

# Agriculture for Development

The prospects for implementing agriculture-for-development agenda are quite bright today

Three out of four poor people in developing countries live in rural areas and most depend on agriculture for their livelihoods. Thus, a more dynamic and inclusive economy in terms of agriculture could dramatically reduce rural poverty.

There are already many success stories of agriculture as a major force for poverty reduction. Most recently, China's rapid growth in agriculture has been largely responsible for the decline in rural poverty from 53% in 1981 to 8% in 2001. Cross-country estimates show that GDP growth originating in agriculture is at least twice as effective in reducing poverty as GDP growth originating outside agriculture.

Parallel to these successes are numerous failures in getting agriculture moving. Most striking is the still unsatisfactory performance of agriculture in Sub-Saharan Africa. Another challenge is the reallocation of labor out of agriculture in those regions/countries where the accelerated growth in nonagricultural sectors has concentrated poverty in rural areas and widened rural-urban income disparities. This subsequently becomes a major source of political tension and insecurity. Finally, agriculture is a major user and a frequent abuser of natural resources in most places.

## Heterogeneity Defines the Rural World

Economic and social heterogeneity is a defining characteristic of rural areas. Large commercial farmers coexist with

smallholders. Some smallholders deliver surpluses to food markets and share in the benefits of expanding markets for new high-value agricultural activities. However, many others are engaged in subsistence farming, consuming most of the produced food and participating in markets as buyers of food and sellers of labor.

Heterogeneity is found in the rural labor market where there are many low-skilled, poorly remunerated agricultural jobs and a small number of high-skilled jobs that offer workers pathways out of poverty. Heterogeneity is found in the rural nonfarm economy where low-productivity self and wage employment coexists with employment in dynamic enterprises. And it is found as an outcome of migration, which lifts some of the rural poor out of poverty but condemns others to urban slums and continued poverty.

## Three Distinct Worlds

Agriculture operates in three distinct worlds — one agriculture-based, one transforming, and one urbanized (see Table).

- In many poor *agriculture-based countries* (most of them in Sub-Saharan Africa), agriculture still makes up a high share of GDP and employment.

- In *transforming countries* in the US\$400-US\$1,800 GDP per capita range, many of them in Asia, North Africa and the Middle East and some in Europe (e.g. Albania) and Central Asia, agriculture is on average 20% of GDP and 43% of the labor force. Despite rapid growth and

declining poverty rates in many of these countries, poverty remains widespread and largely rural.

- The ratios of agriculture in GDP and in the labor force decline to 8% and 22%, respectively, in countries in the US\$1,800-US\$8,100 GDP per capita range, many of them in Eastern Europe and Latin America. In these *urbanized countries* poverty is no longer primarily a rural phenomenon, although the US\$2-a-day poverty incidence is 63% higher than in urban areas.

Countries follow evolutionary paths that can move them from one country type to another. China and India, for instance, moved from the agriculture-based to the transforming group over the past 20 years.

In each of the three groups of countries the agriculture-for-development agenda differs in pursuing sustainable growth and reducing poverty. In the agriculture-based economies the key policy challenge is to help agriculture play its role as an engine of growth and poverty reduction and to ignite a productivity revolution in smallholder farming. The agendas for transforming and urbanized economies are examined below.

## Transforming Countries: Addressing Urban-Rural Gap

In transforming countries agriculture is almost exclusively in the hands of smallholders. Continuing demographic pressures imply rapidly declining farm sizes, with acute competition over access to water, rising urban demands and deteriorating quality from runoffs.

A distinguishing feature of transforming economies is the widening gap between rural and urban incomes (see Figure). In China the incidence of urban poverty declined twice as fast as that of rural poverty between 1980 and 2001; in Indonesia, this decline was 2.5 times as fast over the same period. The transition of people out of agriculture and rural areas is not keeping pace with the restructuring of economies away from agriculture. In China, longstanding policy impediments to labor mobility held the rural population back while urban

Characteristics of the Three Country Types, 2005

|  | Agriculture<br>-based<br>countries | Transfor<br>ming<br>countries | Urbanized<br>countries |
|--|------------------------------------|-------------------------------|------------------------|
| Rural population (millions), 2005                | 417                                | 2,220                         | 255                    |
| Share of population rural (%), 2005              | 68                                 | 63                            | 26                     |
| Share of agriculture in GDP (%), 2005            | 29                                 | 13                            | 6                      |
| Annual agricultural GDP growth, 1993-2005 (%)    | 4.0                                | 2.9                           | 2.2                    |
| Annual nonagricultural GDP growth, 1993-2005 (%) | 3.5                                | 7.0                           | 2.7                    |
| Number of rural poor (millions), 2002            | 170                                | 583                           | 32                     |
| Rural poverty rate, 2002 (%)                     | 51                                 | 28                            | 13                     |

economies were expanding rapidly. In India, the low level and quality of education of most rural workers is mainly responsible for their inability to find jobs in the booming services economy.

The main challenge for transforming countries is to reduce the rapidly rising urban-rural income gap and rural poverty. All pathways out of poverty should be mobilized: farming, employment in agriculture and the rural nonfarm economy, and migration.

Rapidly expanding markets for high-value products — especially horticulture, poultry, fish, and dairy — offer an opportunity to diversify farming systems and develop a competitive and labor-intensive smallholder sector. Export markets for such products are also accessible because transforming countries have a comparative advantage in labor and management-intensive activities. The poverty impact of growth in the agricultural sector will thus depend increasingly on the poor connecting to these new growth processes, either as smallholders or laborers. Vertically integrated supply chains may pose particular challenges for them, although recent evidence from China suggests that small and poor farmers take an active part in China's rapidly expanding horticulture economy.

Agriculture alone cannot relieve rural poverty; rural nonfarm employment is also important. In India and Indonesia, for example, growth in rural services has contributed at least as much as growth in agriculture toward reducing poverty. Growth in rural nonfarm employment often remains closely linked to growth in agriculture, as agriculture becomes a larger supplier of intermediate inputs to other sectors such as processed foods. However, with urbanization and global-

ization, growth in nonfarm employment occurs increasingly independently of agriculture. Regions in India with the slowest growth in agricultural productivity had the largest increase in the rural nonfarm tradable sector. When capital and products are mobile, investors seek low-wage opportunities in areas that did not increase their incomes through higher agricultural productivity.

Faster absorption of the agricultural labor force in the urban economy should be facilitated through investments in human capital and labor market policies, such as vocational training, transport services, and job matching. Complementing these policies with those that foster rural income growth and slow migration out of the traditional sector can provide important synergies.

### Urbanized Countries: Linking Smallholders to Modern Food Markets

Agriculture makes up only 6% of the urbanized economies and contributes proportionately to growth, however the agribusiness and food industry, and services can account for 30% of GDP. Although almost three-quarters of the population of urbanized countries lives in urban areas, 45% of the poor are in rural areas, and 18% of the labor force still works in agriculture.

The broad goal is to capitalize on the rapid expansion of modern domestic food markets and booming agricultural subsectors to create opportunities for smallholders and sharply reduce the remaining rural poverty, which remains stubbornly high. The urbanized countries are experiencing the supermarket revolution in food retailing. For smallholders, being competitive in supplying supermarkets is a major challenge that requires meeting strict standards and achieving scale in delivery, for which effective producer organizations are essential.

Increasing the access of smallholders to assets, particularly land, and increasing their

voice in unequal societies can enhance the size and competitiveness of the smallholder sector. Beyond farming, territorial approaches are being pursued to promote local employment through interlinked farming and rural agroindustry. Agricultural growth is especially important to improve well-being in geographic pockets of poverty with good agricultural potential. For regions without such potential, the transition out of agriculture and the provision of environmental services offer better prospects. But support to the agricultural component of the livelihoods of subsistence farmers will remain an imperative for many years.

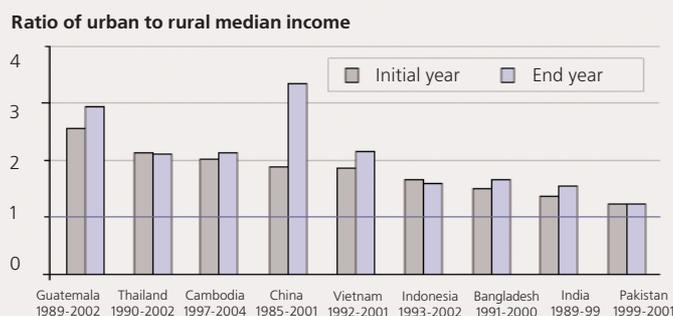
### Implementing the Agenda

The agriculture-for-development agenda presents two challenges for implementation. One is managing the political economy of agricultural policies to overcome policy biases, underinvestment, and misinvestment. The other is strengthening governance for the implementation of agricultural policies.

The prospects are brighter today than they were two decades ago. The anti-agriculture bias in macroeconomic policies has been reduced thanks to broader economic reforms. Agriculture is likely to benefit from general governance reforms, such as decentralization and public sector management reforms. But reforms specific to using agriculture for development are yet to be widely implemented.

There is also evidence that the political economy has been changing in favor of agriculture and rural development. Democratization and the rise of participatory policymaking have increased the possibilities for smallholders and the rural poor to raise their political voice. The private agribusiness sector has become more vibrant, especially in the transforming and urbanized countries. New, powerful actors have entered agricultural value chains, and they have an economic interest in a dynamic and prosperous agricultural sector and a voice in political affairs. Yet these improved conditions alone do not guarantee the more successful use of agriculture for development — smallholders must have their voices heard in political affairs, and policymakers and donors must seize the new opportunities.

#### Urban-Rural Income Disparity Has Increased in Most Transforming Countries



Source: WDR 2008 team, based on national household surveys

Full text of the report can be accessed at: [www.worldbank.org/wdr2008](http://www.worldbank.org/wdr2008). BT