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DCD/DAC/POVNET/A(2004)5/RD5



Organisation de Coopération et de Développement Economiques  
Organisation for Economic Co-operation and Development

16-Sep-2004

English text only

DEVELOPMENT CO-OPERATION DIRECTORATE  
DEVELOPMENT ASSISTANCE COMMITTEE

## DAC Network on Poverty Reduction

POVNET Agriculture Task Team Consultation

**THE NEW AGENDA FOR AGRICULTURE: OVERVIEW AND CONTEXTUAL FRAMEWORK**

Draft Working Paper

20-21 (a.m.) September 2004

*This paper was drafted by Felicity Proctor, Natural Resources Institute (NRI), Kent, UK, to be presented at the POVNET Agriculture Task Team Consultation on September 20-21(a.m.).*

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JT00169341

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## TABLE OF CONTENTS

### THE NEW AGENDA FOR AGRICULTURE OVERVIEW AND CONTEXTUAL FRAMEWORK

Summary.....	3
What is the context for the <i>New Agenda for Agriculture</i> and why is it important?.....	3
The New Agenda for Agriculture .....	20
Key contextual issues and emerging themes .....	22
Key policy questions that need to be addressed and knowledge gaps .....	23
A draft framework for analysis and scenario planning and policy: Accessing the impact of key changes on differing Rural Worlds .....	24
References.....	26

#### Boxes

Box 1. The agricultural sector as a growth and poverty reduction option.....	6
Box 2. Empirical illustrations of relationships between agricultural growth and poverty reduction .....	7

## **THE NEW AGENDA FOR AGRICULTURE OVERVIEW AND CONTEXTUAL FRAMEWORK<sup>1&2</sup>**

### **Summary**

The *New Agenda for Agriculture* accepts key pre-conditions (including investment in infrastructure and science and technology, sound public sector institutions, enabling land and water policies) in order for agriculture to play an effective role in growth and poverty reduction. The agenda emphasizes that these must of necessity remain on the national and international development agendas. However, in view of unprecedented changes now impacting on the agricultural community in developing countries in particular the smallholder and with unresolved issues of chronic poverty in rural and agriculture dependent areas, it challenges the international development community, national governments, private sector and civil society to take on a new agenda.

This overview aims to layout the current state of agriculture and in particular highlights the set of multiple and often conflicting demands placed upon the sector. It presents some of the key dynamic and unprecedented changes now taking place that have the potential to offer both gains and losses to developing countries and in particular to the smallholder. It recognizes that agriculture in most developing countries will continue to need attention given to the factors which contribute to productivity enhancement, many of which having been inadequately or incompletely tackled in the past.

Finally, this overview begins to set out the agenda for the future. Such an agenda must be forward looking and anticipatory in nature. It calls for new institutional partners and alliances and for the development of innovation across and between sectors in particular those of agriculture, trade, social protection and infrastructure. It recognizes that different policy objectives may require different approaches and that the interaction between them is also important.

### **What is the context for the *New Agenda for Agriculture* and why is it important?**

Very few economies around the world have achieved broad based economic growth without agricultural and rural growth preceding or at least accompanying it (Mellor 2000, Pinstруп-Andersen et al 2001). Whilst the past 30 years have seen significant global success in food production with an overall decline in world food prices, an increase in caloric intake, a reduction in the percentage of undernourished people, and high rates of return in some key areas of

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investment in agriculture, the need to maintain a growth rate in agriculture at around 3.5 percent per annum in low income countries remains necessary to achieve the Millennium Development Goals.

Structural transformations continue to evolve over time with a net resource transfer from agriculture to other sectors of the economy as development takes place however the pace and nature of such transformation is set to change in unprecedented ways influenced by international and national factors. Further, such transformations are taking place at a time when poverty remains predominantly rural. The rural poor frequently lack alternative income sources to agriculture and may if agriculture cannot be sustained in line with poverty reduction objectives, fall deeper into poverty and destitution. Urban poverty is also now rising often associated with economic depression of the rural economy.

There is today a greater diversity of actors, and players on the market place with significant economic power and influence, a greater complexity within which agriculture and food policy operates, and a crowding out of national stakeholders and in particular the voiceless rural and agriculture dependent poor. These all impact on what has to date been seen as a case for smallholder efficiency through superior land and labor productivity.

Sheer numbers alone suggest that the dynamics that affect the smallholder cannot be ignored. More worrying are agricultural strategies, policies and interventions that address marginal shifts in one part of the agricultural community e.g. a focus on the export sector without due attention to the needs of the majority of the agriculture-dependent farming community. Not only do these fail to tackle the wider need but frequently they may fail to recognize potential losers and neglect to put in place alternative structures and support.

Smallholders are thus under particular pressure, threatened by investments that foster larger scale production, the very successes of global food production, and by structural change within global and national agricultural systems. Global and national food systems are increasingly driven by consumer interests, changing consumption patterns, and food quality and safety concerns. International, regional and national food industries and trades are responding with profound impacts on the entire production and marketing system. Shifts on production and consumption patterns within the OECD and adjustments in global trade agreements including Regional Trade Agreements, combined with the opening up of developing country markets will impact on opportunities for developing countries. Science and technology, which strongly underpins developed countries' agriculture and transnational agribusiness, is largely in the hands of the private sector. In general, their focus is on the needs of the OECD countries with little incentive to meet the demands of smallholders in the developing world thus further widening the gap between the farming worlds in the north and those in the south.

Such trends are further exacerbated by the continued depletion of the natural assets base upon which many millions of rural people depend, poor health and educational status of rural communities, health crises in particular that of HIV/AIDS, and in many regions an aging farm population.

The majority of the worlds' poor will continue to depend directly or indirectly on agriculture for their livelihoods for this generation but also, although decreasingly so, for future generations. The poor and in particular the smallholder and those whose livelihoods are dependent upon

agriculture and the assets of natural resources will therefore be profoundly affected by the current and dynamic changes taking place globally and nationally.

The goals of poverty reduction, reduction in hunger and wider economic growth in many developing countries cannot and will not be achieved "through business as usual". Public sector institutions in developing countries, partner development agencies and donors, and responsible private sector players need to recognize and understand the changes impacting on the agricultural sector and their impact on agriculturally-led pro-poor growth as they work to foster broad-based, environmentally sustainable, agricultural development as part of the wider economic growth, poverty reduction and food security agenda.

Building on what is known and works, addressing unanswered questions and tackling new agendas in line with international and national transformations in agriculture are essential prerequisites to meet the challenge ahead. The *New Agenda for Agriculture* aims to identify some of the key and most pressing issues influencing the transformation process and to provide guidance on how best such challenges might be addressed.

### **Multiple and sometimes conflicting demands are placed upon agriculture**

Agriculture is called upon to play multiple, often conflicting, and a frequently evolving role within developing countries. This challenge itself is further exacerbated by the often conflicting policy and objectives of developed and OECD countries as they relate to the agriculture sector in developing countries and to their own national agendas and interests i.e. the often lack of coherence on the respective trade and development agendas.

Such multiple objectives underlie the challenge of addressing the national and international agriculture agendas of both developed and developing countries in a coherent and consistent manner.

*Agriculture..... in many developing countries is seen as a mainstay of poverty reduction with the smallholder at the center*

Agriculture remains at the economic heart of most developing countries contributing to the bulk of employment, and significantly to GDP and export earnings. Given its relative dominance on the economy, it will remain a primary source of growth and means of poverty reduction for some time to come. Further agriculture remains the backbone of the rural economy where the majority of the worlds' poor live and where they will remain through at least 2035 (IFAD 2001).

The smallholder is presently at the core of the agricultural community. The notion of "small" in the context of the smallholders varies and should be seen set within the different contexts, across resource endowments, asset availability and access, farming systems and productivity, and livelihood opportunities both within agriculture and outside of it. However to provide some indication of scale, in for example South Asia, there are over 125 million holdings with an average size of 1.6 hectares and 80 percent of which are holdings of 0.6 hectares. These smallholders support the needs of some 1.3 billion people. In India smallholder production accounts for an increasing proportion of the food basket and agricultural GDP and farmers with less than two hectares were responsible for 41 percent of total food grain in 1990-91 as compared to 34 percent in 1980-81.

In sub Saharan Africa, the average farm size is larger than in South Asia; however 96 percent of farms have less than 5 hectares and over 65 percent with less than one hectare (Dunstan 2001). Some 60 percent of the population in Africa report agriculture as their main income source, this percentage rises for rural populations alone. Smallholders in sub Saharan Africa are known to account for 90 percent of agricultural production. In Latin America the average farm size is larger, although many small farms exist even in a context of relative land inequality.

Whilst globally poverty reduction has fallen over the past forty years, the pace of poverty reduction and the depths of rural deprivation are often masked within national statistics. Different regions have seen different rates of poverty reduction with the more rapid decline seen in Asia in particular in the countries of South East Asia and with relatively little progress made in sub Saharan Africa where the numbers of people living below the poverty line has doubled over the last twenty years<sup>3</sup>.

The evidence is quite clear at the macro level, that growth in agriculture has been consistently shown to be more beneficial to the poor than growth in other sectors (Box 1) however such impacts through agriculture are usually best realized where there is an equitable distribution of assets in particular land (De Janvry and Sadoulet 1996).

**Box 1. The agricultural sector as a growth and poverty reduction option**

**Rural or Urban**

Growth in India's rural sector reduced poverty on both rural and urban areas whilst urban growth had little impact on the reduction of rural poverty (Datt and Ravallion 1996)

**Agriculture or Manufacturing**

Levels of poverty reduction through growth in agriculture were higher than those through growth in manufacturing in a number of South East Asian countries (Warr 2001)

Every 1% growth in agricultural GDP leads to greater impact on the poorest than similar increases in growth in manufacturing or services (Gallup et al 1997)

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3. <http://www.worldbank.org/research/povmonitor/index.htm>

The relationship between broad based agricultural growth and poverty reduction and in particular the implications to smallholders and rural labor is illustrated in Box 2.

**Box 2. Empirical illustrations of relationships between agricultural growth and poverty reduction**

A 10 percent increase in crop yields leads to a reduction of between 6 and 10 percent of people living on less than \$ 1 a day (Irz et al 2001).

The average real income of small farmers in south India rose by 90 percent and that of landless laborers by 125 percent between 1973 and 1994 as a result of the Green Revolution (World Bank 2001)

One percent increase in agricultural GDP per capita led to a 1.61 percent gain in the per capita incomes of the lowest fifth of the population in 35 countries analyzed (Timmer 1997)

One percent increase in labor productivity in agriculture reduced the number of people living on less than \$1 per day by between 0.6 and 1.2 percent (Thirtle 2001)

Differences in poverty reduction impacts through agriculture have been seen to be closely related to differences in agricultural performance in particular agricultural productivity. In Asia in particular, the rapid productivity gains achieved through the Green Revolution offered a route out of poverty through a direct impact on income and labor rates, the lowering of rural and urban food prices, and generating new up and down stream economic and livelihood opportunities stimulated through the growth of agriculture. The impact of such productivity growth further contributes to the stimulation and sustaining of wider economic diversification and transformation beyond agriculture. There has not however been universal success in the achievement of such productivity gains. In for example sub Saharan Africa, where there exist a different set of pre-determining factors from parts of Asia, productivity has stagnated or even fallen in some areas (Nkamleu et al 2003)

Increasing agricultural productivity remains the single most important determinant of economic growth and poverty reduction and thus provides the key to achieving the Millennium Development Goal of halving the proportion of people living in absolute poverty by 2015. For growth to take place agriculture must become more productive using less labor per unit output and non agricultural opportunities must open up (often agriculture linked) so that labor released from agriculture can be used more productively. It must be emphasized that such poverty impacts and broader based growth occur when there is increased productivity and not merely increased production e.g. through land area expansion or additional labor input.

Such growth is achieved not only by increasing incomes for producers and farm workers but also by creating demand for non tradable goods i.e. services and local products. This indirect effect on demand and the associated employment creation in the non farm sector in rural areas and small urban centers appears to be a major contributing factor to the reduction of rural poverty.

With some 2.5 billion people in the developing world actively engaged in some form of agricultural activity and or are non-working dependents of those engaged in such activity (Dixon et al 2001), the sheer numbers alone imply that any debate on agricultural policy and the impact of

unprecedented transformations must place the future of the smallholder and that of the wider rural labor force at the heart of the debate.

*.... although a declining contributor to national GDP, agriculture continues to be a major employer and source of livelihood for the poor*

The contribution of primary agricultural activities to the total economy of developing countries averages around 13 percent but ranges from 8 percent in Latin America and the Caribbean to some 28 percent for South Asia with much heterogeneity among countries within the different regions. As countries develop, primary agriculture contributes a declining share to the national income. For example in India, the agriculture share of GDP declined from around 45 percent in the early 1970s to 27 percent in 2001. Despite such a decline some 60 percent of India's population still depends on agriculture for their livelihood. In sub Saharan Africa, agriculture accounts for 20% of the GDP, employs 67% of the total labor force and is the main source of livelihood for poor people. Although the share of GDP in agriculture is declining in many countries in the region, in others an increase is seen with agriculture value addition and or through a decline in other non agricultural sectors (Dixon 2001)

*..... may be undervalued within the GDP as the interdependency between agriculture and industry grows*

Work undertaken by IICA (2003) quantifies agriculture's wider value to the economy in eleven countries in north, south and Central America, through estimating the multiplier effects between primary agriculture and agro-industry, services, environmental goods, and trade. Results indicate that an "expanded" agricultural GDP could be some three times higher than the primary agricultural GDP. The revenue of value addition was further found to remain largely within the rural areas. The development and application of such methods will become of increasing importance as greater value addition is given to primary agriculture and as a means to guide public policy on the wider importance and role played by agriculture within the national economy.

*.....must compete in international trade and contribute to the national trade balance*

Primary commodity exports are a principle source of foreign exchange earnings for many developing countries. With an opening-up of markets, developing countries are increasingly impacted by world commodity prices as both importers and exporters. Whilst many countries have benefited from lower international commodity prices in the 1990s and early 2000s, others have experienced negative effects on their ability to generate export earnings, in particular those exporters of agricultural raw materials, beverages and other tropical crops. Those dependent on one or a few such commodities have in some cases (notably coffee exporters) been hit badly. Whilst short term impacts of lower international commodity prices have moderated food import bills of developing countries, longer term and potentially damaging effects on national food security have yet to be fully understood in particular the effects on smallholder production.

Regional agriculture and food trade gaps vary. In 2000 Africa spent an estimated \$18.7 billion on food imports accounting for some 15 percent of overall imports. Agricultural exports from sub Saharan Africa have generally performed poorly with the relative share falling from 8 percent in 1971-80 to 3.4 percent in 2000. It is estimated that if the self sufficiency ratio is to remain the same in 2015 as in 1995-97 (about 85 percent), sub Saharan Africa will have to meet



118 million tons of its projected 139 million tons of cereals through increased production within the region - this provides a huge challenge (NEPAD 2003). The urgency for agriculture in sub Saharan Africa to become more competitive is stark.

*..... plays a fundamental role in reducing hunger and in meeting nutritional needs*

Whilst poverty is the main cause of food insecurity, hunger is also a significant cause of poverty as food insecurity and malnutrition impairs people's ability to both develop skills and increase their productive outputs. FAO estimates that some 800 million people in developing countries suffer from under-nourishment, the highest incidence being in sub Saharan Africa with 33 percent of the population being under-nourished.

Numerous studies from countries in sub Saharan Africa, South Asia and Latin America attest to the negative impacts on productivity of poor nutritional status of the rural labor force (Stamboulis 2003). Poor nutritional status leaves people susceptible to illness, at risk of intergenerational transmission of nutritional status, and impacts upon children's performance at school.

There is mounting evidence that the accumulated effect of under-nutrition has a negative affect upon macroeconomic performance and on growth.

With agriculture at the heart of the poverty reduction agenda, the policies for reduction of hunger must place agriculture in particular that of enhancing agricultural productivity of the smallholder at its center.

*..... plays an increasing role in social protection and lifting the poor from poverty*

Underlying this agenda is the need to combat persistent poverty. Studies have shown that the poor, who are closer to a subsistence minimum, pursue a more conservative investment strategy than do the less poor. The portfolios of the poor are heavily invested in consumable assets which offer low returns and such low returns on poor households portfolios create a poverty trap since they offer less disposable income and less opportunity to accumulate assets than is the case for the less poor (Zimmerman and Carter 2003). There is however a significant amount of movement of households into and out of poverty – some of this is attributable to responses to exogenous variability such as climate, health or commodity prices, other shifts reflect more permanent shifts in long term wellbeing associated with the loss or gain of a set of productive assets.

Efforts to address risk and to provide social protection inputs to those at risk are often treated separately from interventions and policies that foster growth promotion. As the rural poor benefit from growth either through the market place (in particular agriculture and food) or through transfers offered via taxation, the interaction between them and the quality of that interaction, offers increasing opportunities within the wider poverty reduction agenda.

Social protection is now moving beyond the social sectors of health and education and social assistance (of example welfare benefits for the sick, elderly or disabled), to include those who have temporarily dropped from productive activity to assist in lifting people back to productive activity whilst also continuing to meet the needs of the critically vulnerable.

Risk is the likelihood of occurrence of shocks and stresses and has diverse origins (in for example health, social, environmental, political and economic/market based conditions). Vulnerability is the degree of exposure to risk and the capacity of households or individuals within households to prevent, mitigate or cope with risk. Different groups or categories of agriculturally dependent households or individuals are likely to be affected differently by the kind of risk and to different degrees. Households have acquired a wide range of traditional ways to reduce risk (soil and water management systems) and vulnerability (diversified employment, holding of assets that can be readily liquidated e.g. livestock, and through crop choice and mix). Given that the largest number of poor and chronically poor are found in rural areas including in particular weakly integrated (infrastructure, markets and institutions) areas with a high dependency on agriculture and related activities, the new and unprecedented changes will present additional sets of risk. This raises questions over the capacity of the poor in rural areas and those strongly dependent on agriculture to continue to manage existing risks combined with the new and emerging risks for which they have no historical experience.

*.....response to famine and the management of food aid*

Food aid in the form of emergency, project or program aid, is another component of international transfer and thus of international and national public policy. Food aid may be procured in the donor country, from local markets in recipient countries or from third countries. It may be delivered directly or “monetized”. It is recognized that the provision of aid in the form of food may not be optimal and work continues on how to improve effectiveness and mitigate harmful impacts (POVNET 2004). The coherence between famine mitigation, agriculture and rural policy, and food aid remains crucial to the attainment of the MDG on poverty and hunger

*..... contributes to the security or loss of biodiversity and natural resources*

Progress in agricultural productivity over recent decades has been associated with costs to the environment through the misuse of natural resources as inputs or through their use as a sink for pollution. Agriculture based on intensive inputs is prone to mismanagement leading to environmental degradation in particular where the systems of incentives are inappropriate (Hazell and Lutz 1998).

Agricultural intensification and extensification can impact in the natural assets of land, soil and water in a number of ways. For example, poor land and soil management fosters water and wind erosion, over or misuse of pesticides and fertilizers leads to soil and water contamination, and the overuse of irrigation causes salination. Soil degradation is most extensive in Africa where some 65% of cropland is degraded compared to some 38% in Asia. Water efficiency in agriculture is generally low and there are major concerns over resources depletion, unsustainable exploitation of ground water, falling water tables and conflicts over water use. Irrigated agriculture is a major user of water with for example 80% of South Asia’s water resources are now in agriculture. Long term sustainability of water resources that take into account the multiple uses of water means that agriculture must in many regions pay greater attention to efficiency, and the farming system including cropping patterns.

Agricultural systems themselves impact on the biodiversity, with diverse agricultural systems fostering biodiversity and negative impacts seen on more highly simplified systems. Finally, there is a decline in the genetic diversity within agriculture itself increasing pest and disease problems

and reducing the capacity for resilience. In India for example, in the 1990 some 30,000 varieties/landraces of rice were grown and today 75% of the rice cultivated is from 10 varieties.

The manner in which the agriculture sector evolves will have long term impacts on the asset base. With smallholders, herders and fisher folk, key custodians of the natural assets including soils, water and biodiversity throughout vast areas of the developing world, efforts to achieve sustainable intensification of agriculture is seen as a desirable objective. Sustainable intensification aims to build on the wider natural, social, and human capital assets and make the best use of available technologies and inputs, thereby seeking to minimize harm to the environment (Pretty et al 2003).

### **Major trends and transformations are taking place for which there are few precedents**

#### *Overall changes in demand and shifts in the global production supply base*

Projections for global food supply and demand are always complex. However, it is anticipated that the total growth in demand for food will continue through 2020 (IFPRI 2003) in particular in the most populous and rapidly urbanizing countries of Asia specifically in China. Increasing urbanization and changing eating patterns are leading to diet diversification and an increased demand for high value added products.

Consumption in non OECD countries is expected to grow at faster rates than in economies of the OECD area, especially for dairy products as well as livestock products. The consumption gains for these products are faster than the growth in populations offering the potential to reduce malnutrition and hunger (OECD 2004). Together with an estimated 55 percent increase in livestock product consumption between 1997-2020 (IFPRI 2003), coarse grains and especially oil seed meal used in animal feed are expected to see significant growth.

At the global level and given normal weather conditions and continued productivity gains in production greater than the increased rate in consumption, a continued long term decline in real prices is anticipated for key food commodities.

Developing countries as a whole will remain net cereal importers. Of 148 developing countries, 105 were identified as net importers and 43 as net food exporters (McCalla and Valdes 1999). For agriculture more broadly, 85 developing countries were identified as net importers and 63 as net exporters. More agricultural activity is shifting to non OECD member countries with China (cereals), Argentina (oilseed and oilseed meal) and Brazil (sugar, beef and oilseed and oilseed meal) becoming major players.

With the increased demand for animal feed in particular maize, it is unlikely that developing countries will be able to keep pace with demand not least due to limitations of land area expansion and a slowing of growth rates of yields for cereals. Consequently a doubling of net cereal imports by developing countries by 2020 is anticipated. Opportunities do exist for the smallholders in labor abundant economies to capture a greater share of this market however increasing agricultural productivity and effective access to markets will remain critical.

*Opening up of developing country markets*

Increased openness in trade will mean a progressive re-distribution of world production according to countries' comparative advantage which means that certain industries in some countries will decline as cheaper imports become available. Such adjustment costs will potentially impact heavily on employment in particular rural agricultural labor and on the smallholders in some countries.

As domestic markets open up, in particular those with large markets, this could have a major impact on international commodity markets and the nature of national agriculture. For example India will increasingly become more integrated in the world markets with significant annual growth in exports anticipated however in the absence of major technological change in the agriculture sector (impact of farm size, infrastructure limitations, access to inputs, adequacy of investment in less favored areas) and with income and population growth, this could lead to very significant increase in demand for agricultural imports. Unless action is taken the rural poor will be significantly worse off. A similar scenario exists in other developing countries (OECD 2004). The need for an effective interface between agriculture and trade policies as well as those of social policy during such transition becomes of increasing priority.

Further where countries go out of production of some commodities and or shift their production patterns, they will potentially become more vulnerable to international food price variability.

*The market place is changing dramatically with the advent of global food chains and retailing*

Global retailing is moving fast and largely under the radar of public policy. Developing countries have largely failed to penetrate in a significant manner the agriculture and food markets of developed countries. With the current trends of corporate concentration in trading, processing, manufacturing and retail, there are now concerns about whether the national production systems including the smallholder will secure and sustain their place within national and regional markets.

The global food retail market is anticipated to grow to 22 percent by 2006 with the bulk of growth being seen in the emerging markets of Asia and the Pacific. Global food chains reach not only outwards from, but increasing inwards to, developing countries. Supermarkets for example now control 50-60 percent of the food retail sector in Latin America and many have international corporate linkages. Such structures apply international commercial standards to their procurement processes.

Further, large international buyers whether bulk commodity/staple production or buyer driven chains can extract favorable terms from suppliers (such as lower prices, provision of services) with the associated risk of a declining share in value for the rural producers and traditional wholesale or volume suppliers.

Buyers are increasingly setting product and process standards and placing demands on traceability which will exclude some producers from these supply chains - further worsening inequality.

Traditional wholesale and retail markets are themselves not static and their role in servicing the needs of the smallholder and rural and urban consumers has generally been neglected and is poorly understood.

Unless the nature and implications of these dynamic changes are taken into account and where appropriate acted upon within the framework of public policy, irrevocable change may take place within the production and marketing system impacting on the livelihoods of millions of producers and traders.

*Changing consumer demands and food standards and safety*

The goals of food regulation are to reduce risks such as control for infectious animal or plant pests and diseases, and/ or to regulate product quality to enable market transactions and to meet consumer demands. Controls on the spread of animal and plant pests and diseases and basic grades and standards have for a long time impacted on bulk agricultural commodities however with the shifts towards higher value products (meat, dairy horticulture and semi-processed foods) and increasing consumer demands, ever increasing industry-derived standards and codes of practice are being set. These place hurdles for the smallholder and developing countries participation in these markets. The possible marginalization of developing countries exporters and their producers whether large scale commercial farmers or smallholders, through safety and quality standards enforcement in international trade is now a key policy issue.

With the globalization of the agricultural and food industries, changes in retail marketing, and with increasing awareness by developing country consumers, industry driven grades and standards will penetrate domestic and regional markets of developing countries. Such penetration will potentially have even greater impact on the smallholder and their participation in the market into the longer term than the impacts of external trade applied regulations and trade standards.

*Reduced role by the state in economic activity and the increasing role of the private sector in input and output markets*

Well functioning and well integrated input and output markets offering a range of goods and services to the producer are a prerequisite for a dynamic agricultural economy. The state has, to a considerable extent, withdrawn from an active role in service supply and marketing however in many cases the private sector has not responded effectively or its response has been to serve limited sections of the rural community often excluding the poor and geographically more remote. Private investment, whether domestic or foreign, is constrained by risks and high transaction costs of operating in what are often weak and fragmented rural markets. In many countries in Africa this slow response may be explained by the partial nature of the reforms undertaken, a tendency for backsliding undermining the credibility of the reform, and the continuation of government interventions that reduce the incentives for private sector involvement.

Further, insufficient attention has been given to investment in infrastructure and in developing the institutional framework and mechanisms necessary for privatized marketing and service delivery to thrive. A supportive policy and institutional framework including a business-friendly environment are required for the effective operation of markets.

There is a lack of new and innovative models to replace the state's role and functions in particular in areas of weak and missing markets.

*Complicated further by the health crisis of the HIV/AIDS and other health pandemic*

Despite the HIV/AIDS pandemic being in its third decade in Africa, one of the hardest hit regions of the world, there remains weak empirical analysis on its impact on the agricultural sector. It is however considered that the full impact on the agriculture sector is only just beginning to be seen and will intensify over the coming decades.

The following are considered likely effects of HIV/AIDS on the agriculture sector: increased rural inequality; a reduction in household assets and wealth leading to less capital intensive cropping systems; and, problems of transfer of production and marketing knowledge to future generations (Jayne et al 2004). The cost of labor may rise in part as a response to reduction in capital assets and there may be a shift to less labor and capital intensive crops. Anticipatory policy and action could relieve both current and possible future misery.

Other health pandemics, given their impact of labor productivity should also not be neglected.

Further, rural areas with particular acute shortages of clean drinking water, poor sanitation, poor housing and weak provision of and access to health services make rural people and the agricultural sector particularly vulnerable.

*Predicting the impact of climate change is uncertain but change will take place*

In an analysis of the global consequences to crop yields, production, and risk of hunger linked to socio-economic and climatic scenarios, Parry et al (2004) consider that for the most part, the world appears able to feed itself during the rest of the century, however, this outcome is achieved through production in developed countries (which mostly benefit from climate change) with projected declines for developing countries. Regional difference will grow over time with, under some scenarios, increases in prices and a risk of hunger amongst poorer nations. This will have an overall negative impact on pro-poor growth and on the levels of risk and vulnerability.

Whilst predicting the extent of the future change remains difficult and uncertain, the current impacts of climatic variability and recurrent extreme weather events (rapid onset of disasters - hurricanes, cyclones, sea surges and flooding, and slow onset disasters such as drought) on the rural poor is already increasing their vulnerability and impacting on their capacity to cope.

Further, events such as drought and floods severely disrupt the economy, including its infrastructure, and can take a number of years to recover. Climate variability is already impacting on short term growth in some regions in particular those with high agriculture dependency.

Economies that are heavily dependent upon climate and weather-sensitive sectors such as agriculture including fisheries and livestock for their growth are likely to be most affected by both long term climate change as well as climatic variability. Long term and more gradual changes will impact on the cropping pattern and reduce yields.

*Support the dynamics of rural diversification, urbanization and wider local economic development*

Although the relationship between agriculture and the wider rural and urban transformation is not a new dynamic, it has generally been given inadequate attention within public policy and investment. Understanding how the mechanisms of transformation take place in particular the gains from increased agricultural productivity and the fostering of these transfer mechanisms is necessary to enable the greatest returns to agricultural growth beyond the direct impacts on producer income and labor markets and the lowering of urban and rural food prices. Specifically of interest are the multiplier effects within the rural and urban economies and the stimulation and sustaining of longer term economic diversification out of agriculture and into manufacturing, services and industry. The evidence shows that with very few exceptions, no country has industrialized without prior productivity gains derived through agriculture.

Multiplier effects of agriculture are estimated to be in the range of 1.35 to as high as 4.62 (Thirtle 2001). The multiplier links for Africa are at the lower end of the scale with important implications for local and wider economic development. Agriculture-derived income generated tends to be spent at the local or sub national level on a range of goods and services foster opportunities for local diversification.

There is limited empirical evidence on the linkages between agriculture and urban development. Studies that exist, show the linkages are strongly influenced by the local context in particular the nature and type of agriculture practiced including type and mix of crops grown, type and location of any value addition, the prevailing land tenure system and the nature of the urban demand. Commonly stated linkages between rural and agricultural economies and the small and intermediate urban centers include urban centers role as consumers, as providers of input and output linkages to wider regional and external markets, as centers for the provision of goods and services for rural areas; as locations for the growth and consolidation of non farm activities and employment, and as labor markets for rural communities. It is noted however that regions with predominantly large scale commercial agriculture, and local small urban centers are often bypassed. This is particularly the case where agriculture is focused on export orientated activities where value addition and processing may take place in more distant locations or at the port of exit (Satterthwaite and Tacoli 2003).

The environmental impacts of agriculture (e.g. pollution, erosion) and urban development (e.g. waste management, pollution) and the shared issues of water and land management also cut across administrative and sectoral boundaries and require common policy agreement and regulation.

**Whilst new agendas must be tackled, the preconditions and necessary underpinnings of the agriculture agenda should not be neglected**

Set in the context of multiple demands, and actions required to address the new agenda, attention must continue to be given to securing the preconditions and necessary underpinning that also influence agricultural productivity and secure effective mechanisms that link the gains from agricultural productivity with rural and the wider national poverty reduction objectives.

*Developed country contradictions and the demise of agricultural ODA*

National objectives of OECD countries in agriculture and trade often differ from their development aid objectives and may be contradictory as concerns the interests of developing countries. Whilst few will deny that global trade reform is necessary to enable developing countries to exploit such trade opportunities that are open to them, contradictions of policy and objectives further exacerbate the complexity of defining a framework for the new agenda for agriculture.

Much current focus has been placed on the trade policies of developed or OECD countries and the impact of these on developing countries. The importance of these cannot be overstated. It should however be noted that the elimination of tariffs and domestic subsidies may result on only modest shifts in world commodity prices and the developing country beneficiaries are likely to be those most able to meet market requirements e.g. China for cotton compared to for example west Africa. Securing the gains from trade liberalization will require considerable and increased efforts at national level.

The current focus on the global trade agenda may have distracted both developing countries from the reassessment of the agriculture sector within national strategy and policy as well development partners from giving due attention and priority to the sector.

In real terms, external assistance to agriculture has fallen significantly since the 1980s and has reached an all time low. This is despite high returns for some types of agricultural investment. The decline has been particularly severe in sub Saharan Africa where the external assistance level per agricultural worker is roughly one quarter of the peak 1982 level (FAO 2004). Further, external assistance to agriculture does not reach the neediest countries on terms of the prevalence of under nourishment.

*Public expenditure and policy*

Despite studies which show positive growth and poverty reduction effects from public spending in agriculture, the majority of developing countries public expenditure to agriculture is stagnant or declining. The situation is most severe in sub Saharan Africa, where there has been a rapid withdrawal of state support to the sector and a perception that past public spending on agriculture has had limited impact (Jones and Stockbridge 2002). Compared to developed countries, agriculture spending as a percentage of agricultural GDP is low in developing countries. A recent study of public expenditure in 43 developing countries shows average spending falling from 9.8 percent of GDP in 1980 to 7.9 percent of agricultural GDP in 1998 (Fan and Rao 2003). There are significant variations between countries most notably in Africa (1998 – ranging from Botswana at 45 percent of agricultural GDP to 0.19 percent in Mali). Further as a proportion of total government expenditure, the share of public spending also declined from 12 percent in 1980 to 9 percent in 1998. Again there were significant regional variations.

In general, Ministries of Agriculture (MoA) lead on public policy for agriculture and food and in many countries. They are also often the sectoral line ministry with wider rural development oversight. These Ministries are generally the less influential of the sectoral line Ministries within government. Further, they have relatively limited policy and research capacity, and are often narrow in focus having historically given emphasis to crop and livestock production.



Within this new agenda, their role requires change in order to take on broader responsibilities in partnership with other sectoral line Ministries, the private sector, and organizations of civil society. Increasingly, MoA's will have to perform the function of strategic guidance to both the agriculture and food sectors, provide the enabling, legislative and regulatory environment for agriculture and food, inform the food security agenda, and ensure that macro policies are coherent with the vision and goals of the agriculture sector. Prerequisites for a supportive environment include attention to sustainable investment in infrastructure, land titling and the enforcement of property rights, regulation and support to rural financial systems, the strengthening of farmers' organizations and business associations, and the capacity of local level government to address and remove barriers. .

Further, MoAs need to play a key role in national science policy, in research priority setting and in the identification of future human capital requirements including technical skills and capacity building for the agriculture and wider agric-industry sector. Ensuring that appropriate knowledge is generated, and disseminated to meet the needs of smallholders, commercial farmers and the agribusiness sector should fall under the mandate of MoAs whether they are themselves direct service providers or not.

This sees major functional shifts from earlier priorities of for example the monopoly over extension service provision. Building the concepts of sustainability into the framework for agriculture sector policy should remain at the core.

Thus sectoral coherence between line Ministries in particular for agriculture, trade, environment, health and infrastructure is at the centre of the change process. There is a need to deepen the understanding of the interaction between agricultural policy and associated policies. For example pesticide policies may aim to increase yields but with negative impacts on health, biodiversity and even on farm viability. Failure to put in place the means to address associated policies may have unintended or unplanned for outcomes.

New and innovative institutional structures are required to promote local economic development including the improvement of the investment climate for the agriculture and non agricultural private sectors, the promotion of labor mobility and labor markets, the development of innovative means to help the private sector to provide agricultural, financial, infrastructural markets and social services, the promotion of producer organizations, trade associations, chambers of commerce. New modalities for public administrations to work together with the private sector are required at all levels from local through to national.

*The political dimensions of agriculture need to be understood and addressed*

There remains a tendency to seek technical solutions to policy change and ignore the wider political dimension. Political dimensions can create significant obstacles to change including vested interests that may block reform for example in the area of land and property rights, or derive direct or indirect benefits from incomplete reform or subsidy.

The relative weakness of the farming lobby, and the lack of incentives for policy makers to tackle pro-poor policy change, should be a cause for concern. The strengthening of and engagement with organizations of civil society in particular representational bodies (farmer organizations, co-operatives, retail associations, business groups, consumer groups and chambers

of commerce) can help to guide and inform agricultural and food policy choices. A number of recent rural and agricultural strategy documents of development agencies (e.g. World Bank 2003) highlight their intention to focus funds to support capacity building in this area. The extent to which such policy and intervention will provide the necessary impetus for change needs to be monitored.

Greater attention should be given to attitudes, beliefs and behaviors which lead to gender based discrimination and power inequality between men and women and to seek to remove such discrimination and inequality. Social exclusion in particular of ethnic minorities, social groups and by faith orientation remains a particular challenge in rural areas and as such the implications to tackle such social exclusion within the agriculture agenda should be seen as a political imperative.

#### *Investment in infrastructure and technology*

Irrigation set within the wider water supply and demand side management, rural roads and agricultural research are three main infrastructural investments that will drive agricultural growth (IFPRI 2001). Investment in rural roads in particular has significant impacts on productivity and poverty alleviation (Fan - POVNET paper).

Given that the application of water and its managed use is an essential factor in raising productivity of agriculture and ensuring predictability of outputs, the fact that some 3.7 percent of sub Saharan Africa's arable land is under irrigation compared to 10, 29 and 41 percent respectively for South America, East and South East Asia, and South Asia respectively, is a cause for concern. It highlights the need for both significant and continued investment in irrigation infrastructure, both small and large scale, and in innovation in informal local level land and water management systems.

However, given the levels of capital investment required in for example sub Saharan Africa and South Asia in such infrastructure, difficult choices remain on absolute allocation and sequencing.

Whilst studies have shown high rates of return to investment in agricultural research (Alston et al 2000), there remains under-investment in agricultural research by national governments and international agencies. The private sector internationally is increasingly driving the technological change for the agriculture sector however the adaptation of such technology and innovation for crops, agro-climatic and market conditions relevant to developing countries, by the private sector is limited. The challenges and opportunities offered by biotechnology must be addressed, as well as the science and technology required to meet new challenges such as anticipated by the changes in consumer demand (e.g. implications of intensification of the livestock sector, changes in pest and disease induced by intensification and climate change, etc)

There is a critical public sector role in closing both the north-south technology gap as well as ensure that key emerging research agendas are addressed.

The range of skills and infrastructure required to adapt, verify and or further develop technologies available internationally for agriculture, calls for significant increases in human skill capacity in science and technology within developing countries. The inequality in skills capacity

and wider infrastructure serves to dampen the developing countries capacity to compete internationally and to meet the knowledge requirements of farmers and the wider agribusiness. Sustainable national agricultural research and advisory systems are a prerequisite of a new agriculture agenda.

The information and communications technology (ICT) revolution provides new options for accessing information by providing it directly to farmers, agribusiness and public and private sector advisory services. However, most extension programs have yet to integrate effectively the benefits of mass media and ICT. Investment gaps exist in many rural areas relating to connectivity and capacity building. Policy and regulatory reforms relating to the use of ICT also need to be addressed in many regions.

*Securing natural assets and environmental management*

Effective land and water policies are prerequisite to a sound agricultural sector. Water in many regions remains a key limiting factor on growth in the agriculture sector. Inequitable land distribution hampers pro-poor and broad-based growth (Deininger 2004) where greater equality is good for both growth and poverty reduction. Secure land use rights and access to common property is particularly important for the poor and most marginalized groups including the rural landless. Continued efforts are required to sustain pluralist approaches and specifically to support the convergence of customary and formal tenure systems thus minimizing overlapping and conflicting sets of rights.

Expansion of crop area will be limited in most developing countries and most increases in crop production will come from yield increases and higher cropping intensities. Nutrient depletion represents a significant loss of natural capital asset. In sub Saharan Africa, where soils are inherently fragile, it is anticipated that unless smallholders adopt sustainable integrated soil fertility and land and water management practices, this will jeopardize their longer term productivity and income potential. Integrated approaches to increase productivity are required which combine the use of organic matter, mineral fertilizers, improved seed, and improved soil and water conservation techniques. Mineral fertilizer use in sub Saharan Africa is 10 percent of that used in South Asia and below 5 percent of that applied in industrial countries. Greater efforts are called for to address the needs of less favorable and fragile agro-ecological zones.

Environmental degradation is particularly harmful to the poor, who are themselves most dependent on natural resources. There is a need for more innovation in soil and land management within agricultural intensification building on local knowledge.

Integrated land, water and soil management are not merely technical issues, they require supportive legal and institutional structures, systems to re-enforce technology and agricultural systems and links to dynamic markets. Community participation and ownership is essential. Opportunities exist to strengthen public goods efforts aligned to social protection programs with the natural resource management programs where they are seen as part of a wider public good.

Gender inequalities in terms of access to resources and assets exist and need to be addressed. The participation by women in decision making processes at household, community and societal level requires continued focus.

*Manmade and natural disasters and failures of governance impact heavily on the national agricultural economies and food systems*

In any given year between 5-10% of global hunger stems from droughts, floods, armed conflicts and political, social and economic distributions. Some 50 million people in 39 countries faced severe food shortages in 2002 (IFPRI 2003). The costs and longer term implications of such disruptions in terms of re-establishing and rebuilding the rural and farming community and the food systems including the repair to infrastructure and other public and private investment is not known.

*Build better links between food aid, famine mitigation and agriculture policy*

The integration of food aid within the wider national and regional agricultural sector and social protection programs remains essential. In recognition of the multiple dimensions and interactions of food aid, new guidelines have been generated (von Braun 2003).

New efforts to address famine prevention are being proposed (for example USAID 2003) for states that have the following characteristics: food deficit and foreign exchange constrained (thus leaving the country susceptible to economic and environmental shocks); high prevalence of malnutrition and poverty; political and economic stability (reducing risk of broad based famine and food insecurity), and where there is political commitment to address the root causes of food insecurity. Such a framework calls for medium term effort (5 years) and the integration of emergency, relief and development within a common agenda focusing on the capacity building and the development of resilience at all levels to cope with shocks thus explicitly attempting to break the cycle of food crises, protect the chronically food insecure, and build conditions for sustained growth.

### **The New Agenda for Agriculture**

The *New Agenda for Agriculture* sets as its objective to develop a shared understanding of the emerging issues underlying the role of agriculture in pro-poor growth and to provide guidance to the international development community and national governments, on possible ways forward to meet the challenges offered in this paper.

*Build consensus at national and international levels on agriculture sector policy within the framework of growth and poverty reduction*

It must first be emphasized that it is unlikely that there will be a simple or single answer and policy interventions will vary by region and country and at sub national levels. Different countries and regions in the developing world and transition economics are at different stages of their transition from a largely rural population where agriculture remains the driving force of rural and national economic growth and poverty reduction to more fully urbanized economies where the secondary and tertiary sectors of the economy take precedence. The depth of rural poverty and thus agriculture interdependence, even in countries with a relatively low rural population remains however evident and should not be neglected.

Although there may be common lessons to be shared and learned, the unprecedented changes impacted in a given country's agricultural transition will create different outcomes, calling for

anticipatory research, and greater scenario planning and dialogue at country and regional levels. Fundamental rethinking of public policy and intervention is required by development agencies and policy makers alike in the face of these global and national challenges.

Such an agenda must be forward looking and anticipatory in nature. It calls for new institutional partners and alliances and for innovation across the social and agriculture sectors. It recognizes that different policy objectives may require different approaches and that the interaction between them is also important.

Donors and national governments have to accommodate growing uncertainty by adopting more flexible approaches and increasing their capacity to respond to a changing environment. New approaches to the modeling of the interaction of factors, and scenario assessment as tools for planning for the agriculture sector, is now a necessity.

Reaching consensus on alternative scenarios for national policy which may have far reaching impacts on rural communities and consumers requires the putting in place of processes for broad based consultation and dialogue. Local empowerment and capacity building of organizations of civil society representing the agricultural and farming community is a necessary prerequisite for consensus building and for the planning of public resource allocations. Policy processes that exclude the poor are unlikely to be relevant to their needs.

*Recognize and address the heterogeneity within the farming community in developing countries*

Classifying the agriculture sector potentially assists in understanding the differing needs of farming households and the interactions between them. Two broad frameworks are now emerging offering differing but potentially complementary approaches (OECD Room Doc).

The Food and Agriculture Organization has created eight main categories of farming systems based on natural resources availability and the dominant pattern of farm activity and household livelihood (FAO 2001). For each region a listing is given of those systems which offer greatest potential to reduce poverty and stimulate agricultural growth. Building on models developed for work in rural Canada and Mexico, Vorley (2002) classified agricultural production into three "Rural Worlds" delineating producer type and farming systems by levels of market integration, issues of power and inclusion.

Farrington (2004 - POVNET I/RD4) cautions efforts to oversimplify and seeks a more nuanced approach to any classification of rural space, farming systems, people and institutions specifically, recommending the inclusion of the chronically vulnerable (i.e. those who cannot engage in productive work) and those with very few assets who depend mainly on casual, unskilled and often agricultural labor. Without the inclusion of these additional groups, the interaction of agriculture sector policy, transformative processes and social policy on the rural poor cannot be fully assessed.

Thus, whilst such classifications may assist with policy dialogue caution must be applied to their application. There remains a need to develop a more sophisticated approach to the understanding of smallholder agriculture in complex, diverse and risky environments and to recognize the immensely diverse and complex livelihood structure that constitute the broad

classifications offered. Classifications must therefore be enriched further analytical and policy work and with local knowledge.

*Recognize that there are trade offs on public choice and that the dynamic changes within agriculture will impact on different farming groups in different ways*

The new agenda must place at the center, a recognition that the underlying and historical assumption that levels of and gains from productivity growth may not be able to offer adequate growth reduction potential to all of the poorest regions of the world and that in these and other more dynamic farming regions, the impact of unprecedented change will have further negative consequences to many millions of smallholders.

The new agenda is set within the context of securing maximum agricultural growth benefits to the poor, understanding key dynamic changes and their impacts, fostering those beneficial impacts and mitigating negative risk of others, seeking to understand and address trade-offs, and balancing the social protection and productive agendas

#### *Mainstream risk and vulnerability*

In order to minimize risk and reduce vulnerability, agricultural policy needs to understand the impacts of change on differentiated groups and to identify initiatives that reduce risk and vulnerability.

It becomes important therefore to understand factors influencing structural change that can lift different groups of people out of poverty in the longer term and to understand the factors leaving other households caught in a trap of persistent and structural poverty. Distinguishing between the types of poverty, and the structural features and constraints that create poverty traps can drive innovation in new models of “safely nets” thus reducing the impact of such risks and through the building of “cargo nets” which offer mechanisms to help households build up their assets base leading to sustained pathways out of poverty.

#### ***Key contextual issues and emerging themes***

The following are the key contextual issues and emerging themes that warrant focus within the *New Agenda for Agriculture*

Key policy and institutional pre-requisites for pro-poor growth

Current agricultural trade regime

Importance of organizing small producers (voice, market chain)

The New Agenda builds around

- Rural worlds and household livelihoods
- Smallholders and pro-poor growth
- Making markets work better for the poor

- Global food chains
- Diversification
- Tackling risk and vulnerability
- Incorporating Risk and Vulnerability into Agric Policy

***Key policy questions that need to be addressed and knowledge gaps***

1. How to develop an effective framework or model for analysis and scenario planning for use as a tool kit by policy makers
  - Can the conflicting demands placed on agriculture be reconciled?
  - How do different transformational factors affect each farming category?
  - How can interactions of factors be assessed?
  - What is the public cost of not doing anything to mitigate negative effects?
  - Which factors will have long term and negative/positive consequences to international poverty reduction, food security and nutritional goals?
  - Which give greatest return on investment?
  - In order to minimize risk and reduce vulnerability, agricultural policy needs to understand the impacts of change on differentiated groups and to identify initiatives that reduce risk and vulnerability.
  
2. There remains considerable work to be done to overlay the three or possibly five "Rural Worlds" within the complexity of the farming system and the reality of institutions on the ground.
  
3. Can incremental gains to productivity of the smallholder deliver sustained growth and development? What are the essential prerequisites? What is the opportunity cost?
  
4. What are the options and opportunities to mitigate negative consequences and exploit opportunities?
  - What are the public sector costs of actions? What are the implications to donors and IFIs
  - Under what circumstances should the role of subsidy in support of smallholder agriculture be seen as a public good?
  - How best can agriculture policy and rural sector policy be woven with social policy to achieve win-win gains of social protection and the enhancement of economic dynamism?
  - Can models which integrate multi-functionality including support to global environmental goods be developed suitable for developing country needs and capacities?

**A draft framework for analysis and scenario planning and policy: Accessing the impact of key changes on differing Rural Worlds**

	Globalization of commodity markets		Changing structure of global and national food chains		Changing consumer requirement, grades and standards		HIV/AIDS		Environmental degradation		Climate change	
	O	T	O	T	O	T	O	T	O	T	O	T
RW1 – Commercial or semi-commercial	3	1	3	2	2	2	1	3	1	1	2	2
RW2 – Small family farms some lease and some seasonal migration	2	2	2	3	1	3	1	2	1	2	1	3
RW3 – Very little land, sharecropping, seasonal migration	3	1	1	3	1	3	1	3	1	3	1	3
RW4 – Few assets, casual unskilled labor	2	2	2	3	1	3	1	3	1	2	1	2
RW5 - Rural based/dependent, unable to engage in regular productive work	3	1	1	1	1	1	1	3	1	2	1	2

Notes: Rural Worlds adapted from Vorley (2000) by Farrington (paper presented at 17-18 June 2004 POVNET workshop)

Scale:  
 3 - High threat (T) or opportunity (O),  
 2 - Moderate impact of threat or opportunity  
 1 - No threat or opportunity



5. Identify and develop a range of options for strengthening linkages and interaction between different scales of farming (RW1-5).

Some suggestions are listed below

- Building linkages between the commercial farm sector and the smallholder sector: contract farming, inputs supply, credit extension and marketing
- Building linkages between agribusiness and the smallholder sector: cooperatives, producer organizations, public sector role of removal of barriers to engagement - e.g. support to quality assurance systems, co-funding market infrastructure
- Support the dynamics of rural- urban change - enabling environment, transferable land rights, long term and secure land leasing, labor markets
- Building high tech peri-urban agriculture - intensive horticulture
- Innovation in financial products; warehouse receipts, trader financing, insurance, new models of agricultural credit- seasonal
- Contract enforcement/enablement

6. Can new models of pro-poor Local Economic Development integrating a local level understanding of agricultural transformation, support to enhancing agricultural productivity, strengthen rural and urban linkages, and supporting economic diversification underpin the new agriculture agenda?

7. The need for an effective interface between the agriculture and trade policies and social policy becomes increasingly evident during such transition.

8. A deeper understanding of the political processes and incentives guiding national and regional agricultural agendas and that of donor agencies warrants ongoing analysis and debate.

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