



AGRICULTURE FOR DEVELOPMENT POLICY BRIEF

Agriculture and Poverty Reduction

Seventy-five percent of the world's poor live in rural areas. The evidence that growth in agriculture is on average at least twice as effective in reducing poverty as growth outside agriculture is thus no surprise. Agricultural growth reduces poverty directly, by raising farm incomes, and indirectly, through generating employment and reducing food prices. Pro-poor agricultural growth is centered on smallholder farmers who are made more competitive and sustainable through institutional and technological innovations and empowered through producer organizations. These interventions must be complemented by massive investments in rural education to transition into more skill-intensive employment and successful migration.

Poor people are concentrated in rural areas and most of them depend on agriculture.

Seventy-five percent of the world's poor live in rural areas—883 million people at the US\$1-a-day poverty level. Rural poverty rates (29 percent on average) are substantially higher than urban rates (13 percent). Globally, rural poverty rates have declined from 37 percent in 1993 to 29 percent in 2002, mainly due to the achievements in East Asia, where poverty rates declined from 35 percent to 20 percent in ten years, implying a decline in the number of rural poor from 400 million in 1993 to 220 million in 2002. On the other hand, rural poverty remains frustratingly high and tenacious in South Asia (39 percent in 2002), where the biggest concentration of rural poor is found (400 million) and Sub-Saharan Africa (where poverty rate has hovered above 50 percent for the last ten years, and absolute numbers have increased from 208 million in 1993 to 228 million in 2002). And a majority of the poor will remain rural for many years to come.

Most of the rural poor depend, directly or indirectly, on agriculture for their livelihoods. Agriculture is a source of livelihoods for an estimated 86 percent of rural people (2.5 billion people) and provides jobs for 1.3 billion smallholders and landless workers. A more dynamic and inclusive agricultural sector could dramatically reduce rural poverty, helping countries meet the Millennium Development Goal of halving poverty and hunger by 2015.

Agriculture has special powers in reducing poverty.

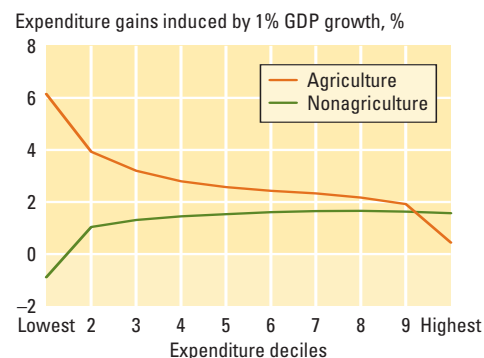
Agricultural growth is especially effective in reducing poverty. Cross-country econometric estimates show that overall GDP growth originating in agriculture is, on average, at least twice as effective in benefiting the poorest half of a country's population as growth generated in nonagricultural sectors (figure 1). Indeed, many countries that had relatively high agricultural growth rates saw substantial reductions in poverty: China's rapid growth in agriculture—thanks to the household responsibility system, the liberalization of markets, and rapid technological change—was initially responsible for the rapid decline in rural poverty from 53 percent in 1981 to 8 percent in 2001. Agriculture was also the key to India's slower but still substantial long-term decline of poverty. Most recently, Ghana is Africa's breaking story of a 24 percentage point

reduction in rural poverty over 15 years, in part because of recent strong agricultural performance.

But success in agriculture does not always reduce poverty. In Bolivia and Brazil, where agricultural growth has been concentrated in a dynamic export-oriented sector of large capital-intensive farms, agricultural employment declined and shifted to higher-skilled, higher-wage workers, with little poverty reduction effects.

Indirect effects of agricultural growth on poverty are as important as direct effects.

Agricultural growth can reduce poverty directly, by raising farm incomes, and indirectly, through labor markets and by reducing food prices. The poverty-reducing effect of increasing farm incomes depends on the participation of poor smallholders in the growth process. Agricultural growth also reduces poverty to the extent that it creates employment opportunities for the poor. In South Asia and Latin America, 25 percent of the active rural males, usually the poorest, are primarily employed as wage laborers in the agricultural sector. Increasing productivity of those staple foods that are non-tradable reduces food prices to poor consumers. In addition to the

Figure 1. Welfare Gains from Growth Originating in Agriculture

Source: Ligon, Ethan, and Elisabeth Sadoulet. 2007. "Estimating the Effects of Aggregate Agricultural Growth on the Distribution of Expenditures." Background paper for the WDR 2008.

Note: The two curves are significantly different at the 95 percent confidence level for the lowest five expenditure deciles.



urban poor, more than half of poor rural households are typically net food buyers benefiting from lower prices. Studies from India show that, in the long term, the food price effect has the largest influence on poverty reduction.

Policies are needed to enhance the pro-poor effects of agricultural growth.

A policy environment conducive to faster agricultural growth is necessary for poverty reduction (see the brief on Agriculture and Economic Growth). But for agricultural growth to reduce poverty substantially, smallholder farming must be competitive and sustainable. The poverty-reducing effects of growth also depend on a buoyant rural nonfarm economy, often linked to agriculture.

Access to assets. Access to land, water, and human capital critically determine the ability of households to participate in agricultural markets, secure livelihoods in subsistence farming, compete as entrepreneurs in the rural nonfarm economy, and find employment in skilled occupations. Yet the rural poor have few of these assets, and their limited asset base is often further eroded by population growth, environmental degradation, expropriation by dominant interests, and social biases in public expenditures. Enhancing assets requires significant public investments in irrigation, health, and education. Increasing assets may also call for affirmative action to equalize chances for disadvantaged or excluded groups, such as women and ethnic minorities.

Access to markets. Connecting smallholders to new dynamic markets for high-value products provides an opportunity for more rapid reduction of poverty but also poses a challenge. It requires investing in market infrastructure and upgrading farmers' technical capacity to meet demanding standards. Producer organizations are essential for smallholders to achieve competitiveness, to realize economies of scale in market transactions, and to gain market power.

Reducing transaction costs and risks in food staples markets can also benefit the poor. Beyond investments in infrastructure, promising innovations include commodity exchanges, market information systems based on rural radio and short messaging systems, and market-based risk management tools. Market liberalization that reduces food prices can be pro-poor because many of the poor, including smallholders, are net food buyers.

Improving productivity. Revolutionary advances in biotechnology offer potentially large benefits not only to poor producers but also to poor consumers through lower food prices and more nutritional foods. Sharply increased public investment in research and development is needed to ensure design of such pro-poor technologies. Better technologies for soil, water, and livestock management and more sustainable and resilient agricultural systems, including varieties more tolerant of pests, diseases, and drought, are also especially important for subsistence-oriented farmers. Development and adoption of those technologies usually require more decentralized and participatory approaches, combined with collective action by farmers and communities.

Financial and risk management services for smallholders. Important progress has been made in providing the rural population with improved access to savings facilities, credit, and support

to financial transactions. Exposure to uninsured risks—the result of natural disasters, health shocks, demographic changes, price volatility, and policy changes—has high efficiency and welfare costs for poor rural households. Institutional innovations such as index-based insurance for drought risk, which is now being scaled up by private initiatives in India and elsewhere, can reduce risks to borrowers and lenders and unlock agricultural finance. Yet many of the innovations are still at an early stage of testing.

Natural resource management. Many of the rural poor live in less-favored areas that suffer from deforestation, soil erosion, desertification, and degradation of pastures and watersheds. Poor people in these areas are also most vulnerable to climate change. Community-based approaches to natural resource management offer significant promise, but they critically depend on the quality of local governance. In addition, payments for environmental services can help overcome market failures in managing environmental externalities, requiring putting into place new markets for these services. But the effects of climate change cannot be addressed through community-based approaches alone, and it is urgent that the international community scale up its support to climate-proof the farming systems of the poor.

Voice and accountability. Giving the poor greater voice in policy decision making and making institutions more accountable to them through decentralization is a central component of a pro-poor growth strategy. Producer organizations can give political voice to smallholders and hold policy makers and implementing agencies accountable by participating in agricultural policy making, monitoring public expenditures, and engaging in policy implementation. Community-driven development can also harness the potential of rural communities—their local knowledge, creativity, and social capital. But decentralized institutions need to address local elite capture and social exclusion, which tend to be prevalent in agrarian societies with high levels of inequality.

More and better jobs. Many high-value activities such as horticulture and dairy farming are labor intensive and generate substantial employment, with significant poverty-reducing effects as in nontraditional exports in Chile and Senegal. But agriculture alone cannot relieve rural poverty; rural nonfarm employment is also important. Growth in rural nonfarm employment such as processed foods is closely linked to growth in agriculture, but it increasingly also originates through urban-rural subcontracting, especially closer to the cities. The policy priority is to massively invest in rural education, to provide educational and skill opportunities relevant to emerging job markets, and to develop labor regulations appropriate to rural working conditions.

Commercial farming and fair labor markets also play a role.

In an emerging vision of agriculture for development, production is mainly in the hands of smallholders, who can be the most efficient producers, in particular when supported by strong producer organizations. But when those organizations cannot capture economies of scale in production and marketing, labor-intensive commercial farming can be a better form of production, and efficient and fair labor markets are the key instrument to reducing rural poverty.

This policy brief has been extracted from the World Bank's 2008 World Development Report, *Agriculture for Development*. Further information and detailed sources are available in the Report. The Report uses a simple typology of countries based on the contribution of agriculture to overall growth, 1990-2005 and the share of rural poor in the total number of poor (2002 US\$2-a-day level). In agriculture-based countries (mostly Africa), agriculture contributes a significant (>20%) share of overall growth. In transforming countries (mostly in Asia), nonagricultural sectors dominate growth but a great majority of the poor are in rural areas. In urbanized countries (mostly in Latin America and Europe and Central Asia), the largest number of poor people are in urban areas, although poverty rates are often highest in rural areas.