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DAC Network on Poverty Reduction

JOINT SESSION OF THE DAC NETWORK ON POVERTY REDUCTION (POVNET) AND THE
COMMITTEE FOR AGRICULTURE (COAG)

BACKGROUND NOTE

15-16 November 2006

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**JOINT SESSION OF THE DAC NETWORK ON POVERTY REDUCTION (POVNET)
AND THE COMMITTEE FOR THE AGRICULTURE (COAG)**

BACKGROUND NOTE

1. In the spirit of the OECD's efforts to strengthen coherence across work in its different committees, the respective Chairs the Committee for Agriculture (COAG) and the Development Assistance Committee Network on Poverty Reduction (POVNET) agreed to organise this joint session. The aim is to have an open and policy focused exchange of views on the role of agriculture in economic growth, development and poverty reduction in developing countries. The discussion should be forward looking with two main objectives:

- a) to increase awareness of COAG and POVNET on the priorities and planned activities related to agricultural development and poverty reduction in developing countries; and
- b) to identify areas of cooperation which could help improve the quality and consistency of the various outputs and policy messages from both policy communities.

2. The joint session will last three hours and will be co-chaired by the Chairs of both groups. Two member countries will be invited to open the discussion. In addition to COAG and POVNET delegates, participation by the OECD Development Centre, the Sahel and West Africa Club and the new African Partnership Forum (APF) Support Unit is welcomed.

3. As background information, the Annexes to this note provide some information on the main activities and key messages of the respective Committees. The questions suggested below may help focus the discussion:

- **What synergies can be strengthened between the COAG and POVNET policy messages on agricultural development?**
(e.g. impacts of agriculture on poverty reduction, getting political support for necessary reforms in OECD and developing countries)
- **Where are the gaps in our knowledge about agricultural development?**
(e.g. potential for agricultural development, government agenda, policy environment, policy process, policy effectiveness, institutional constraints, role of aid)

4. At the end of the session, the respective COAG and POVNET Chairs will sum up the discussion and reflect on possible areas for future cooperation. AGR and DCD Directors may also wish to offer some observations. There will be no formal output other than a note on this item in the usual COAG and POVNET summary records.

ANNEX 1

**OUTREACH ACTIVITIES AND POLICY MESSAGES OF THE
OECD COMMITTEE FOR AGRICULTURE**

Main Committee Outreach Activities

5. Food, agriculture and fisheries constitutes the largest component of economic output and employment in less developed countries, and is inextricably linked to overall economic growth, development and poverty reduction. Committee outreach activities provide selected non-members with policy analysis, capacity building and the opportunity for dialogue with OECD countries. A wide range of issues have been addressed including policy reform (*i.e.* impacts on commodity markets, agricultural trade, farm incomes, welfare gains), policy design (*i.e.* levels and composition of support, targeting, decoupling), input markets, multifunctionality, rural development, policy coherence and agri-environmental measures. There are three essential elements of the Committee's outreach strategy: broad-based dialogue, country-specific reviews and observer status. Currently, Argentina, Brazil and Chile have observer status to the Committee while Russia is an observer on the subsidiary commodity groups. Other activities are outlined below.

Broad-based dialogue

6. Given that the outreach strategy adapts in light of the Committee's evolving programme of work, the number and mix of non-member participants changes over time. The focus of this element is dissemination of available policy information, analysis and advice to a wider group of economies.

7. *Global Forum on Agriculture*: At least one Global Forum on Agriculture is held in Paris each year with a broad range of non-member economies invited to participate. Themes vary but the aim is to bring together OECD countries and non member economies to share experiences on how policies can more effectively achieve stated government objectives. These events are usually held back-to-back with Committee for Agriculture meetings to ensure active participation by Member countries. Relevant outputs are distributed widely via websites and publications. Since 2004, the World Bank has been a major contributor to the funding of these events. The two forums held in 2006 examined the constraints to Sub-Saharan agricultural development (May) and agricultural policy developments in major non-member economies (November).

8. *Regional Outreach Events*: Regional events are a new Committee activity initiated in 2005-06 and funded by the internal OECD CPF and voluntary contributions. The objective is to increase awareness and understanding of key policy issues, and to help inform the policy analysis and policy making process in selected economies. The events are organised in co-operation with other OECD Directorates and international and regional organisations, as appropriate. Active participation of national governments and member country experts from the target region is essential. Two regional workshops were held in 2006: "Fostering Country-Owned Policy Strategies for Agriculture and Rural Development (Saly Senegal) in cooperation with DCD, IFAD and the Hub in Dakar; and "Agriculture and Trade in Latin American Countries" (Buenos Aires, Argentina) in cooperation with WTO and IDB.

Country-specific activities

9. Country-specific activities are a more intensive form of outreach, requiring much more co-operation and contribution from the target country to the policy analysis and dialogue. The focus of this element is on development and discussion of new, country-specific policy evaluation and advice using well established OECD analytical tools and methodologies.

10. *Full-fledged country review of agricultural policies*: The main objective of a review is to provide an internationally comparable assessment of agricultural policies in the country concerned. A key component of any review is producer/consumer support estimate (PSE/CSE) calculations but these reviews examine agricultural policies in the broader context of trade issues, structural adjustment, rural development, poverty reduction, sustainability of resource use, land reform and institutional challenges. Full participation by the target country helps integrate the results into national policy analysis and decision-making, while the peer review promotes greater international awareness of non-member experiences, challenges, and opportunities. There is a significant capacity building component to these activities with local consultants engaged in the study and visiting experts brought to work at the OECD. Reviews of Brazil, China, India and South Africa were completed in 2005-06, with Kazakhstan and Chile reviews planned for 2007.

11. *Reviews of Agricultural Policies*: Full-fledged OECD country reviews of agricultural policies (including PSE/CSE calculations) are very resource intensive, time consuming and aimed at on-going dialogue with the OECD. For many of the least developed countries, a less intensive review is more feasible and appropriate, recognising that information is limited and that the established expertise on these less developed economies resides in other international organisations. The OECD, FAO and World Bank are engaged in various co-ordinated activities to assess agricultural policy in developing countries. Of particular interest are the least developed African countries as evidenced by the stated commitment of OECD countries to the Doha Development Agenda and the Millennium Development Goals.

12. *Monitoring and Evaluation of Non-Member Economies*: Non-member economies for which a full-fledged country review has been completed are included in a regular peer review monitoring exercise. Recent agricultural policy developments in each country are evaluated and levels of support calculated using the same PSE methodology applied to Member countries. There are currently 8 countries in this group – Brazil, China, India, South Africa, Russia, Ukraine, Bulgaria and Romania. Additional monitoring and dialogue is focused on China, where agriculture continues to be a high priority under the CCNM China programme.

13. *Support to African Agriculture Project (SAAP)*: This exploratory project deserves special mention because it is the first Committee activity in Sub-Saharan Africa and closely linked to activities of the DCD/DAC and should complement the mandate of the newly established OECD Support Unit for the African Partnership Forum, formed at the request of the G-8. This joint project with the International Fund for Agricultural Development (IFAD), the French Ministry of Foreign Affairs (MEA) in cooperation with the HUB in Dakar is aimed at helping African governments improve the design and effectiveness of their policies for agriculture and rural development, with pilot projects in Cameroon, Ghana and Mali.

Key Committee Policy Messages in the Context of Outreach

14. The Committee for Agriculture has a long history of examining agriculture, trade and development policies in both OECD and non-member countries. Policy analysis and extensive dialogue has generated a number of policy messages related to agriculture and rural development of particular relevance to developing countries. While each country has specific opportunities and constraints, the following general policy observations appear to apply across the board.

Agricultural growth can contribute to poverty reduction

15. The OECD has recently undertaken reviews of agricultural policies in Brazil, China, India and South Africa. While the pace has varied, agricultural policy reform in these countries has been towards price deregulation, more open markets and lower or more targeted support. When combined with overall economic reform, these countries have demonstrated that agriculture can contribute towards achieving sustainable economic development and poverty alleviation. In each case, there is an interest in ensuring balanced economic development across rural and urban areas, and across economic sectors within rural areas themselves. Increasing off-farm income opportunities greatly benefit both agriculture and rural areas. Land market reforms, improving infrastructure and encouraging innovation in technology and the knowledge-base remain important priorities.

Poor farmers would gain from trade liberalisation

16. A recent study looks into the implications of reducing agricultural trade protection and trade distorting domestic support, with a focus on the level and distribution of income across nations and within countries. Of special interest to policymakers in OECD and non-OECD countries alike is the potential harm done by OECD farm subsidies in developing countries and especially to poor farmers in developing countries. Although there is some controversy surrounding the magnitude of these effects, most studies find that developing countries as a group would gain in aggregate terms from reform of OECD agricultural policy, though some individual countries might lose, pointing to the need for adjustment assistance. Less controversially, most studies show that developing country farmers stand to gain from such reform, with the exception of farmers depending heavily on preferential exports of products that are highly protected in the importing OECD countries – an issue, though, that is concentrated on a small number of countries and products.

Trade liberalisation is not a panacea

17. The theme of the 2005 Global Forum was policy coherence - the kinds of policy reforms required in both developed and developing countries to enhance global agricultural trade and to reduce poverty and alleviate hunger. A key message was that trade liberalisation, while important, must be linked to development aid, debt relief and effective domestic policies to formulate a coherent strategy for development. In developing countries, a whole of government approach is needed – macroeconomic stability, land and labour market reforms, infrastructure improvements, good governance systems and active stakeholder groups. Moreover, the sequencing of reforms is important while the ensuing structural adjustment requires time and, in some cases, temporary assistance. In many countries, the degradation of natural resources (*i.e.* in particular water and soils) is a growing constraint to development.

There is insufficient monitoring and evaluation of policies

18. The 2004 Global Forum on Agriculture considered how the provision of economic data and analysis can be tailored to the needs of policymakers in developing countries. Several participants noted that there is very little assessment in developing countries of existing policies - their economic efficiency, effectiveness or any spill over effects. A specific criticism was that often there are “too many architects and not enough builders”; a reference to the need for policy analysts to address the issue of “how” as well as “what” to reform. This involves consideration of such strategic elements as the political economy, sequencing of reforms and facilitating adjustment.

African agriculture has high potential

19. In May of this year, the Global Forum examined the constraints to development of Sub-Saharan agriculture. The main message was that existing science and technology can go a long way towards

addressing production problems but greater efforts on research and extension as well as attention to broader economic, social and political conditions are also required. Institutional barriers (e.g. social and cultural norms, property rights, capital flows, research and extension) were highlighted as contributing to malfunctioning markets and ineffective policies. Considerable emphasis was placed on the importance of a "political will" for reform but a lack of information and analysis was seen as a severe limitation to effective decision-making.

Often an overall development strategy is lacking

20. Initial results from the Support to African Agriculture Project (SAAP) emphasise the importance of a country-owned development strategy. As a first step towards improving performance of agriculture and promoting rural development, policy makers need a coherent and well argued strategy which provides a direction and road map for action. Too often basic information is missing and a series of individual projects takes the place of an overall vision. In order to develop a country-owned policy agenda for development of agriculture and rural development, the country needs a) good understanding of the situation and prospects for the sector in the broader national context; b) clear objectives for the sector reconciled with national and regional policy objectives; and c) realistic policy options backed by political will and broad-based support.

A development strategy is only as good as its implementation

21. The upcoming joint AGR/DCD regional outreach event in Saly, Senegal will address both strategy development and implementation issues. A well developed strategy based on sound analysis, clear objectives and specific policy recommendations is a critical start but of equal importance is translating the strategy into a prioritised and budgeted action plan with clear roles and responsibilities and a transparent monitoring framework. Specifically this involves: a) linking the strategy to a medium-term budget expenditure framework and mobilising domestic and international, public and private investments; b) engaging a wide range of actors in the public and private sectors to ensure buy-in and coherence with other development policy objectives; and c) accountability mechanisms and monitoring frameworks need to be developed to facilitate implementation and measure performance.

ANNEX 2

ENABLING PRO-POOR GROWTH THROUGH AGRICULTURE

The POVNET Role

22. The Network on Poverty Reduction (POVNET) is a subsidiary body of the Development Assistance Committee (DAC). Its primary mandate is to provide a forum for the exchange of experience and best practice on poverty reduction in developing countries. The recent work of POVNET guides donors on strategies and policies in areas that contribute to pro-poor economic growth. At the sectoral level, it has given particular attention to infrastructure, private sector development and agriculture. Over the past two years, POVNET has conducted an in-depth analysis of the important contribution of agriculture to pro-poor growth resulting in the report, *Enabling Pro-poor Growth Through Agriculture*. Evidence shows that agricultural growth enables poor countries, poor regions and ultimately poor households to take the first steps toward economic transformation. Agriculture has in many places connected broader economic growth and the rural poor, increasing their productivity and incomes. This study, which has been adopted by the DAC, sets out key priorities for action in areas such as increasing sector productivity and market opportunities, diversifying livelihoods and reducing risk and vulnerability. In doing so, it urges donors to strengthen in-country analytical capabilities and to establish systems to monitor poverty reduction strategies. POVNET now seeks initiatives to enhance the implementation of the measures outlined in the study. A summary of the key messages is provided below.

Agriculture's Central Role in Stimulating Pro-Poor Growth

23. In most poor countries, agriculture is a major employer and source of national income and export earnings. Growth in agriculture tends to be pro-poor. Agriculture connects economic growth and the rural poor, increasing their productivity and incomes. The importance of agriculture for poverty reduction, however, goes well beyond its direct impact on rural incomes. Agricultural growth, particularly through increased agricultural sector productivity, also reduces poverty by lowering and stabilising food prices; improving employment for poor rural people; increasing demand for consumer goods and services, and stimulating growth in the non-farm economy.

A More Challenging Context for Agriculture Growth

24. Today, rural households face challenges much different than those faced by the “green revolution” producers who achieved sustained gains in agriculture productivity only a few decades ago. Over the past 20 years there has been a substantial decline in public sector support for agriculture and many producers have lost access to key inputs and services. Today, links to markets are more tenuous and complicated by much greater integration of the global economy. Economic integration is accompanied by other challenges that further weaken the socio-economic position of the rural poor, *e.g.* the HIV/AIDS pandemic, climate change and conflict.

The Urgency of a New Agenda

25. Attention to agriculture in terms of policy commitments and investment levels has declined in both international donor and developing country policies and programmes, despite the demonstrated high rates of return and the reductions in poverty that come from such investments. Yet achieving the internationally agreed poverty reduction targets will depend on establishing higher rates of economic

growth, which equates to growth in agricultural sector productivity for the majority of countries where these targets are relevant.

Principles of the New Agenda

26. DAC work on the contribution of agriculture to pro-poor growth has identified four principles of engagement at the core of the new agenda.

Adapting approaches to diverse contexts...

27. Current reality in rural areas is defined by a highly diverse range of stakeholders involved in agriculture – with considerable variation in their assets and access to markets and the way institutions promote or constrain their interests. To address the needs of the rural poor, policy needs to be informed by the dynamics in these processes. That, in turn, needs to be based on an understanding of the place of agriculture in the rural economy and in people's livelihood strategies, in the productive potential of the land and labour involved in agricultural production and the opportunities for agricultural enterprises.

28. A typology of five “rural worlds” can guide policy makers in understanding the diverse rural and agricultural systems and dynamics and respond with appropriate pro-poor policies. By using a more differentiated analysis based on people's livelihoods, it makes clear that poverty is located unevenly across and within rural populations, that policy in and for agriculture affects different groups in different ways and that the actions of one rural group can improve or impair the livelihoods of others.

Building institutions and empower stakeholders...

29. Much of the failure of agriculture to achieve its potential is institutional. Support by the state has been unresponsive to the needs of the poor and inefficient in marketing producers' output, sometimes preventing the natural development of markets for producers. These problems are often magnified for female farmers.

30. A strategy to strengthen institutions must also develop the skills, the capacity, and the organisation of poor rural producers to maximise their input in the policy processes and ensure accountability of policymakers. A major challenge, particularly in public extension and research services, is the capacity of the institutions themselves to deliver client-focused services for households.

Supporting pro-poor international actions ...

31. Three important processes can have major impacts on the successful implementation of the new agenda for agriculture. One is the global trade negotiations to reduce agricultural protection and subsidies. A second is a major scaling up of aid in response to the challenge of meeting the Millennium Development Goals. A third is the multi-donor commitment to improve aid effectiveness, as set out by the Paris Declaration of March 2005. On agriculture specifically, G8 heads agreed to support a NEPAD-inspired, comprehensive set of actions to “raise agricultural productivity, strengthen urban-rural linkages and empower the poor”.

Fostering country-led partnerships...

32. The Paris Declaration calls for an ambitious reform in the way aid is managed and donors should be guided by these principles in helping countries unlock agriculture's potential contribution to pro-poor growth. National poverty reduction strategies (PRSs), the main point of reference at the country level for operationalising the aid effectiveness agenda, are critical for implementing the new agenda for agriculture. But agriculture and rural development have been neglected in past PRSs, largely due to an inadequate

understanding of the agricultural and rural dimensions of poverty. A key challenge is to redress the imbalance in the PRSs—to raise the profile of the productive sectors in general, and of agriculture in particular.

Priorities for Action in the New Agenda

33. Efforts to stimulate agriculture's role in pro-poor growth should, on the basis of the principles above, be used to guide renewed attention to three priority areas.

Enhancing agricultural productivity and improved market opportunities...

34. Improving sector productivity and expanding market access is at the core of a more robust agricultural economy. Productivity gains will depend upon a supportive policy environment that enables rural producers to use the resources available to them more efficiently and sustainably. Secure and equitable access to land and water resources, rangelands, fisheries and forests is a key ingredient of this policy environment. The development of rural financial services is equally important to allow for purchases of inputs and equipment in order to increase the productivity of land and labour and stimulate income-generating activities.

Promoting diversified livelihoods...

35. The connections between the agricultural and non-agricultural rural economies are key drivers of diversified livelihoods. A thriving agriculture sector underpinned by improved productivity will expand the rural economy and influence wages and food security. Governments and external partners should improve their understanding of labour markets and migration patterns and incorporate that understanding in national policies; establish functioning land markets, so that people are more able to move to new forms of economic activity; promote entrepreneurship; and tailor investments in infrastructure, education and health services to new livelihood patterns.

Reducing risk and vulnerability...

36. Poor households with livelihoods dependent on agricultural production face numerous shocks and stresses, some potentially catastrophic. The level of risk facing poor rural households has risen with increased market exposure linked to globalisation. Reducing levels of risk, where possible, and provision of instruments to reduce vulnerability has to be a central element of pro-poor agriculture policy.

Managing the Change Process

37. Donors will need to find ways to work effectively with their partners to promote sustainable, country-driven and programme-based development that recognises the important contribution of agriculture to pro-poor growth. Donors can help build research and institutional capacity to underpin and inform the change processes. They can facilitate the involvement of rural stakeholders in shaping these policies, institutions and investments to ensure that they respond to livelihood needs. They can foster dialogue and support efforts to establish open, participatory monitoring frameworks. And they will need to do this in a way that responds to the partner country's long term vision for agriculture in a pro-poor growth context.

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