Policy Brief--Food Policy in East Timor: Linking Agriculture, Economic Growth, and Poverty Alleviation to Achieve Food Security

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There are multiple dimensions to food security. A guarantee of stable food supplies in urban markets is a quite separate concept--and governmental task--from guaranteeing that each household has adequate access to food, even in rural areas. Ending hunger at the household level requires the elimination of poverty, which even the most effective government can only hope to accomplish in decades or generations. This Policy Brief explains why the agricultural sector is so important to growth of the whole economy in East Timor, what the role of the government needs to be to make those linkages as effective as possible, and why those linkages matter to food security.

What should East Timorese leaders expect from their agricultural sector with respect to food security? Agricultural growth can provide food security for the rural population and substantial contributions to growth of the rest of the economy. These contributions can come directly through rural savings and foreign exchange earned by exporting agricultural commodities, and indirectly through more efficient operation of the economy. Food security at the household level can be improved and the pace of poverty alleviation speeded up significantly from the years of Indonesian control. To realize these goals, however, the agricultural sector needs a favorable policy environment and massive investments in rural infrastructure.

There is clear evidence that inadequate knowledge, lack of access to appropriate technology, and scarcity of modern inputs have constrained crop yields in East Timor. But with proper incentives, access to resources, and effective extension agents, rural households can be counted on to gain maximum economic advantage from every unit of input. Large-scale firms, especially when operated by the state or managed cooperatively, seldom face such intense pressures to be efficient. Any growth strategy or economic reform that places a greater share of economic resources and decision-making authority in the hands of rural households and enterprises will inevitably increase the efficiency of resource allocation for the whole economy.

The two fundamental tasks of government in fostering food security are to ensure stable supplies of the basic food staples in domestic markets and to provide
access to those supplies on the part of all households, rural and urban, on a sustainable basis. The first task is accomplished through a combination of domestic production by the country’s own farmers and international trade. For East Timor, where agronomic conditions are not especially well suited to rice cultivation but where a substantial proportion of the population consumes rice on a daily basis, regular imports from the world market are likely to be the cheapest and most effective way to ensure regular supplies, at least in urban markets. Very cheap rice is available from many Asian markets and the outlook is for this price environment to last for some time. Thus the role of the agricultural sector is at least as much one of income generation as it is food production.

Because such a large proportion of the population still lives and works in rural areas, this distinction is crucial in the government’s efforts to ensure adequate access to food on a regular and sustainable basis. The difficult task for government planning is to separate commodity approaches from income approaches. The commodity approach is traditional in departments of agriculture, but in East Timor food security will be best achieved by a combination of domestic production, food imports, and a cash-crop and export orientation in agriculture.

In the short run, East Timor has access to aid resources that should be adequate to get the growth process under way. Soon, however, a very substantial gap will exist between the government’s development needs and its revenues. Agriculture must make a sizable contribution to closing this gap, but great care must be taken to have the growth process well under way in the rural areas before direct taxation and pricing policy are used to divert resources to public uses outside of agriculture. Investing now will pay far higher returns than will heavy, immediate taxation of agriculture. For East Timorese policy makers, it will be tempting to make use of the tax base that is most readily available—taxes on land and on agricultural exports, especially coffee—as this will be the easiest way to raise government revenues. But important opportunities for growth may be sacrificed if agriculture is heavily taxed at this crucial juncture.

The rural economy of East Timor is already relatively open to private trade and policy should seek to enhance this openness. But the capacity of the private marketing sector is limited, their facilities are primitive, and many rural regions remain relatively
untouched by the opportunities that a dynamic market economy should stimulate. To reach their potential, policy initiatives are needed in three areas: improved communications facilities and rural infrastructure; an effective trade and competition policy that will limit the scope for monopolistic practices among traders; and establishment of the infrastructure for a rural financial system that would provide short-term liquidity credits to traders (and farmers), investment credits to food processors, trucking companies, and other market participants willing to invest in rural infrastructure, and a secure home for rural savings.

Investment in infrastructure has several important economic payoffs. First, rural infrastructure, in the form of irrigation and drainage works, roads, ports and waterways, communications, electricity, and market facilities, provides the base on which an efficient rural economy is built. Much of the investment needed to provide this base comes from the public sector, even when the private sector is playing the predominate role in agricultural production and marketing. Without this public investment, rural infrastructure is seriously deficient in stimulating greater production of crops and livestock. Investment by the private sector is also less profitable in the absence of adequate rural infrastructure, thus further reducing rural dynamism. Second, public-sector investment in rural areas has a "crowding in" effect rather than a "crowding out" effect on private investment, and for this reason the main purpose of investments in infrastructure is this longer-run stimulation of agricultural production, which has important positive effects on rural employment and income distribution.

Third, the investments in infrastructure themselves can generate substantial rural employment directly, and this potential has not been lost on planners seeking both long-run employment creation and short-run work programs to alleviate rural poverty or even famine conditions. "Food for Work" and "Employment Guarantee" schemes almost always are designed to build rural infrastructure using low-cost or unemployed workers. Large-scale irrigation and road construction projects offer the potential to employ vast numbers of unskilled rural laborers if project designers are sensitive to employment issues in the choice of technique and are willing to address the managerial problems that arise from labor-intensive techniques in construction.
The rural economy in East Timor is the focus for growth initiatives because it is more flexible in the short run to new economic incentives, has significant untapped potential to increase productivity, and is the home of most of the country's citizens, including its poorest. No country, however, will get rich by focusing all its resources on agriculture, and eventually East Timor must shift its attention to building a modern urban economy based on export-oriented industry and technology- or tourism-based services. By then, however, the rural strategy will have reduced poverty and stimulated the development of a much more effective array of linkages from farms to rural industry and then to the urban economy. The rural economy will decline in relative importance, not out of neglect or heavy taxation but because its performance will have laid the foundations for the rest of the economy.