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DIIS Brief

Agricultural development for poverty reduction

– some options in support of public policy interventions

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Abstract
A renewed focus on agriculture is emerging among donor organizations. In 2005, The World Bank published its report Agricultural Growth for the Poor. An Agenda for Development and Dfid published a policy paper entitled Growth and poverty reduction: the role of agriculture, and soon, the World Development Report 2008 entitled Agriculture for Development will be published. The key concern driving this renewed focus is the wish to increase the contribution of agriculture and agricultural growth to poverty reduction. This DIIS brief provides a short introduction to the main messages of the above documents and proposes five main elements of a strategy for supporting public policy interventions in favour of pro-poor agricultural growth..

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Agricultural development for poverty reduction – some options in support of public policy interventions[1]

***Julio A. Berdegué*[2] *and Helle Munk Ravnborg*[3]**

A renewed focus on agriculture is emerging among donor organizations. In 2005, The World Bank published its report *Agricultural Growth for the Poor. An Agenda for Development* and Dfid published a policy paper entitled *Growth and poverty reduction: the role of agriculture,* and soon the World Development Report 2008 entitled *Agriculture for Development* will be published. As witnessed by the titles of the reports, the key concern driving this renewed focus is the wish to increase the contribution of agriculture and agricultural growth to poverty reduction.

The need to get agriculture back on the development agenda is the first argument of these policy documents. Agricultural growth, it is argued, is far more important to the poor than non-agricultural growth. Because 70 percent of the world's poor are estimated to live in rural areas and because agriculture accounts for a large part of the economy in the least developed countries, agricultural growth cannot be easily substituted by growth in other sectors.

Policy debates about the role of agriculture in poverty reduction have long been polarized as a choice between on the one hand, seeking to maximize the indirect poverty reducing effects by increasing rural farm employment opportunities and lowering food prices through investing in medium to large scale farming in high potential areas, and, on the other hand, seeking to improve farming practices in marginal areas which are generally characterized by high poverty rates.

As often happens in such polarized debates, there has been a tendency to overlook facts – in this case that a significant part of the rural poor belong to the category of land-owning farming households in potential and high potential areas. In many countries, the proportion of the population living in poverty is much higher in the more marginal and remote parts, and this appears to have masked the fact that, due to higher population densities, the absolute number of poor people living in potential areas exceeds the number of poor people living in the marginal areas. Berdegué and his colleagues (2006) estimate that at a minimum, there are more than 7 million poor farmers in six Latin American countries that have access to land and are located in non-marginal environments, representing between 14 and 52 percent of all farmers in those places.

The image of the disappearing peasantry, being nurtured by the overall urbanization taking place and the increasing attention to the importance of non-farm rural employment, has added to this neglect of the smallholder sector. However, in many Third World countries, the smallholder sector plays an important economic and social role through the participation of smallholders in domestic and the traditional export markets and by providing an important and often irreplaceable source of livelihood to a large share of the rural poor for whom few alternatives exist aside from illegal international migration or joining the informally-employed urban poor. Aldana (2007) has analyzed data for the poorest and most isolated districts in the already very poor Southern Andes region, and finds that agricultural income represents between 66 and 78 percent of the total income of rural

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[1] This DIIS Brief is based upon a workshop entitled "*How can agricultural development contribute to poverty reduction and what are the implications for development assistance?"* held by the Agriculture and Infrastructure Technical Advisory Unit, Danida, Ministry of Foreign Affairs at Eigtveds Pakhus, January 17, 2007.

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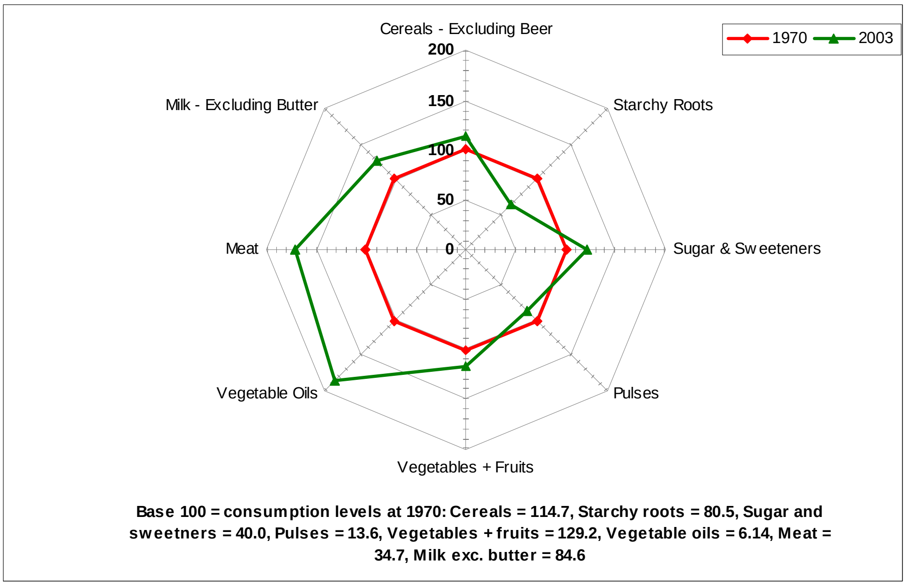
households. Moreover, she found that even under in the most extreme conditions (areas with poverty incidence of 90 percent), less than 30 percent of total agricultural production is consumed at home, contradicting the quite common image of small-scale farmers, being totally isolated from markets.

Contrary to the image of the disappearing peasantry, recent empirical evidence shows that small and medium family farms are not vanishing. Bezemer and Hazell (2006), who estimated exit rates from agriculture by 2015 for the different regions of the developing world, and under different scenarios of growth and of urban-rural wage differentials, projected that “if African countries continue to grow slowly if at all, then their agricultural work forces will continue to increase to 2015, even though agriculture’s employment share will fall slightly... We do not find any evidence that recent globalization has increased the exit elasticity for agriculture, so the threat to small farmers and agricultural employment in Africa may not be as serious as some experts fear” (p. 1). For Latin America and the Caribbean, Bezemer and Hazell project “not much change (p. 13). However, the same authors estimate that huge population transitions out of agriculture will take place in Asia. Looking at household surveys from nine Latin American countries, Modrego and colleagues (2006) found only very slow changes in the share of “self-employed in agriculture” households, and in fact in four countries (Chile, Colombia, Guatemala and Honduras) they found the share to be increasing.

During the past decades, donor organizations and many national governments alike have directed their attention towards the opportunities offered by export markets for traditional but increasingly also higher value and niche market products. While such opportunities exist, it is important not to lose sight of the fact that domestic markets for agricultural products are and continue to be far more important than the export market in terms of volume and value of production, and, above all, in terms of numbers of farmers engaged in them, particularly smallholders. This is true even in many of the countries where traditional export crops such as coffee constitute an important part of the agricultural economy. Taking Latin America as an example, estimates based on FAO and ECLAC (Economic Commission for Latin America and the Caribbean) show that the domestic market share on average constitutes more than 70 percent of the total value of agricultural products and even countries like Colombia, Brazil and Nicaragua with long traditions e.g. as coffee, cocoa and meat exporters, the value of the domestic market for agricultural products exceeds the value of the export market. Even in the case of fresh fruits and vegetables, where the non-traditional export market receives much attention from international agencies and national policy-makers, it has been estimated that the sales through supermarkets in domestic markets represent over 1.5 times the value of the fresh fruit and vegetable exports from the region (Reardon and Berdegué, 2002). Moreover, driven by demographic growth, urbanization, and dietary transitions, markets within developing countries for agricultural products are growing at a faster rate than those in the industrialized countries.

Acknowledging the importance of domestic markets, however, does not mean “business as usual”; on the contrary. Domestic markets are undergoing rapid and significant change. As real incomes grow at least for some segments of the population, food preferences change to include more dairy products, more meat and more fresh fruits and vegetables relative to traditional staple foods. Figure 1 shows how the pattern of food consumption has changed during the past decades in Latin America. Being able to satisfy such changing food demands does not only require switching to other and often more technologically demanding crops. The share of food being marketed through supermarkets is growing throughout Third World countries. The share of food sold through supermarkets in Brazil is 75 percent; around 50 percent in the Philippines ,Thailand, South Africa and Colombia; between 30 and 40 percent in Mexico, Guatemala and Indonesia, and between 10 and 20 percent in Nicaragua, Peru, Bolivia, Vietnam and China, but with market shares of supermarkets growing at rates of up to 30 percent per year (Reardon and Timmer, 2007).

Figure 1
Changing food consumption patterns in Latin America, 1970-2003



Source: Berdegué *et al.*, 2006.

This raises profound organizational challenges if smallholders are to be able to participate as suppliers to these changing procurement systems rather than being displaced by richer farmers as well as by imports, particularly in face of unequal access to institutions providing and securing access to land, water, capital and information.

Despite its importance, the rural-urban income gap appears to be widening in many countries. In Latin America, those households whose head declares him or her self to be primarily “self-employed in agriculture,” have seen deterioration in their welfare over the past 15 years or so. In ten out of 15 countries analyzed, there has been a growing gap in poverty rates between this category and the rural average, namely in Costa Rica, Panama, Mexico, Chile, El Salvador, Guatemala, Nicaragua, Honduras, Paraguay and Bolivia. Peru remains stable, while there are improvements (narrowing of the gap) in Dominican Republic, Colombia, Brazil, and Venezuela (CEPAL, 2004).

Hence, from a poverty perspective, efforts to promote agricultural growth should be particularly concerned with ensuring the competitiveness of the smallholder sector with a significant emphasis on domestic markets. Smallholders currently face unequal access to product and factor markets and to other institutions compared to more influential agricultural sectors which in turn threatens its competitiveness in a globalized economy. Moreover, such efforts should be concerned with investing to promote productivity gains in small-scale farming which are important both from an economic and from a social perspective as a livelihood source in areas where few if any alternative livelihood sources exist.

Five elements seem important as parts of such a strategy:

1. reforming domestic product markets[4] to improve pro-poor incentives and remove anti-poor biases;
2. enhancing access to assets;
3. improving the productivity, profitability and sustainability of smallholder farming;
4. supporting broad-based development strategies at the territorial level of which agriculture is one component; and
5. monitoring of changes in poverty levels and the agricultural engagement of smallholders and subsistence farming households.

While targeted project-based interventions may be necessary as learning and experimentation instruments, accomplishing this strategy requires more profound public policy intervention. Thus, it is necessary to restore the primacy of public policy and the creation of public goods over public subsidies to e.g. fertilizers, credit, electricity, water and prices, which in most cases turn out to be more beneficial to the rich than to the poor.

Reforming domestic product markets

Currently domestic product markets rarely work to the advantage of the poor. Due to unequal access to a variety of institutions, the poor generally face difficulties obtaining fair prices for their products and their access to arbitration and contract enforcement is limited, if at all existing. Moreover, due to their small scale, poor farmers, if they are not efficiently organized, incur greater costs than larger farmers to market their products and to obtain access to market information. Because the have less power as economic agents, they also tend to have no or little opportunity to negotiate price and other transaction conditions. Finally, there is an almost total lack of financial services to facilitate marketing of products from small scale farmers. Efforts to revert these anti-poor biases of domestic product markets should take place as efforts to provide the necessary information, regulatory, legal and financial services as public goods, particularly directed at developing the local and regional markets where the poor conduct most of their transactions. Examples of such public goods include grades and standards geared for the domestic markets rather than only for exports; legal and regulatory frameworks appropriate for micro- and small scale businesses to avoid that micro- and small-scale businesses are pushed into the informal sector due to the costs and complexities of the existing legal and regulatory frameworks which tend to have been developed with middle and large-scale businesses in mind.

Enhancing access to assets for the poor

Access to land consistently appears as essential for increasing the income for the rural poor. However, also water for productive purposes increasingly constitute an important asset for the rural poor if they are to stay in farming and escape their poverty, particularly as the food preferences of the urban populations are changing in favour of more water demanding crops. Unfortunately, the institutions governing access to land and water tend to work to the advantage of the landed elites and the politically powerful. Therefore, in order to be pro-poor, market-based land and water reform has to be accompanied with deep reform of the institutions registering, sanctioning and enforcing access rights.

[4] Obviously there is also a need to reform international product markets, but that will not be considered here.

Improving smallholder agriculture

Beyond reforming product and asset market institutions, achieving pro-poor agricultural growth requires the improvement of financial and technological services as well as of organizational support and of infrastructure. Apart from providing the institutional and legal backing which facilitates and guarantees the quality of micro-financial services, improving financial services entails the need to reconsider the role of public financial services. Recent decades' focus on privatization and associated neglect of public support for research and extension has not improved the access to (relevant) information and technology for smallholders and the poor. Access to relevant small-scale irrigation technology is of particular importance if smallholders are to participate in supplying the changing domestic food market. In addition, also organizational support is essential, particularly if smallholders are to access the product markets and regulatory services at a competitive cost. Rather than being based on pre-defined exotic models, such organizational support and design should be based on careful and contextual organizational needs assessment. Finally, public investments are needed to improve infrastructure and thus contributing to lower the costs of accessing product markets.

Broad-based development strategies at territorial level

Although agricultural growth is important, particularly to the rural poor, it is important not to lose sight of the fact that 'rural' does not equate 'agricultural'. To maximize the effects of agricultural growth and particularly to contribute to develop local and regional markets, careful attention has to be paid to how to contribute to strengthen rural-urban linkages through policy interventions at the regional or 'territorial' level. Moreover, given the spatial differentiation of the different types of agriculture, the above strategies require a *territorial approach* in their design and implementation. This means: (a) decentralizing policies by strengthening public and private agents and multi-stakeholder platforms at the local level such as the district development councils or the district environmental councils present in many countries, and empowering districts and other democratically elected bodies with real decision-making capacity; and (b) strengthening urban-rural and inter-sector linkages in the broad agro-rural economy, as two key conditions for the systemic competitiveness of agro-rural territories. This approach creates opportunities for a more integral display of the full range of employment option and livelihood strategies, contributing to a more pro-poor agricultural development.

Monitoring of poverty and the agricultural engagement of the rural poor

"Only what gets measured, gets done". Currently, there is a strong lack of reliable information on small-scale farmers' agricultural participation, as this tends to get under-estimated through national agricultural censuses. Moreover, there is a lack of data from systematic monitoring which permits the correlation of changes in poverty levels with engagement in agricultural activities and access to institutions governing market access and access to assets. To enable the formulation of well-informed public policies such information is essential.

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