

CEPAL Review

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Latin American agriculture

Its prospects up to the end of the century

*Nurul Islam**

Only a sustained and prolonged increase in the output of food and agricultural products can lead to a solution of the problem of food security, which looms increasingly as one of the main economic challenges at the world level. From this point of view, the recent evolution of Latin American agriculture as a whole has not been satisfactory, since in many countries the increase in supply has not kept pace with the greater demand due to the growth of the population and of income. For this reason, the region's self-sufficiency in agricultural products has gone down in general terms, while the stubborn problems of agricultural unemployment and under-employment and of undernutrition still persist.

The continuation of past trends would mean the further aggravation of these problems. The author therefore maintains that it is necessary to change these trends by significantly increasing the cultivable area, improving yields, securing a relative reduction in agricultural imports (for which purpose it is necessary to substitute imports and produce exportable surpluses), and making certain changes in policies and institutions. The author divides the latter changes into two areas. On the one hand he groups those aimed at increasing production, among which he stresses the proper use of macroeconomic, tax, price, foreign exchange and credit policies and the promotion of education, extension and training, all within a suitable agricultural and rural development strategy. On the other hand, he groups those aimed at ensuring that the benefits of development are equitably distributed among all the social groups and regions: in this respect he emphasizes the need to give special attention to small farmers in order to raise their productivity, output and level of living, which may call in some situations for changes in the system of land tenure. He notes, however, that this equitable distribution of the fruits of development also requires that the rural population should organize itself and express its demands, participating to the full in the decision-making process, for only greater popular participation in fundamental decisions can guarantee the execution of the necessary structural changes and the existence of equitable access to well-being.

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FAO has undertaken an analysis of the future perspectives of world agriculture, up to the end of the century, in a study called "Agriculture: Towards 2000". Also, in co-operation with CEPAL, FAO has worked out its regional implications. This is an analysis, not a forecast, of the possibilities of the agricultural sector of the region.*

The FAO study elaborates alternative scenarios under different assumptions regarding growth of overall income, population increase and degree of self-sufficiency to be achieved, as well as constraints in terms of land, water and scarce resources in the food and agricultural sector. This exercise has been a long process, carried out in consultation with other United Nations organizations, as well as in the FAO Regional Conference in Latin America. We have considerably benefitted from CEPAL's overall Strategy for the Third Development Decade and the Regional Programme of Action for its implementation.

Before highlighting the analysis and conclusions of this study, a review of the current agricultural trends and problems in the world as well as in Latin America may help provide the appropriate context in which the future perspectives of the region can be discussed.

1. Current world food situation and outlook

World food production has increased only marginally in the last two years. It has fallen short of current consumption, with the result that cereal stocks in 1981 have been drawn down to very low levels, i.e., 14% of world consumption, which is below the minimum level considered safe for world food security. In recent years, many developing countries in other regions have been facing not only declines in per capita production but also absolute declines in production. Food prices have risen, as have freight rates. The food import bills of many low-income developing countries have increased significantly. For a few countries in the region which are heavily dependent on food imports, this is also a matter of concern.

To the extent that large areas in Latin

*This article is based on the statement delivered by Mr. Nurul Islam on behalf of FAO at the nineteenth session of CEPAL, held in Montevideo from 4 to 6 May 1981.

America do depend today, and will continue to depend in the future, upon rain-fed agriculture, weather variations are likely to remain an important source of instability. Moreover, a number of factors in recent years have contributed to increased instability in world food supplies and prices. Increasingly, individual countries have tended to insulate the domestic markets from fluctuations in world supplies: they seek to stabilize domestic supplies by reducing exports or increasing imports at times of domestic shortage and doing the opposite in times of surplus. Thus, domestic stability is often achieved at the expense of accentuating world instability. If domestic production variations were met by variations in domestic stocks or consumption, as was the case in the past with many of the large importing countries like the USSR and China, rather than by variations in imports, instability in the world market would be moderated. The proliferation of bilateral trade agreements, which contribute to the stabilization of trade flows between major importers and exporters, tend to shift the burden of adjustment on to the residual market outside the scope of such agreements. Moreover, world cereal stocks are liable to be less than in the past. No new international agreement on world wheat reserves is as yet in sight.

This is the world context in which importing countries in Latin America will have to face the impact of variations either in domestic supply or in world supplies and prices.

It was with a view to meeting the problems of world food security that the FAO adopted in 1979 its Five-Point Plan of Action on World Food Security, which was eventually endorsed by the United Nations General Assembly. Under this Plan of Action, countries were urged to determine national food stock policies and targets and to formulate criteria for the management and release of stocks. A strengthened International Emergency Food Reserve and guaranteed flow of *food aid*, even at times of shortages and high prices, are all essential and interrelated components of this Plan. Additional balance-of-payments support for meeting exceptional rises in food import bills, as the Plan of Action emphasized, is becoming increasingly relevant: food security

stocks and related infrastructure, including storage facilities, need to be built up at the national as well as the regional levels through mutual co-operation, both technical and financial, among the developing countries.

2. Past trends in Latin American agriculture

Basically, problems of food security can only be resolved through a sustained, long-run increase in domestic food and agricultural production. Agricultural production in the region grew at a yearly rate of only 3.0% between 1963 and 1980, however, and the rate of growth during the seventies was lower—about 2.9%. This was much less than the target of 4% set in the Strategy for the Second Development Decade. In many countries of the region, the production increase merely kept up with the rate of population growth. As a consequence, the per capita increase in agricultural production was barely 0.3% per annum for the last twenty years, although in the seventies it accelerated to 1.2% as against 1.0% for the developing world.

There were wide disparities in the rates of agricultural growth among the countries of the Latin American region: eleven countries, accounting for 27% of the population of the region, had a rate of growth at less than 3% during 1963-1980, while the growth rate for a number of countries accounting for 12% of the population was less than 2%. In the other countries, accounting for 73% of the population, it was higher than 3%. This indicates the very great range of variation in performance among the countries of the region.

The rate of growth of food and agricultural production in the region during the 1970s was exceeded by the even higher rate of growth of demand. This was caused by the rapid population increase and a high rate of growth of overall income, which was about 6% per year. The result was a rapid increase in cereal imports and a deterioration in the net cereal trade balance of the region. Cereal imports increased by about 60% (14 million to 22 million tons) between 1975 and 1980, whereas cereal exports from the exporting countries of the region barely increased from 12 million tons to 13 million tons. Although the deficit in cereal

trade thus increased four-and-a-half times (2 to 9 millions tons), the growth in non-cereal agricultural production and exports did offset the decline in the cereal trade balance, so that the overall agricultural trade balance improved by about 20% (from US\$ 9 billion to US\$ 11 billion).

The region's self-sufficiency in agricultural commodities has been falling. The overall self-sufficiency ratio (percentage of total consumption supplied by domestic production) was 95% in 1978/1979, this ratio being lowest for wheat (67%), and highest for coarse grains (107%). In spite of a growth rate of 3% per year in aggregate per capita GDP, daily food consumption grew by only 0.3% in terms of calories.

The spread of modernization and increase in agricultural production has been uneven between the countries of the region, as well as within the countries. Neither has it been uniform among different crops or the various socio-economic groups or geographical regions within individual countries. The overall growth has not been reflected in commensurate development of the small farms or in peasant agriculture. Although these are generally based on low-quality land resources, they nevertheless produce an important share of the food supply of the urban and rural population. Large-scale capital-intensive agriculture, linked to the modern industrial sector as well as to export markets, had the lion's share in capital resources, inputs and services, and gained disproportionately from the benefits of growth.

Despite a decline in the relative size of the agricultural labour force from 46% in 1961-1965, to 34.5% in 1980, unemployment and underemployment in the agricultural sector have remained high and per capita income in agriculture is still very low—about 24% of that in the rest of the economy. Almost two-thirds of rural households, according to a well-known study by CEPAL, were living below the poverty line at the beginning of the last decade, and about a third of these were in a state of complete destitution.

In 1974-1976 more than 40 million people, constituting 13% of the population of the region, were suffering from undernutrition, ac-

ording to the strict definition of undernutrition adopted by FAO, i.e., calorie intake below the minimum calorie requirements at rest. However, there are significant differences in this respect among the countries of the region. In 1974-1976, for example, nine countries, comprising 47% of the population of the region, had 15% or more of their population suffering from undernutrition, while eight countries, constituting about 41% of the population of the region, had between 10 and 15% of their population undernourished. There is not necessarily a decline in the degree of undernutrition as per capita income rises or the rate of growth accelerates.

3. Perspectives for the future

With regard to the perspectives for the future, the continuation of the past trends in production in the region are neither desirable nor necessary. In the first place, this would lead to an accelerated rise in imports—higher than that in exports, and resulting in a deterioration in the agricultural balance of trade.

More specifically, cereal imports would increase 30% by 1990 and would more than double by 2000, whereas cereal exports would only increase 15% by 1990 and 70% by 2000. The deficit in cereal trade would be 13 million tons in 1990 and 24 million tons in 2000, as against 9 million tons in 1980.

Thus, the continuation of past trends implies that undernutrition will be greatly aggravated if the rising cereal imports cannot be financed. Even if they are financed, there will be an increase in undernutrition, because there will be an absolute increase in the number of people in the low-income groups with low effective demand.

Latin America has the potential to mobilize capital resources, technological capacity and necessary institutions to speed up the rate of agricultural production considerably in the coming decade. The region is comparatively well endowed with regard to natural resources: in fact, FAO's recent estimates indicate that arable land potential is nearly 700 million hectares, or 1.91 hectares per inhabitant, which is over twice the 0.82 hectares available in the rest of the developing world. At present only

25% of the land potential is under cultivation. It is admittedly true that, to a great extent, land already under cultivation includes the better quality and the most favourably endowed land, and that future expansion of arable land is more expensive and will yield decreasing returns. Nevertheless, there is considerable room for expansion and intensification. Undoubtedly, there will be great variation among countries in terms of possibilities of growth, but the region as a whole should be able to improve considerably its self-sufficiency in the field of food and agriculture.

FAO's study, "Agriculture: Towards 2000", has worked out the implications of two alternative scenarios which are intended to modify past trends. These scenarios are conceived in the broad framework of the goals and objectives of the strategy adopted by CEPAL, as well as of the IDS, such as 7% growth in overall income and corresponding projections of growth of population and of total labour force.

4. *The optimistic scenario*

Under the more optimistic scenario, agricultural production and, in particular, cereal output, would expand at about 3.9% annually in the next two decades, while livestock production would increase even more —by about 5.3% a year.

Total agricultural GDP, including crops and livestock, would rise at 3.2% annually, which would mean an increase of about 30% in average per capita agricultural GDP over the next 20 years. Since the overall economic growth is much faster, with a higher rate of growth in the non-agricultural sector, about 8% and 5% of GDP would, by 1990 and 2000 respectively, be generated in agriculture, employing 19-20% of the population.

There will, however, be wide divergences among the countries in the region: under the optimistic scenario, nine countries with 73% of the regional population would grow at more than 4% in the 1980s, and ten countries with 74% of the population would attain more than a 4% growth rate during the 1990s. On the other hand, there would be four countries with

about 10% of the population which would achieve rates of growth of less than 3%.

There would be an improvement in the self-sufficiency rate for cereals from 95% to 98% by 1990, and to 102% by 2000, although in the case of wheat the self-sufficiency rate would improve only from 67% to 72% in 1990 and 74% in 2000.

In spite of such a rate of growth and improvement in self-sufficiency, Latin America will not achieve complete eradication of malnutrition by 1990 or by the end of the century, even though it started in 1980 with the lowest rate of malnutrition in the developing world. This is so even if it is assumed that all the cereal requirements are fully met by imports, either by commercial purchases or by food aid. However, the state of undernutrition would decline from 13% of the population in the late 1970s to 6% in 1990 and 3% in 2000. This would take place under the following stringent assumptions (a) that the effects of income growth are proportionately distributed over the entire population, i.e., all income groups enjoy the same rate of per capita growth in income and effective demand, and (b) that effective demand for all income groups is fully met.

This overall picture, however, conceals a wide divergence amongst the countries of the region. Seven countries with 38% of the regional population will still have more than 10% of their population undernourished in 1990, whereas even in 2000 five countries with 32% of the population of the region will have more than 10% undernourished. This emphasizes the need, along with increased production, for supplementary measures including income distribution policies, institutional changes and poverty-oriented programmes to mount a direct assault on the worst aspects of undernutrition and poverty.

The growth in agricultural production would require changes in policies, priorities and investments by Latin American governments. Major sources of growth would be (a) an expansion of area, and (b) an increase in yield. Under FAO's optimistic scenario, 70% of the additional output would be due to increase in harvested area and 30% due to increase in yield up to 1990, while during the

1990s the respective percentages would be 62 and 38 —indicating the increasing importance over time of obtaining an increase in yield per hectare. In contrast, for the developing world as a whole, a much greater proportion of additional output would have to come from yield increase by 2000, i.e., 80% from yield increase and 18% from area expansion.

The irrigated area in Latin America would increase from 13 million hectares in 1980 to 16 and 20 million hectares respectively in 1990 and 2000, i.e., at a rate of 2.2% during 1980-2000, while fertilizer use would almost double by 1990 and increase three-and-a-half times by 2000, i.e., at a rate of 6.6% per year during 1980-2000.

The present ratio of current inputs (seeds, fertilizers, and pesticides, etc.) to agricultural output, which, at 25% in 1980, is already high in comparison with the 20% average for the entire developing world would, under the optimistic scenario, increase to 28% in 1990 and 34% in 2000. The remarkable increase in the use of purchased inputs demonstrates the extent to which the agricultural sector in Latin America is being and will be modernized.

Annual gross investment (including storage, marketing, primary processing and transport) would have to increase by half by 1990 and two-and-a-half-times by 2000 to achieve the rate of growth set forth in the optimistic scenario. In absolute terms, it would need to be around US\$ 30 billion in 1990 and US\$ 49 billion in 2000. The annual gross investment in crops and livestock (excluding storage and marketing, etc.), will increase from 20% of agricultural GDP in 1980 to 23% in 1990 and 28% in 2000. This is a rate higher than the average for the developing world as a whole.

In terms of components of investment, the number of tractors would more than double by 1990 and increase about five times by 2000, i.e., it would account for about 35% of the total investment, whereas irrigation investment would increase by about one-fifth up to 1990 and by more than one-third up to 2000.

5. Trade

The trade implications of FAO's studies provide interesting insights regarding the trade

policy of the region. If existing trends continue, by the year 2000, there would be an increase in the positive trade balance for agricultural raw materials (excess of exports over imports) and a decline in the positive balance for foodstuffs. In the region as a whole there would be strong deficits in wheat and coarse grains, and Latin America would become a net importer of meat and dairy products, while its surpluses of other food items, mainly vegetable oils and bananas, would increase considerably.

Under the optimistic scenario, however, agricultural imports are expected to increase at a lower rate than exports. Imports would increase only to the extent of US\$ 2 billion by 1990 and US\$ 3 billion by 2000, and moreover, would increase at a lower rate than exports —i.e., by 30% and 50% for imports by 1990 and by 2000, respectively, as against 35% and 90% for exports by 1990 and by 2000. The combined result of this would be an increase in the positive trade balance of the agricultural sector from US\$ 11 billion in 1980 to US\$ 15 billion by 1990 and US\$ 23 billion by 2000, i.e. more than double by 2000.

Such a substantial increase in the positive trade balance can be attained only if policies are pursued aimed not only at efficient import substitution, especially of cereals, but also at the production of adequate exportable surpluses at competitive prices. In view of the concentration of exports in a few markets and a few commodities, renewed emphasis needs to be given to the diversification of the composition and destination of Latin American trade. No less important are the measures needed to stabilize earnings from agricultural exports through national and internationally agreed measures. The real prices of the main exports of the region have fluctuated considerably since the early 1950s. A clear downward trend is noticeable in the case of bananas, and the real prices of coffee and cocoa have declined since 1978.

There is an increasing need for intensified efforts, through research and development, to improve productivity, marketing and distribution facilities, as well as processing, so that agricultural exports are not only more competitive in world markets but also secure more

'value added' and generate larger income for the producing countries. Appropriate external investment and technical assistance will be needed in the less developed countries of the region.

No less important is the role of the trade policies of the developed importing countries in providing greater access for Latin American exports. We hope that the implementation of the provisions of the Multilateral Trade Negotiations will be beneficial to the future growth of agricultural trade as a whole. The MTNs, which have so far had very limited effects on the liberalization of agricultural trade, must be seen as a beginning for further progress and liberalization of such trade. The FAO Conference Resolution of 1979 emphasized the need for further movement towards the progressive reduction and elimination of tariff and non-tariff barriers to the trade in agricultural products, both raw and processed, particularly with respect to imports from the developing countries.

The FAO Committee on Commodity Problems, and its various specialized intergovernmental commodity groups, have the function of monitoring protectionism which affects agricultural commodities. For oilseeds and products thereof, FAO's recent work has shown that the most important barriers in the trade in vegetable oils are firstly, the escalation of tariffs on processed products, which give a high level of effective protection against imports of such oils, and secondly, the various schemes to protect and support the consumption of butter, which limit the demand for vegetable oils.

FAO's work on meat (mostly beef) shows that under certain assumptions a 50% reduction in implicit trade barriers could cause the volume of trade to increase by 70% and prices to rise by 15% —the latter causing some decline in consumption levels in exporting countries. On the more modest assumption of a 25% reduction in such barriers, the Latin American exports of beef could increase in volume by about 40%, with a slower price increase causing a marginal reduction in the consumption of exporting countries. Similarly, a recent study suggests that a 50% reduction in the levels of protectionism in the OECD countries could

provide an additional US\$ 1.8 billion in export earnings for Latin America. The main commodities in which Latin America will benefit from trade liberalization in the OECD countries are beef, sugar, temperate-zone fruits and coffee.

It is worth emphasizing that considerable scope exists for the expansion of regional economic co-operation, including trade expansion through preferential arrangements. The scope for such co-operation extends from joint purchase arrangements for crucial inputs such as fertilizers and equipment to agreements for their joint production within the region, taking advantage of the economies of scale of the larger regional market. It could also encompass regional food security reserves, including co-operation in the construction of physical infrastructure, as well as early warning systems for food security schemes. A comparison of the increase in gross imports and exports of the region estimated in FAO's study demonstrates the potential for the expansion of regional trade. Part of the increase in exports and imports would be from within the region.

For example, in cereals, the Latin American region as whole, by the end of the century, could be in net surplus. Under the optimistic assumption regarding the rate of growth of cereal production and demand, cereal exporting countries in Latin America would be able to increase exports from 13 million tons in 1980 to 20 million tons in 1990 and 35 million tons in 2000. The imports of the cereal deficit countries would increase from 14 million tons in 1980 to 23 million tons in 1990 and 31 million tons in 2000. Therefore, the cereal surplus countries would be able to meet the requirements of the deficit countries and still be left with a net surplus. Moreover, there would be scope for the expansion of agricultural trade with the rest of the developing world. In rice, coarse grains and livestock products, especially meat, Latin America would be in net surplus, whereas other developing countries would be in net deficit. In the year 2000, Latin America —amongst all the developing regions— would have a substantial agricultural net positive trade balance of about US\$ 22 billion, in contrast with a net deficit in the Near East and Africa, taken together, of about US\$ 9 billion.

6. *Policies and institutions for agricultural and rural development*

In order to achieve the goals and objectives analysed in the FAO study referred to, it will be necessary to undertake the required changes in policies and institutions. Already there is an increasing awareness amongst the countries of the region of the need to give higher priority to agriculture. However, the changes already underway also need to be further strengthened. Resources for investment in agriculture have to be greatly increased; technology has to be introduced on a wider scale. Macroeconomic policies, tax, credit, exchange rate and pricing policies must be so designed as to remove the disincentives to increased investment and production in agriculture. In specific cases, additional incentives may be needed to stimulate technological innovations and to offset the adverse effects of risks and uncertainties.

The formulation of an agricultural and rural development strategy which seeks to integrate, within the context of an overall development strategy, the related aspects of production, consumption, distribution and nutrition is an essential first step in this. From within this framework must follow the detailed specification of policies, as well as the formulation of programmes and projects for the mobilization and effective utilization of investment resources, both external and internal.

Great importance is attached to the promotion of education and extension and training, as well as agricultural research appropriate to the region and to its wide diversity of varying ecological circumstances. Intensification of research is especially needed on rain-fed agriculture, as well as on crops on which much research effort was not expended in the past, especially the minor crops and food crops. No less important is the need for the integration of research activities with education and training of the farmers so that there is appropriate interaction between the two streams of activities. The relative role of public and private enterprise in the promotion of extension, education and training of farmers needs to be clearly defined according to the circumstances, needs and capabilities of each country, especially where the farmers are

small and numerous. An effective mechanism through which services and inputs can reach them and be put to their best use must occupy a pivotal role in the process of agricultural and rural development.

7. *Growth and equity*

As the past experience of this region and other parts of the developing world indicates, the effects of growth by itself do not necessarily 'trickle down', and poverty is not reduced or eliminated merely as a result of an acceleration in growth. Unless specific policies are adopted and institutional changes are undertaken, the benefits of growth are not spread out widely to all socio-economic groups and to all regions. The Programme of Action of the World Conference on Agrarian Reform and Rural Development held under the auspices of FAO in 1979 made ample recommendations in this regard. The accent of the Programme of Action was on poverty alleviation through specific programmes and policies, as well as through the participation of the people in the design and formulation, implementation and evaluation of development projects and programmes.

In many instances it may be necessary to undertake changes in agrarian structure, including land distribution measures, not only to alleviate poverty, but also to accelerate growth. Experience demonstrates that, provided inputs, services and credit are available to small farmers or peasant agriculturalists, their output per hectare is often higher than in the case of the large farms, and in no case is it less. In areas where considerable inequality of ownership leads to inefficient or inadequate use of land, the achievement of the targets postulated in FAO's optimistic scenario could not be realized without redistributive measures. At all events, however, agricultural policies should avoid the growth of excessive peasant settlement in marginal and fragile land, on the one hand, and underutilization of land in medium-sized and large holdings, on the other. The pressure of an increasing population of small holders on marginal lands leads to erosion of soil and degradation of the environment, with a decline in output per hectare.

In many instances, it may be possible, through (a) improvements in the conditions and security of tenure, (b) the consolidation of holdings, and (c) co-operative action, to re-direct the services and inputs to small farmers, organize them into more viable units and train them to increase their output and productivity without any need for a radical distribution of land. In some other cases, however, it may be necessary to go beyond this and to seek a redistribution of land. It will be necessary for each country to assess and evaluate the extent to which, and the way in which, the prevailing structure of land ownership and access to land and water act as constraints hindering poverty alleviation and growth. The appropriate policies will depend upon an examination in each case of its objective circumstances, targets and goals.

If past policies persist, so that access to inputs and resources continues to be biased predominantly in favour of larger capital-intensive farmers and modern large-scale enterprises, an acceleration of growth in income and investment would simply result in increased inequality and, in some cases, in the worsening of absolute poverty. Therefore, if past experience is any guide, policies to stimulate growth in the Latin American region need to be accompanied by the necessary

measures to distribute the benefits of growth.

In conclusion, we may recapitulate a few self-evident lessons of this analysis. The Latin American region is capable of achieving a substantial increase in its degree of national self-reliance, as well as in the expansion of its food and agricultural exports, provided resources are mobilized and appropriate institutions and policies are adopted. Furthermore, regional co-operation in economic and social development as well as increased interlinkages with the rest of the developing world could significantly contribute towards its growth prospects, as well as improving the efficiency of utilization of its resources. Finally, within each nation, the equitable distribution of the benefits of growth would be facilitated by increased popular participation in effecting structural change in the economic framework, including policies and priorities. Rural people need to be helped to organize themselves in order to articulate their needs and to participate fully in the decision-making process through their self-help organizations. This would enable them to mobilize their own resources from within, as well as to use both their own and external resources and services in a manner which would widely distribute their benefits. This requires the decentralization and delegation of the decision-making process.