CHAPTER 4. **Strategies and polices of agricultural and rural development**

The term policy refers to a course of action or intended course of action conceived of as deliberately adopted after a review of possible alternatives and pursued, or oriented to be pursued. The policy process is the formulation, promulgation and application of these courses of action.

4.1 **Need for a Rural Development Policy**

When we move from simple, small scale handicraft industry and self-contained and subsistence agriculture, a greater need develops for public policy in the economic field. The individual, as a producer and as a consumer, depends more and more upon the general conditions of the market, of employment, output and production efficiency of the nation as a whole, and upon the way income is distributed among the people; in short, upon the economic welfare of the country. Some of the specific reasons favoring government intervention in the rural sector are as follows.

1. *Achieving Socialist pattern of society:*

It means that the basic criterion for determining the lines of development must not be private profit, but social gain, and that the pattern of development and the structure of socio-economic relations should be so planned that they result not only in appreciable increase in national income and employment, but also in greater equality in incomes and wealth. However, the experience of developing countries so far has been that the benefits of development have not been equally shared by all. This has aggravated the problem of poverty, which has manifested itself in various forms, including rising unemployment, malnutrition, growth of slums, fall in real wages, and impoverishment of marginal and small farmers. The growing poverty in rural and urban areas undermines the principal objective of planned development, which is improvement in the standard of living of the masses. It has been acknowledged that a high rate of growth is not a substitute for deliberate policies to ensure equitable distribution of the gains of development. Therefore, there is need for a public policy to ensure growth with social equity or social justice.

1. *To stabilize agricultural production, prices and incomes:*

Agricultural production, being biological in nature, is more vulnerable to the vagaries of nature than non-farm production, and hence fluctuates more violently than does industrial production in response to erratic rainfall or other natural phenomena. Fluctuations in agricultural output lead to still higher fluctuations in agricultural prices and hence agricultural incomes. This is because the demand for most agricultural produce is inelastic, or because of higher price flexibility of agricultural produce with respect to changes in the supply. Most farmers, being small-scale operators and poor, cannot bear the consequences of fluctuations in farm outputs, prices and incomes. They need some protection from the adverse effects of the free market and niggardly nature. Such protection can be provided only by the government in the form of price support, insurance and credit policies.

1. *Eradication of rural poverty and equitable income distribution:*

The average per capita income in rural areas is not only lower than in urban areas, but is also more unevenly distributed. The injustice of the plight of rural people is reason enough for government intervention to support rural income and improve its distribution through anti-poverty programme.

1. *Strengthening rural enterprises:*

Most rural enterprises are small, scattered and unorganized. Due to these characteristics, their owners have very low or practically no bargaining power vis-à-vis those to whom they sell their produce, and from whom they buy their supplies. This results in exploitation on both fronts – selling as well as supplies. This heightens the need for government policies aimed at equalizing opportunities, at strengthening the bargaining power of individuals and groups in rural areas, and restraining the powerful from exploiting the weak.

1. *Development of basic infrastructure in rural areas:*

Rural areas are at a great disadvantage in relation to urban areas, as far as provision of basic infrastructural facilities and services such as roads, drinking water, electricity, schools, hospitals, police protection, transport and communication, etc are concerned. Not only are these public facilities and amenities in rural areas inadequate, but they are also very poorly organized and undependable. As a result, poor villagers are damned, generation after generation, to poor education, poor health, unemployment and poverty. Improvement of their plight requires intensive government intervention.

**4.2 Strategies of Rural Development**

There are basically four important strategies of rural development, which are most important for the developing countries. The strategies are the following.

1. *Growth Oriented Strategy:*

This is based on the philosophy that rural people, like any other people, are rational decision makers, who, when given adequate opportunity and a proper environment, will try to maximize their incomes. 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 critical assumption of this strategy is that the benefits of increased production will gradually ‘trickle down’ to the poor. The regulation and coordination of the activities of private and public agencies is primarily through market mechanisms. This paradigm formed the basis of the predominant agricultural development strategies in developing countries.

1. *Welfare Oriented Strategy:*

This seeks to promote the well-being of the rural population in general, and the rural poor in particular, through large-scale social programme like the minimum needs programme, nutrition programme, etc. The primary means used in this strategy are free provision/ distribution of goods, services and civic amenities in rural areas. The critical assumptions of this strategy are that people are not competent to identify and resolve their problems, and that government specialists can identify their needs and meet them with the financial and administrative resources available with the government. The role of villagers is that of passive receptors of services. This strategy has a paternalistic orientation. The performance of the programme is judged by the quantity of goods, services, and civic amenities delivered.

1. *Responsive Strategy:*

This is aimed at helping rural people 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 locally available. The critical assumption of this strategy is that the rural poor will identify and resolve their own problems if provided with minimal support, and otherwise left to their own devices and initiatives. Community participation in, and control of, project activities is the primary performance indicator of this strategy.

1. *Integrated and Holistic Strategy:*

This 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 paradigm takes a very comprehensive but integrated view of the basic problem 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.

4.3 **Polices of agricultural and rural development**

**Rational For Agricultural Development Policies**

Government has a central role to play in accelerating the pace of growth towards achieving the objectives stated earlier. Government also needs to carry out tasks, which are unlikely or

impossible, if they are left only to market forces because of  **market failures** .  *Market refers to*

*production, consumption and distribution decisions made by households and individuals as producers, consumers and distributors. The factors that contribute for market failures are failure of competition, lack of private interest in the supply of public goods and services, presence of externalities, common property resources, lack of information and infrastructure, interplay of macroeconomic forces, and the presence of socially unacceptable forces disrupting market*

*forces.* These factors reveal that it is inevitable for state intervention to seek solutions and gear

towards sustainable development when market failures.

* Failures of competition could be due to the existence of various types of monopoly power

in the economy.

* Lack of private interest in the supply of public goods and services, such as police force,

national defense, street lighting, roads, etc.

* Presence of externalities, which could be negative or positive and when there are

externalities there will be difference between marginal net benefits and costs.

* Common property resources such as common grazing areas, which are always subjected

to overgrazing and permanent damage to the resource.

* Lack of infrastructure and incomplete information,
* Interplay of macroeconomic forces such as money supply, exchange rate, taxation,

inflation, etc

* The presence of socially unacceptable forces disrupting market forces such as poverty,

inequality and others.

The view that state interventions are effective in overcoming the economic inefficiencies due to market failures is based on the critical assumption that ‘government and state act benevolently to secure the public interest’, but it is also evident that there are also state failures mostly in developing countries, which are equally having detrimental effect as market failures. State failures are resulted as the result of information failures, complex side effects (there is no way to predict the secondary and tertiary effects of actions), implementation failures, and motivation failures and rent seeking behavior.

***In general, agricultural policy is required mainly for the following reasons:***

1. **Increase Productivity and Development**: The productivity goal is quite evident in

public investment in research and agricultural education and extension programmes. Education increases the productivity of people, and provides for broad advances in science and technology. This has made modern agriculture a high-technology, capital- intensive industry. Changes in agriculture are still rapid, and productivity continues to

rise. Therefore, increasing the **productivity of agriculture** is essential for meeting the

growing world demand for food; as such governments are widely and deeply involved in helping almost all sectors of agriculture to increase their productivity.

ii.  **Economic Stability:**  Much of agricultural policy is aimed at increasing economic

stability; it include price supports and storage programmes, trade agreements, supplementary payments to farmers, crop insurance, credit programmes, and others. Variability in both prices and crop yields is a major cause of instability in agriculture, and well-designed policy can do much to counter act or offset this variability.

iii.  **Influences Income Distribution**. The goal of income distribution involves two aspects.

* The compensation levels of income between farm and non-farm families, with the

lower average income of farm families often invoked as a justification for aid to agriculture.

* The skewness in income distribution among farm families, which is greater than

among people employed in other sectors.

iv.  **Improve Welfare of Farmers:**  Attainment of welfare depends on productivity and

equity in distribution, along with liberty and justice. Maintaining individual freedom is one of the important considerations in deciding how far to go with a production control or

income support programme.

Moreover, the rationale for governmental intervention in the agricultural sector of an economy is needed to support and protect infant industries, to curb market powers of imperfect competitors when necessary to promote social good, to provide for food security, to provide for consumer health and safety, and to provide for environmental quality. However, in general, policy cannot be directed towards the maximization of any particular goal. Rather it is a process for maximizing the general welfare, which involves innumerable compromises among wide variety of goods.

**Farm Output Price Policy**

*Farm output price policy is designed to influence the level and stability of the prices received by*

*farmers and paid by consumers for farm outputs.* Farm output price policies are generally

recognized as having three main functions in the economic system.

These are:

* Allocation of farm resources
* Income distribution, and
* Determination of the level of investment and capital formation in agriculture.

**The resource allocation function** of farm price resources follows from the optimization

behavior of producers in a market system described by neoclassical production economics. An “increase in the general level of output prices, ceteris paribus, increases returns to all inputs in production, encouraging higher use of variable inputs, as well as providing higher returns to the fixed inputs of land, capital, and family labour”. A change in the relative price level of one output against other results in substitution between outputs as farm households adjust to the changing relative profitability of different outputs.

**The income distribution function** of farm output prices has many dimensions. There is fairly

direct implication. It follows from the implication that high farm output prices, for stable foods,

raise producer income and lower the real incomes of consumers. However, the income distribution effects of high food prices are never in the reality as simple as that.

**Determination of the level of investment and capital formation** role of farm output prices

relate to their long run cumulative effects of high farm output prices. High farm prices relative to those in other sectors increases the rate of return to capital in agriculture and encourages

investment in various ways.  *At the household level, higher farm incomes due to higher output*

*prices may permit savings across seasons and which in turn encourages increased use of purchased cash inputs. Higher incomes also encourage the flow of credit into agricultural*

*activities by improving the risk status of households.*

**Instruments of Farm Output Price Policy**

Farm output prices can be altered by government intervention in many different ways. Instruments are grouped here according to their type of impact on the level and stability of farm prices.

1. **Foreign Trade Related Policy Instruments**

These instruments affect domestic agricultural prices by operating on the prices or quantities of either imports or exports. They include:

* **Import taxes or subsidies** , which increase or decrease in domestic prices by raising or

lowering the cost of imports in domestic currency;

* **Quantitative restrictions on imports** , which raise the domestic price above the import

prices;

* **Export taxes** , which are taken out of the export price and which lower the domestic

price passed back to producers.

1. **Exchange Rate Related Policy Instruments**

The official conversion rates between the national and foreign currencies have a major impact on the domestic prices of tradable agricultural commodities, and this impact is the same in direction for both import substituting and export commodities.

* *A higher exchange rate* (that is, less domestic currency can be purchased for a given

amount of foreign currency) results in a lower domestic currency equivalent of the world market price for both food and export crop.

*A lower exchange rate* (i.e. more domestic currency for a unit of foreign currency) results

in a higher domestic currency equivalent of world market price.

1. ***Domestic Taxes and* Subsidies Related Instruments**

In addition to import and export taxes, farm output price levels can be affected by many types of

domes*t*ic tax or subsidy imposed at different points in the marketing chain. Some examples are:

* Local government levy on producers when they sell through specified marketing agents,

this levy being deducted from the farm-gate price;

* Tax on the unprocessed commodity at the point of entry into processing;
* Consumption tax levied on the commodities in wholesale markets or at retail outlets;
* Consumption subsidy applied to the commodities at retail outlets, either generally or for

specific retail outlets selling food to target groups of consumers;

* Deficiency payment to producers in which they are paid a variable subsidy to cover the

difference between a target farm-gate price and actual farm-gate price covered by the government

1. **Direct Intervention**

In addition to fiscal or exchange rate policies, governments frequently seek to influence prices by

**direct controls on the price** formation, marketing, and storage of agricultural commodities.

These controls require the creation of public marketing agencies in order to secure control over part or all of the marketed supply of designated commodities. Some common direct control policy instruments include:

* Marketed output confined to sale through state channels at fixed prices, these often being

fixed farm-gate prices announced in advance of the crop season;

* Enforced procurement by the state of all or part of the farm output at fixed prices;
* Fixed or minimum retail prices for staple foods, with supplies being confined mainly to

state outlets and penalties for illegal pricing by private traders;

* Fixed minimum prices to producers (floor prices) linked to state procurements from the

market of all supplies offered at the floor price;

* Fixed floor prices to producers and ceiling prices at wholesale or retail, linked to the

operation of a buffer stock authority which buys at the floor during harvest season and sells at the ceiling price at times of seasonal shortage.

**Farm Input Policy**

This sub-section concern the ways governments tries to influence the quantities and

combinations of purchased variable inputs used by small farmers in developing countries.  *Farm*

*input policy is designed to influence the prices and delivery systems of purchased variable inputs*

*used in farm production* . Purchased variable inputs include chemical fertilizers (such as nitrogen,

phosphate, sulphate, etc) pesticides, weed killers, herbicides, improved seeds and high yielding

seed verities, fuel, animal feeds, water, etc. The Variable inputs policy *has four major*

*dimensions*:

1. *Price level of variable inputs* - concerns state actions to influence the prices paid by farmers for inputs like fertilizer or pesticides

ii.  *Delivery system for variable input* - concerns state actions to improve the physical flow

of inputs to farmers.

iii.  *Information provision to farmers* - concerns the type, quantity and combination of inputs

appropriate for their respective farm systems

iv.  *Credit for the purchase of variable inputs*

The complementarities of the variable inputs in agriculture lead to the idea of delivery of an input package to farmers to achieve desired output. New variety of improved seeds, fertilizers

and irrigation water are  *complementary input* . In an earlier literature these are called the Green

Revolution Packages. In the case of complementary inputs the highest levels of yield can only be achieved by the simultaneous increase of all variable inputs in the correct proportions. If one is missing the intended result will not be achieved. The package approach envisages a major role for the state: investment in public irrigation schemes, delivery to farmers of certified seeds together with the appropriate quantities of fertilizers and other farm chemicals, provision of credit, and advice concerning the proper agronomic practices to put into effect.

**Instruments of Input Policy**

Instruments used by government in order to implement input policies can be grouped according to the dimensions of input policies already listed above.

1. To influence the prices that farmers pay for variable inputs, specially the critical inputs

like seed and chemical fertilizer

ii. To intervene in the delivery of farm inputs, whereby the state may wholly or partially

replaces private agents in the distribution system for inputs.

iii. To provide information on inputs to farmers, this in most developing countries is the task

of the state agricultural extension service.

1. **Policy Interventions in Input Price**

**Price fixation**: - Input price policy intervention in the level of prices paid by farmers for variable

inputs is widespread throughout the developing countries. Prices may be fixed ex-factory when delivery takes place through private channels, or may be fixed at the farm-gate when delivery is by state agencies. Price fixing may apply only to major strategic inputs such as fertilizer, or may be implemented across a range of purchased variable inputs. Input price fixing may occur even if delivery is in private hands. For example, fixed ex-factory prices are often imposed on fertilizer

manufacturers. However, it is more common for fixed prices to be associated with state control over the delivery of inputs to farmers. The purpose of price fixation is first to reduce the price instability of inputs and second to ensure that all farmers pay the same price irrespective of location, social status, or season.

In addition to fixing prices, most governments have also in the past  **subsidized** them for inputs

such as fertilizer. The subsidy may be paid at importation (for imported inputs), or to domestic manufacturing industry (in order to ensure an agreed level of ex-factory price), or to state input distribution agency in those cases where a state agency has exclusive rights of input delivery to farmers. In relation to objectives, input subsidies are designed to provide an incentive for the more rapid adoption of modern inputs than would occur in their absence. They do this by raising the net income gains from a given level of input use, and by moving outwards the profit maximizing level of input use. Input subsidies may also be used as a method for maintaining adequate levels of return in farm production in the face of low output prices intended to benefit urban consumers.

**ii. Policy Interventions in Input Delivery Systems**

State delivery agencies for farm inputs can take many different forms, between as well as within countries. At one end of the spectrum there may be an agricultural development corporation with wide ranging responsibilities for farm input delivery, credit provision, and extension services to farmers. In other cases these functions may belong to separate institutions, or input delivery may be fragmented between numbers of project agencies for particular regions. For example, in some cases, input delivery is combined with crop marketing, research and extension in crop-specific parastatals; in others, inputs delivery is handled by branches of the state credit agency, while extension is run by Ministry of Agriculture; and still in others, the cooperative system has a role to play as exclusive final distribution of inputs to farmers.

In spite of the multiplicity of potential institutional arrangements, the basic concepts of state input delivery remains the same. These are to replace, either partially or wholly, a private delivery system that is considered inadequate to the task of supplying farmers with timely inputs at stable and competitive prices. The perceived inadequacy may be lack of geographical spread of outlets, unwillingness to supply small quantities of inputs to small-scale clients, poor

information feedback between farmers and urban traders, local trading monopolies, and a host of other reasons.

**iii. Policy Interventions in Information on Inputs**

Lack of practical and relevant information has long been recognized as an important barrier to rapid and widespread adoption of innovations by farmers. This applies not only to variable inputs but also to the cultivation practices and farming systems appropriate to new seeds.

The traditional method of conveying new information to farmers relies on the government extension services. An extension system is composed of a body of trained extension officers each of whom is allocated a district or area within which to provide device and carry out training for farmers.

The relative success of extension systems in assisting farmers to adjust to new technology is inevitably variable. There are some examples of a high degree of complementarities between training and other components of delivery systems to farmers. However, extension services can also be ineffective for many different reasons:

* *Lack of communication and conflicts between different state agencies*  involved in

agricultural development programs,

* *Lack of logistical support* from base
* *Lack of means of transport and infrastructure* for wider coverage and distribution of

inputs

* *Lack of motivation* from state officials responsible in different positions due to poor

remuneration and inadequately defined or confusing goals.

Aside from extension services, information on inputs can be conveyed to farmers in several other ways: field days run by research stations, widely distributed information leaflets, radio programs for farmers, etc. It is accepted that the state should play a role in these channels of farmers' education. For farming communities making the transition from non-purchased inputs to purchased inputs, reliance solely on commercial information provided by competing private

sector agents could be misleading or confusing. Thus the two fold role of the state with respect to input information includes:

* To ensure consistency in the advice being given across different avenues of

communication to farmers, and

To ensure compatibility between input advice and the agronomic requirements of specific crops and varieties such that inputs are deployed to most productive effect by farmers.

**Marketing Policy**

**Marketing p**olicy is concerned with the transfer or movement of farm outputs from the farm-

gate to the domestic consumer or to ports of export. Therefore, the marketing of farm output is typically thought to play a dual role.

* The transmission of price signals between consumers (demand) and producers (supply).

For example, an increase in demand for maize causes prices to rise in an ur ban center and

this information is passed back to producers through the marketing system.

* The physical transmission of the commodity from points of production by farmers to

points of purchase by consumers.

***Instruments of* Marketing Policy**

Governments of developing countries have used many different instruments to influence the working of agricultural marketing channels. These ranges from attempts to replace private channels almost entirely by state institutions, through partial involvement of state bodies, licensing of approved traders and processors, and minor regulatory functions like quality standards, grading and hygiene. The following list describes various types of intervention:

1. ***Monopoly parastatal*** *:* This category includes all those government owned institutions that represent some form of monopoly control over one or other stage of the marketing system. It includes the marketing boards which are widely prevalent throughout the developing countries, especially for the traditional export crops such as coffee, tea, cocoa, rubber, tobacco, etc. Organizations in this category vary widely in the number of stages of marketing in which they may be involved.

* At one hand, they may handle just the final sale to foreign buyers at FOB export,

while also regulating the way the export price is passed back down the marketing chain and policing of the relevant quality standards involve.

* At the other end, they may handle all stages of marketing, processing, and final sale

from the producer to the consumer or to export. In some countries, crop parastatals have also been responsible for crop development functions including output subsidies, crop specific research, credit provision, extension work, etc.

**ii.  *Non monopoly parastatal:*** This category includes a wide range of different institutions

that provide one particular channel, but not the exclusive channel, through which crop

sales by peasants are transferred to consumers. The predominant form of non-monopoly parastatals is the state buffer-stock authority for staple food grains. The tasks of such an authority are to implement floor and ceiling prices for major food grains. This is done by buying in all grain offered by farmers or traders at a floor price or delivery price, and by selling grain out of public store in order to prevent retail market prices from going above an agreed ceiling. There are many different ways that this basic idea of keeping prices within a present range can be implemented in practice.

**iii.  *Farmer cooperatives:*** marketing cooperatives are usually found in conjunction with one

or other of the parastatal systems already listed in the above points. The task of farmer cooperatives is to undertake procurement (assembly) stage of marketing for onward delivery to licensed processors or to the designated parastatals. Sometimes it is compulsory for all farmers in a particular location, or growing a particular crop like coffee, tealeaf and others to belong to designated cooperatives.

**iv. Trader licensing** : where the state does not take itself direct responsibility for marketing,

it sometimes tries to control the private trade by licensing designated enterprises. Licenses are both a source of state income and a threat. The source of income is the license fee, often supplemented by the bribes needed to secure the license in competition with other traders. The threat is the loss of the license if the trader is perceived not to be playing the game according to the way that state officials wish to see it played.

**V. Instruments to improve market conduct and performance** : There are three distinct

types of instruments within this category of state intervention in marketing. These are:

1. ***Provision of improved information*** to marketing system participants through

Medias such as newspaper, radio, Television, etc.

1. *The* ***regulatory function of setting and enforcing quality standards*** , weights,

measures, and hygiene.

1. ***Provision of marketing facilities*** such as floor spaces in towns and villages for

retail and wholesale markets, auction rooms, weighing equipment, etc. To some degree this is a type of public infrastructure investment.

***vi.*  Instruments to improve market structure** : Various types of state marketing enterprises

already listed above under i and ii are often described by those who have decided on that

type of intervention as improving market structure, however, a different sense in which improving market structure could be interpreted is to increase the amount of competition in the marketing system by encouraging new private entrants at each level of the system. This has not been the preferred method of increasing marketing efficiency in developing countries. However, it is becoming a more popular method under pressure for deregulation by external agencies like the World Bank or the IMF. The most effective means of increasing participation and reducing barriers to entry appears to be for the government to *provide creditor seed money to enable new entrants to get started.*

**Credit Policy**

Poor performance of the agricultural sector in less developed countries has resulted in incapability of farmers to produce surplus marketable output for acquiring some investable capital for adoption of modern inputs and technology. In line with this reality, governments and private financial institutions, and donors are involving in the provision of credit to peasant households. The role of credit policy therefore concerns mainly, but not exclusively, on ***the provision of working capital for the purchase of variable inputs and technologies used in farm production***. Accordingly, *credit is not capital but it can be used, among other things, to make an investment such as buying an irrigation pump, which is capital.* Similarly, credit is not farm input but it can be used, among other things, to improve the ability of farmers to buy critical farm inputs. Therefore, credit fills investable capital limits by providing working capital for investors.

Generally, credit policy aims at alleviating a critical constraint which hampers growth in agricultural output, replacing the fragmented and incomplete rural financial market dominated by selfish private money-lenders, accelerating the adoption of new technology by peasant farmers, and achieving equity goals, whether these are intra-rural, inter-regional, or rural-urban income distribution.

The market for credit contains a demand schedule, a supply schedule and a price of capital (interest rate) that adjusts to bring demand and supply into balance. Hence, the provision of

credit involves two parties:  *A lender* (the one who supplies) and  *a borrower* (the one who

demands). It also involves a price for the transfer or control over money, which is the interest rate charged by the lender to the borrower. Therefore, credit transactions are not costless, and there is no single rate of interest that covers the costs of and returns to the three principal actors- borrowers, lenders and savers in the system. Costs on credit include interests charged on credit, transaction costs, etc.

In addition to lenders and borrowers, the other main actors in the rural financial system are

*savers.* The saver is a person, household or any organization that is prepared to supply funds to

be held by a financial institution in return for an income flow in the shape of interest payments.

The process of saving, lending and borrowing is called  ***financial intermediation*** . The institutions

that enable this to take place by bringing together savers and borrowers with differing needs in

space and time are called ***financial intermediaries*** . Credit may be informal, or formal, private or state in origin. Informal credit channels refer to the financial services provided by money lenders (as an example the rich farmers, landlords, traditional money lenders, traders and others); formal credit channels are those bound by the legal regulations of a country (as an example private commercial banks, state commercial banks, registered cooperatives, and a host of other financial institutions such as microfinance

institutions). The entire system of institutions and the way they work is called  ***financial system***.

A typical device for selecting borrowers is to demand that the borrower provide some collateral for the whole or a proportion of the loan. Collateral might be a plot of land, a piece of equipment, a draft animal, or a proportion of the crop. The inability of tenants and poor farmers to provide collateral in the private or informal financial systems is one of the main reasons for creating institutional credit schemes.

**Food Policy**

Food policy concerns the integration of state actions affecting the supply, distribution, and consumption of food in order to ensure continuity of access to enough food for all the people in a

country. In this context,  **supply** refers to not just domestic production but also to the potential

that exists for supplementing food production by commercial imports or by food aid.

**Distribution** refers to the way food marketing channels work, and to the effectiveness of the

time, place and form functions of domestic marketing systems.  **Consumption** refers not just to

the aggregate volume of staple foods consumed by the population at large, but to the distribution of this volume between people, and to the ability of different groups of people to acquire staple foods given their patterns of employment and incomes, and the levels and trends of food prices. In the light of this definition, it is helpful to think about food policy in terms of the equation of food availability to food requirements. This can also be stated as the equation of food supply to food demand, on the understanding that supply and demand refer to the foods needed to satisfy the fundamental nutritional requirements of the population. On the supply side, food policy is concerned with food production and its rate of growth, with food imports, and with food aid. Food production encompasses the inputs, outputs, and technology of farm production as well as instruments aiming to change the size and composition of food output. Food imports provide an alternative to domestic production for the achievement of a given level of total supply. The use made of imports for this purpose depends on both efficiency criteria (world prices versus domestic production cost) and macroeconomic feasibility (availability of foreign exchange). On the demand side, food policy is concerned with the adequacy of food consumption across all groups of people and individuals in society. It is concerned with the aggregate and average nutritional status of the population, with identifying those groups and individuals whose nutritional status is below the minimum required for healthy survival, with the purchasing power of different groups of people over food, and with policy instruments designed to improve the access to food of sections of the population that are vulnerable to inadequate levels of food consumption.

Food policy is also concerned with the ability of the food marketing system to achieve efficiently the required spatial and temporal distribution of food, including interpersonal stabilization of volumes and prices. Stability of prices and supplies is a crucial integrating concept in food policy. The equation of food availability to food requirements has international, national, household and individual levels. The national dimension of food policy is the main focus this chapter, as also is the necessity to distinguish the national food balance from the food balance at household and individual levels. A country may exhibit equilibrium in the aggregate supply and demand for food, yet have many families or households that for different reasons are unable to command adequate food for healthy survival. Similarly, households may appear to have adequate food, yet individuals within households are observed to suffer from nutritional deficiencies.

The previous orthodoxy in food policy interpreted food availability as the central policy problem, whether long term or short term, national or local. The idea that food availability tends to fall short of long-term food requirement is an old one and is often associated with the doctrine of Thomas Malthus (1766 - 1834) that agricultural output tends to grow arithmetically, i.e., in a linear fashion, population grows geometrically, i.e., on an exponential growth curve. This result in a tendency for the gap between food supply and food needs to widen over historical time, with famine acting as the mechanism to close the gap. As a result, this orthodoxy in food policy

emphasizes two major causes of food insecurity:  **food shortage and unstable food prices** .

Hence many countries pursued food self-sufficiency as a prime objective. Many also instituted parastatal grain agencies either to carry out buffer stock operations or to act as sole purchasing and distributing agents for food at fixed prices. Moreover, other types of farm policy obeyed the same kind of logic. The advent of state farms in order to attempt to produce high marketed surpluses of grain for delivery to towns and cities is a relevant example.

Food policy as a topic therefore cuts across the approach and emphasis on the following points.

* Food policy is specific in its focus on food, and especially on the staple foods essential

for the survival of people.

* The population of a country, not just with food production, ultimately concerns food

policy with the adequacy of food consumption.

* Food policy is concerned with correcting imbalances between food availability, on the

one hand, and the differing capability of people (or countries) to obtain access to food, on

the other side.

* Food policy views the problems of poverty and unequal incomes in terms of the risks

they represent for the incidence of under nutrition or starvation in different sectors of the population.

**Instruments of Food Policy**

The shift in emphasis from a food availability to a food entitlement view of food security leads also to a shift in the combination of policy instruments that are considered appropriate for an integrated food strategy. In what follows, policy instruments related to food supply are considered separately from policy instruments related to food demand. In addition, attention is given to whether instruments operate to alleviate chronic as opposed to transitory food insecurity, and whether they are general or targeted in scope.

1. **Food supply Approaches**

This is mainly related to the old orthodoxy of food policy. Previous mainstream ideas about food policy emphasized the supply side of food markets, and placed priority on domestic production rather than trade. In addition, price stability for consumers and producers has always featured strongly in conventional food policies. These features and policy instruments are examined under

the sub-headings of self-sufficiency and price instability.

**Self-sufficiency**

The focus on domestic self-sufficiency in staple foods is based in part on avoiding undue reliance on unstable and unpredictable world food markets. Domestic food production is promoted by the range of policies including producer price policy, input policy, credit policy, research policy and irrigation policy. Growth of domestic food production towards self- sufficiency mainly addresses the problem of aggregate food availability. It has some impact on chronic food insecurity to the extent that the employment and income prospects of poor farmers and landless laborers are improved. It may also help overcome some types of transitory food insecurity. For example, irrigation does this by reducing the seasonality of output for participating farmers.

**Price instability**

In conjunction with food self-sufficiency, price stability is typically approached by the creation of a national food security stock, built up from domestic production. The food security stock is used to stabilize consumer prices by releasing grain out of stock to defend a ceiling retail price. Many different ways of operating such a stock can be found across developing countries, some based on floor and ceiling a price - which is the conventional buffer stock model - and some, based on fixed producer and consumer prices. Price stability based on domestic production and domestic stocks requires the existence of a parastatal authority with wide-ranging, sometimes monopoly, powers to buy and sell grain, and to regulate the quantity and price of imported supplies in years when there is a shortfall in the domestic market.

1. **Food Demand Approach**

This is mainly related to the new orthodoxy of food policy. The contemporary approach to food security emphasizes the demand side of food markets, and the disaggregated access of people to food. This leads to emphasis on a different set of policy instruments from those associated with the aggregate production model, although it should be understood that these are matters of emphasis and degree, not the wholesale abandonment of one set of policies in favour of another. In the following paragraphs the major features and instruments of demand side food policy are examined under the sub-headings of nutritional status and policy instruments.

1. **Nutritional Status**

The nutritional status of the population at large and of major sub-categories within the population needs to be regularly monitored. Some common components are

1. The construction of a national food balance sheet in order to obtain an overall picture of

the nutritional status of the country,

**ii.**  Use of household income and expenditure surveys or more specialized surveys to

estimate the proportion of the population falling below minimum standards of food consumption,

**iii.**  Use of similar sources to identify the type of population category, income class, and

location of vulnerable groups,

**iv.**  More specific investigations of vulnerable groups to assess the degree, nature, and

intensity of their inability to acquire sufficient food.

These methods are individually prone to wide margins of error. However, the pursuit of accuracy must be weighed against the costs of obtaining additional information. In the end, the important task is to obtain orders of magnitude as far as numbers of people are concerned, and to identify the geographical location and occupational situation of food-deficit or vulnerable groups.