Price Policy

- Agricultural price policy refers to government intervention to stabilize prices of agricultural goods to ensure a reasonable price to the consumer and producers.
- Motivations to agricultural price policy is to safeguard the interests of both producers and consumers and moderate the impact of excessive fluctuations in output.
- Agricultural price policy encompasses both outputs as well as inputs, because these two tiers are interdependent
- Agricultural price policy: ‘a policy of the government whereby it acts to influence or determine the prices of agricultural outputs and inputs.’

Objectives of Price policy

1. Stabilization of prices: Carried out through fixation of support prices below which market prices are not allowed to fall
2. Induce greater production: to motivate farmers to produce more agricultural outputs in order to earn more revenues.
3. Supply of food to urban consumers at reasonable and just prices
4. Generate public revenues: to fix the price at which the government purchases the agricultural commodity, and the price at which they are

Price Fixation Criteria

- Cost of Production
- Parity index between competing crops
- Import Parity Price
- Export Parity Price
- Buffer Stocks

4.2.2 Input Price Policy

- It is designed to influence the prices and delivery systems of purchased variable inputs (fertilizers, improved high yielding varity seeds, pesticides, etc) used in farm production.
- Improvement in the physical flow of inputs, information provision for farmers about the type, quantity and combination of inputs suitable for farm systems are the concerns.
- Objective: to help farmers adopt new technology and expand production and income, thereby enabling them to stand on their own legs.
- Care to be taken: this policy involves input subsidy and low input price setting. But, inputs subsidy should only be temporary (it should not be continued indefinitely).
- Low input price may lead to unwanted substitutions (Chemical fertilizers might be extensively used instead of organic manure)

4.2.3 Marketing Policy

- It is concerned with two fundamental activities.

1. Transmission or movement of farm outputs from the farm-gate to the final users.
2. Quantity and price signals among producers and consumers.

- Example, an increase in demand for maize causes prices to rise in an urban center and this information is passed back to producers through the marketing system.
- The traditional starting point for analysis of markets is the concept of adding utility to a commodity through the following three ways.

a) **Form utility**: changes in the physical attributes of the commodity between farmer and consumer (grain to bread) through grading through sorting, cleaning, labeling, packaging, etc.

b) **Place Utility**: marketing creates place utility by transporting output from its point of production to point of consumption.

c) **Time utility:** this refers to all aspects of storage between time of harvest and sale across seasons and /or years.

- At each utility price of the commodity differs and the difference between the price at which a final consumer buy and the price at which farmer sales at harvest is called the marketing margin.

Objectives of marketing policy

- To protect farmers and consumers from parasitic traders
- To stabilize or increase farm-gate prices
- To reduce the marketing margin (state intervenes to narrow the gap between consumer and producer prices)
- To improve quality and minimum standards of consumable or exportable agricultural commodities

4.2.4 Credit Policy

- It is concerned mainly on the provision of working capital for the purchase of variable inputs that used in farm production.
- Specifically this policy focus on:
  a. alleviating a critical constraint which hampers growth in agricultural output,
  b. replacing the fragmented and incomplete rural financial market dominated by selfish private money-lenders,
  c. accelerating the adoption of new technology by peasant farmers, and
  d. achieving equity goals, whether these are intra-rural, inter-regional, or rural-urban income distribution.

4.2.5 Land Reform Policy

- It seeks to alter the ownership distribution or conditions of access to land as a resource in farm production.
- It involves a wide range of social changes including the access of people to land, the ownership structure of land, the size structure of land holdings, and legal or contractual forms of land tenure.
- Unlike to other types of policy intervention, land policy is a sensitive issue and is a special case. Because;
  i. Land is more than everything else in farm production
  ii. Land ownership structures is the indicator of social status and power in the agrarian economy.
  iii. Land reform is often associated with political and social conditions and can cause social upheaval upon which the implementation of other policies is typically depend.

Objectives of land reform policy

- The main objective of land reform emanates from some concept of social justice and basically focus on:
  - Poverty alleviation
  - Equality and income distribution
  - Efficiency
  - Increase in agricultural output so as to enlarge the size of the domestic market as economic development proceeds

4.2.6 Food Policy and Food Security

- Food is a basic human need and plays a crucial role in the agro-based economy where a large proportion of the income of the population is allocated to food.
- The first and foremost responsibility of the State is to secure its citizens to the provision of basic necessities of food at all time by formulation and implementation of proper food policy.
- **Food policy** concerned with the integration of state actions affecting the supply, distribution, and consumption of food in order to ensure the continuity of access to enough food for all the people in a country.

- Its aim is also to ensure food security in order to avoid famine and under nutrition so as to attain minimum health and energy requirements of human being.
- **Assuring food security** directly involves securing the availability of enough food supply and the ability of the society to acquire it over time.
- Food security of the society can be achieved through;
  i. increased efficiency of domestic agriculture and enhanced availability of adequate supply of safe food
  ii. sustained increase in the incomes of the poor and the distressed to enhance their access to food
  iii. appropriate programs to reduce malnutrition

- In general, the goal of the food policy is to ensure a dependable food security system for all people of the country at all times; and its objectives are:
  1. to ensure adequate and sustainable supply of safe and nutritious food through increase in food production
  2. to enhance purchasing power of the people for increased food accessibility
  3. ensure adequate nutrition for all

Important issues in food policy

1. To serve the urban poor, there is a need for keeping food prices sufficiently low. However, low prices for consumers can be a disincentive for farmers to produce more food, often resulting in hunger, poor trade prospects, and an increased need for food imports.
2. In a more developed countries like USA, food and nutrition policy is viewed in context with strive to ensure farmers earn relatively stable incomes despite price and supply fluctuations and adverse weather events through subsidies.
   - ✓ The cost of subsidizing farm incomes is passed along to consumers in the form of higher food prices.

NB.

- However policy intervention in agricultural and rural development is important in each and every county;
  - the formulation and implementation of those policies must be country and regional specific.
  - the success of strategies and policies is depend on the strength and political commitment of the government as well as the extent to which government, community, and other private and donors are integrated.

Exercise

- Write the similarities and differences between policy and strategy.
- Briefly discuss the potential rural development strategies.
- Discuss the policies of agricultural and rural development.
- Why do countries set agricultural product pricing policy?