

# Potential and challenges of agriculture to contribute to pro-poor growth

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In development circles some controversy on the importance of agriculture for achieving pro-poor growth, and ultimately the MDGs, is going on. Agri-optimists who consider agricultural growth as a key for pro-poor growth and agri-pessimists who see a decreasing role of the primary sector in the fight against poverty are debating with each other. This article tries to review the positions based on a range of recent publications combined with personal observations of the author in various countries.

## Agri-optimists and agri-pessimists

It is meanwhile broadly accepted that for large-scale poverty reduction economic growth is necessary, and that this growth needs to be pro-poor, i.e. benefit the poor population segments more than proportionally. How to make pro-poor growth happen is less clear, and in particular there is a debate on the potential of agricultural growth to substantially contribute to poverty reduction.

As people who are mainly dealing with agricultural and rural development, we naturally tend to consider our area of work important for poverty reduction. Unsurprisingly also organisations like FAO, IFPRI and other CGIAR centres usually stress the importance of agricultural development for pro-poor growth. But what does recent more neutral literature say? Despite mentioning the concerns of the agri-pessimists, a range of recent documents on the topic, which represent major organisations like the World Bank, DFID, GTZ, ODI, AFD and the OECD<sup>1</sup>, are convinced that agricultural growth is a key ingredient of pro-poor growth. The more general pro-poor growth documents often do not mention particular sectors, but stress the importance of macro-economic policy, governance and an enabling environment for the private sector. The DAC Poverty Net (of the OECD) views agriculture, infrastructure and private sector participation as key contributors to pro-poor growth. The concerns of the agri-

pessimists are acknowledged by the agri-optimists, and then countered with arguments why these concerns are not decisive and absolutely valid: agri-optimists view the agri-pessimists' arguments as the challenges for pro-poor agricultural development, rather than as reasons for focusing on other avenues to promote pro-poor growth.

So literature, also by non-agricultural and non-rural specialists, is mainly agri-optimistic, but in my experience the rural people in many places are not. Young people, particularly the better educated ones, are looking intensely for opportunities to get out of agriculture. In Pakistan even menial and low-paid jobs as drivers and watchmen are considered more profitable and desirable than farming. There are also other indications that the prospects for pro-poor agricultural growth are not so bright. Literature on the rural non-farm economy states that many rural people move into rural non-farm activities out of distress, because farming does not offer opportunities for a living. Low-priced imports into "poor" countries depress domestic prices for agricultural products to unviable low levels. Then what are the arguments that support the importance of agriculture for pro-poor growth and what are the challenges to put it into practice?

## Why agriculture is important for pro-poor growth

Although poverty reduction cannot be achieved through agriculture alone, there are also no countries that have achieved substantial poverty reduction without agricultural growth. There are a range of reasons why agriculture is important for pro-poor growth.

Pro-poor growth means growth in sectors in which the poor are involved, in regions where the poor live, and which make use of the resources which they possess. Since the majority of the poor live in rural areas and depend to a large extent on agriculture, agricultural growth is important. This is particularly so in the least developed countries, but also in more advanced middle income

countries poverty is very much rural and concerns people living mainly on agriculture.

In the poorest countries poverty is so widespread that something big is needed - growth in a large sector. Agriculture is in those countries normally the largest sector, and thus a relatively small increase in productivity can make a substantial impact on the average incomes, provided it is broad sector-wide growth and not just fast growth in small niches.

Demand for food is growing and will continue to grow. Most of the poorest countries, particularly those in Africa, currently import a lot of agricultural products – food staples as well as fruits and vegetables. If local farmers can capture a sizable part of their domestic food markets, this very likely has a direct poverty-reducing effect, and in addition frees foreign exchange for the import of goods that really cannot be produced in the concerned countries.

Agricultural growth has leverage on growth in other areas through rising incomes in rural areas which foster growth in the rural non-farm economy, employment and income opportunities in downstream enterprises, lower food prices, higher wages for agricultural labour etc.

There is consistent evidence that agricultural growth has a high elasticity of poverty reduction compared to other sectors, i.e. a certain change in the agricultural sector results in a higher change in income of the poor than in other sectors.

Alternative engines for broad-based growth are mostly lacking. The poorest countries usually have a weak industrial base and international competition in the labour-intensive low-cost manufacturing sector is strong (e.g. from China, India). The services sector depends on domestic demand, and this demand increases with rising incomes, and thus does not serve as an engine, but rather follows growth in other sectors. In virtually all countries that reduced poverty substantially over the past decades, growth was initially driven by the primary sector; the resulting rising incomes then served to enable growth in domestic industry and services, and led only later to successful access to international markets. Mineral extraction, tourism etc. equally do not have the potential to drive broad-based growth, though they can – like other industries and services – make important contributions to poverty reduction.

Agriculture, even at its best, cannot provide a living for all poor people. There is a need for strategies to support

those who want to exit agriculture. Agricultural growth fosters growth of the rural non-farm sector that then provides increasing off-farm employment and income opportunities. Agri-pessimists suggest to encourage the rural poor to enter non-farm businesses. However, there competition is fierce, rural unskilled poor people are not the most competitive, and growth prospects are rather weak.

Though agriculture loses importance with advancing structural transformation, it remains important for poverty reduction even in middle income societies.

### **Some challenges to putting pro-poor agricultural growth into practice**

Though the indications are that agriculture is essential for pro-poor growth, it is clear that there are major challenges linked to putting pro-poor agricultural growth into practice, and that it can be achieved only with the right conditions and strategies; the views on the how diverge. In the following some of these challenges are discussed.

Not all agricultural growth is pro-poor. There is evidence that growth in export agriculture has only limited poverty impact whereas domestic agriculture has the potential for broader impact. Some authors emphasise the importance of productivity gains in staple food crops, particularly in Africa, while others see more potential in diversification into cash crops for local markets (e.g. vegetables and fruits). It appears difficult to provide a generalised answer, and the most promising strategy will depend on local opportunities and constraints. However, productivity can only be increased if it is economically viable to do so, and in many African countries, increasing yields of food crops through more input use is not viable – output prices are too low and input prices too high. While large distances and scarce infrastructure limits the opportunities for more profitable marketing for many poor rural producers, the trend to supermarketisation that increasingly concerns also “poorer” countries may put also those small-scale suppliers who currently have good access to local markets out of profitable business. These issues hint at some of the big challenges to pro-poor agricultural growth: developing profitable opportunities that benefit poor rural producers.

World market prices for staple food crops (grains, beans etc.) and traditional export crops (coffee, cocoa, cotton etc.) are low and may remain low, for reasons like over-

supply and export subsidies of better-off countries. Also domestic prices for agricultural products have declined over the past decades in many countries. Agri-pessimists view this as an obstacle for a role of agriculture in poverty reduction. On the other hand, these might be challenges that can be overcome, e.g. through specialty production and marketing (e.g. high-value coffee), or focus on locally marketable high-value crops, and of course, continued engagement in fighting those rich-country subsidies that are most harmful for poor countries.

Agri-pessimists argue that trade in food will reduce the reliance on domestic production to supply growing food markets and so undermine the chances of small-scale producers to exploit these opportunities. However, global supply of food is not large enough to allow a bigger number of countries to by-pass own agricultural production through imports.

Nevertheless the question of trade vs. own production is important with respect to water resource use. Proponents of the concept of virtual water (the amount of water needed to produce food and other agricultural products) suggest that in future it may make sense to include the virtual water content into considerations of comparative advantages, and produce food where water is abundant and trade it to water-scarce regions. Many of the poorest regions in the world are arid or semi-arid, and in these countries these ideas need to be taken into consideration when designing pro-poor growth policies, though there are also other avenues to deal with water constraints. There are innovative and affordable water control technologies (watershed management, water storage, small-scale irrigation etc.) with high potential for poverty reduction, which are not yet widely utilised and inadequately promoted.

Agricultural growth in the past (notably the green revolution in Asia) has been based on a technological push. Agri-pessimists argue that agricultural technology does not have growth potential any more. This is not really true: Examples of productivity<sup>1</sup> increases are widespread; however, the means for these are not as uniform and broadly applicable as the green revolution technologies. Local solutions are necessary, and more attention should be given to practical low external input practices, not only for ecological, but also very much for economic reasons. Important aspects for putting this into practice are adaptive research and innovation development with involvement of producers, and knowledge management mechanisms which make the practical solutions gener-

ated in one place accessible to the many other people who could benefit from these.

While in the 1990s the Washington consensus that emphasised liberalisation as key to development was widely accepted, it is now recognised that public policy is important for pro-poor growth. This concerns for example effective public and private institutions. The view that with withdrawal of the public sector from agricultural services (inputs and extension) the private sector will fill the void proved largely wrong, and it remains a role of the public sector to pro-actively foster the building of functioning effective institutions – be they public, cooperative or private.

Another public policy issue are subsidies and tariffs. While they are not generally condemned in development circles anymore (though WTO negotiations make one think otherwise), it is also clear that they are often counterproductive. E.g. in the Indian part of Punjab subsidies favouring rice and wheat production led to disincentives for diversification into higher value products and so slowed down growth. In Indonesia tariffs on rice imports protected rice producers, but led to an increase in poverty due to rising rice prices for consumers. Thus it is important that the effects of particular subsidies and tariffs are fully understood and observed over time; only based on this smart subsidy and tariff regimes can be designed.

## Main readings

DFID (2005): Growth and poverty reduction: the role of agriculture.

Operationalising pro-poor growth research program (2005): Pro-poor growth in the 1990s – lessons and insights from 14 countries. DFID, AFD, BMZ, World Bank.

Agriculture and Rural Development Department of the World Bank (2005): Agriculture, rural development and pro-poor growth – country experiences in the post-reform era.

In addition to these major documents, a range of smaller papers, presentations and statements of people from institutions like ODI, the DAC poverty net, SDC, IFPRI, World Bank, and Imperial College contributed to this article.

<sup>1</sup> Note that productivity does not only mean yield per area, but also more profitable marketing, more effective use of means of production such as inputs and labour.