Photo by Celeste Marina Orrego Olivares.

Chilean fruit stand.

DEVELOPMENT

Agriculture and Development:
The Latin American Difference

by Alain de Janvry and Elisabeth M. Sadoulet

Every year the World Bank prepares a World Development Report (WDR) that deals with a development topic of significance. Recent reports have addressed such issues as equity, the environment, the role of the state, poverty and health. The last WDR on agriculture was in 1982, marking the beginning of a 25 years hiatus during which the attention given to agriculture by governments and development agencies declined — a period during which huge changes have occurred in globalization, integrated supply chains, technology, institutions and the environment, making it imperative to revisit the issue. Indeed, many of the themes that today dominate the international development agenda relate to agriculture and rural societies: hurdles to progress with trade negotiations, the persistence of poverty and hunger, rising conflicts over water, the impact of climate change, the spread of epizootic diseases, food security in a context of rising prices and biofuels as an option to reduce greenhouse gas emissions and provide alternative sources of energy. It is striking how a sector that had been seen as a "sunset activity" and a drag on development may now emerge as an important source of growth and business opportunities and the solution to many development problems. Revisiting the question of how agriculture can serve development is indeed timely. This is the objective of WDR 2008, *Agriculture for Development*. Here we review the main messages of WDR 2008 and how they apply — with a difference — to Latin America.

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Agriculture for Development at a World Scale: A Striking Discrepancy

The social dimensions of the agricultural problem are staggering. While the most visible poverty may be in urban slums, the reality is that three out of every four poor people in the developing world live in rural areas, 900 million on less than $1 a day. For 2.5 billion people, half of humanity in the developing world, agriculture is the source of livelihood. What these figures make clear is that the Millennium Development Goal of reducing poverty by half in 2015 is unlikely to be met without paying more attention to where poverty is — predominantly in rural areas — and what the poor do — predominantly agriculture.

Historical and recent experiences show that agriculture has been highly effective in reducing poverty in numerous countries. China took 300 million rural people out of poverty in the space of 20 years through changes in the land tenure system and market liberalization. Yet, government and donor neglect of agriculture over the last 25 years has prevented agriculture from fulfilling this function in many countries. There are many reasons for this, including shifts in donor priorities toward structural adjustment loans and social protection, falling food prices, quality problems with agriculture projects, opposition to agriculture by environmental groups, dysfunctional ministries of agriculture, rejection of former state-based approaches and development ideas giving priority to industry and urban development. The result today is a striking discrepancy between facts and actions: while 75 percent of the poor are in rural areas, only 4 percent of overseas development assistance goes to agriculture, and it has been declining steadily for the last 15 years while the share of the poor in rural areas remained unchanged.

New opportunities to invest in agriculture are being created on both the demand and the supply sides. The curse of agriculture as a growth sector has historically been lack of effective demand, with food consumption limited by the need for caloric intake. This has been changing in a major way. Dynamic market opportunities are being created for agriculture by changes in consumer demand for high value products, demand for feed imports in the emerging countries, rapidly rising nontraditional exports, regional integration of food markets and the emerging demand for biofuels. For the first time since the food crisis of the early 1970s, food prices are rising sharply on international markets.

Supply response is facilitated by institutional and technological innovations, for instance the use of information technology for financial services and farm extension. However, these opportunities do not come free of challenges in using agriculture for development. Large economies of scale in supply chains are making it difficult for smallholders to compete in modern food markets. Incomplete institutional innovations leave large gaps for smallholders in such services as finance, insurance and organizations for collective action. Technological progress in biology applied to agriculture is held back by lack of public investment and regulatory capacity. And resource degradation and climate change are compromising the sustainability of farming systems, particularly for the poor.

Lack of progress in the Doha Development Round of trade negotiations is a hurdle for agriculture in developing countries, but complementary investments to ensure supply response to higher international prices is fundamental for successful development outcomes. Trade distortions in cotton and oilseeds are particularly harmful to developing countries. But even a favorable outcome of the negotiations will not be sufficient to secure better development opportunities for rural people. Developing countries need to invest in public goods for agriculture such as infrastructure, improved property rights and research and development. They also need to provide level playing fields to enable smallholders to respond to the improved prices. The key issue is to move attention from the statics of price distortions to the dynamics of public investment in agriculture, technological change and new employment and investment opportunities for the rural poor. Success with Doha is necessary but far from sufficient to induce development.

Agricultural growth and environmental conditions are inextricably linked. Agricultural growth's large environmental footprint can be reduced, and agriculture's contributions in delivering environmental services can be enhanced. Agriculture uses 85 percent of fresh water and contributes to about one-third of greenhouse gas emissions globally. Of special importance are the issues of growing water scarcity, soil degradation and deforestation, poor management of intensive agriculture (e.g., overuse of pesticides) and the sector's contribution to global climate change. Agriculture's pressure on the environment can be reduced by: correcting perverse incentives (for example, free electricity that encourages overuse of ground water); assigning property rights and recognizing current use rights over land resources; enhancing community capacity to manage resources and devolving control; exploiting new technologies to conserve natural resources; and scaling up innovative approaches to environmental services (e.g., paying landowners not to deforest). Adapting developing country agriculture to climate change is urgently needed to avoid potentially huge costs for the rural poor. As the Stern Report indicates, there is a narrow window of opportunity to make this happen.

Photo by William Neuheisel.

Coffee beans dry in the sun at a cooperative near Matagalpa, Nicaragua.

Immediate action is required but not forthcoming.

Using agriculture for development requires strong governance. Although agriculture is nominally a private activity, the impact of extensive market failures on agriculture implies that it depends vitally on public goods and state facilitation, coordination and regulation. Yet, governance in agriculture is weaker than that in other sectors in nearly all countries. Redefining the role of the state in agriculture beyond structural adjustment and improving the quality of governance are top priorities in any agenda that proposes to use agriculture for development. Governance issues include the need to reconsider the institutional structure of ministries of agriculture, how agriculture is coordinated with other economic and social sectors, how decentralization of governance can support using agriculture for development (when it is often not a priority for local governments because expenditures on agriculture are paid for locally but create benefits that spillover to other regions) and how community-driven development can be made more effective and equitable. Fixing governance for agriculture also requires more effective delivery of international public goods and leadership by international organizations, many of which were created to fulfill functions vastly different from the current interrelated global agendas they need to address. Major reforms and resource commitments will be needed for the international community to support national agriculture-for-development agendas.

Agriculture for Development: The LAC Difference

How do Latin America and the Caribbean (LAC) fit in this perspective? Most countries in LAC are highly urbanized, with a share of the rural sector in total poverty (defined as people living on less than a dollar a day) below 50 percent and a contribution of agriculture to growth below 10 percent. However, some sectors of agriculture have strong comparative advantages and have been growing rapidly, and the agribusiness sector and associated services can be as large as 30 percent of the economy. There are, however, countries (Central America, Paraguay, Haiti) that are still highly dependent on agriculture for growth, and there are states within Mexico (Sinaloa, Zacatecas) and Brazil (Matto Grosso, Parana, Rio Grande do Sul) where agriculture is the engine of growth. Hence, in LAC, agriculture still matters for business and for poverty reduction.

Agriculture is a sector doing better than its people. The main LAC difference is that agricultural growth, which has been reasonable over the long run, does not easily translate into poverty reduction. This is a distinctive LAC feature.

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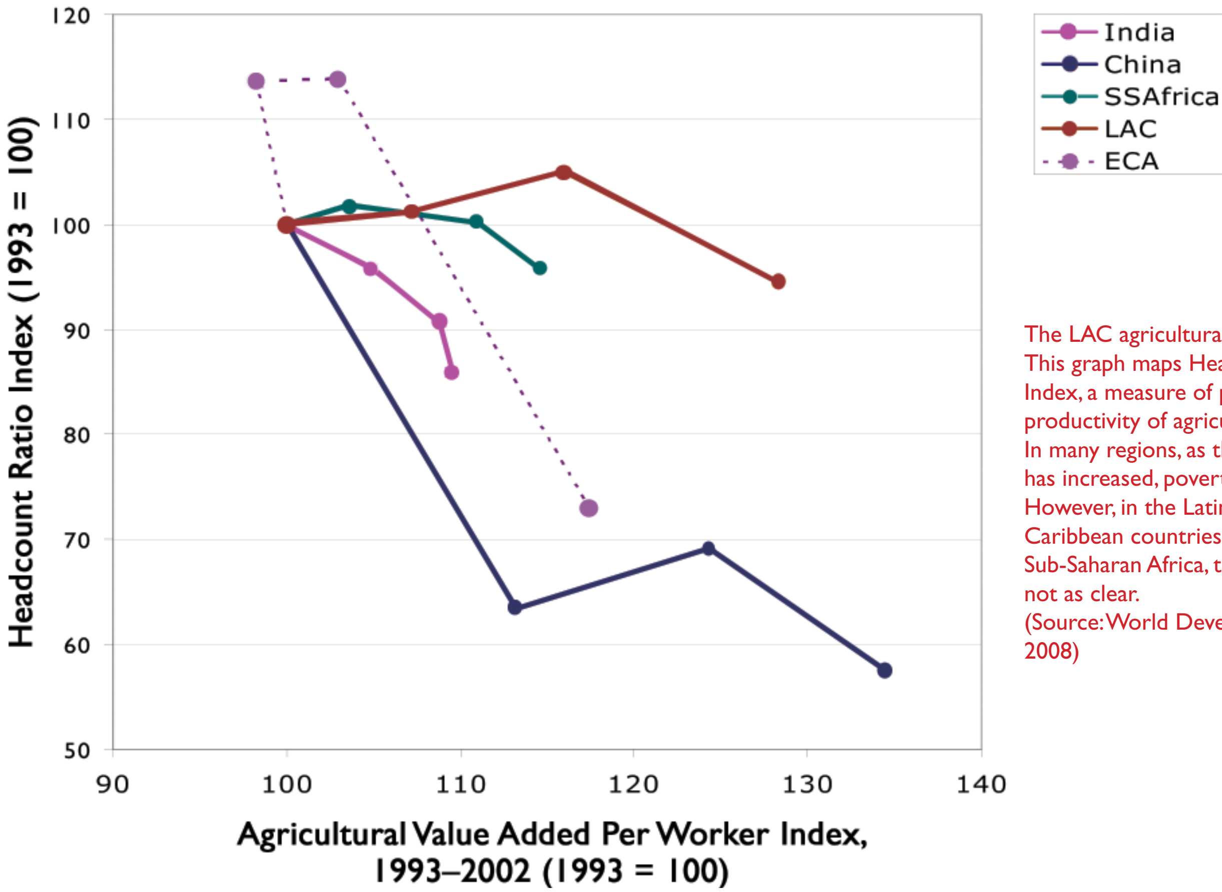

The LAC agricultural paradox: This graph maps Headcount Ratio Index, a measure of poverty, against the productivity of agricultural workers. In many regions, as that productivity has increased, poverty has decreased. However, in the Latin American and Caribbean countries (LAC), along with Sub-Saharan Africa, this relationship is not as clear. (Source: World Development Report 2008)

We see above that while agricultural growth per worker has been effective in reducing poverty in China, India, Eastern Europe and Central Asia, this is differentially not the case in LAC. Clearly, there, growth is necessary but not sufficient for poverty reduction. Complementary policies must be put into place. The challenge is to identify what they are and to assess their political, administrative and financial feasibility.

Two Alternative Models

Something extraordinary recently happened in Brazil: during the last 10 years both poverty and inequality fell. How was this achieved? Decomposition of sources of income growth shows that this was mainly due to transfers, such as Bolsa Familia and noncontributory pensions. The rural nonfarm economy also had a role to play. By contrast, agriculture did very little to lift people out of poverty through smallholder farming or wage earnings in the agricultural labor market. Can Latin America do better than rely on transfers to reduce poverty and inequality? The alternative model is for the poor to get out of poverty through their own work, as farm entrepreneurs or wage workers in rural labor markets. How can this be done?

Do bilateral free trade agreements with the United States help or hurt the rural poor? There is a lot of controversy on this topic, with strongly entrenched positions, but in the end it is an empirical question. Countries that have sought or are seeking free trade agreements with the U.S. include Mexico, Chile, the six CAFTA-DR signatories (Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua), Peru, Colombia (not yet ratified by the U.S.) and Ecuador (suspended). The expected impact on food prices (corn in particular) is toward a decline. Will this help or hurt the rural poor? It depends on which side of the market they are on.

The urban poor, the rural landless and also many smallholders are buyers of food. They will benefit. And they are in fact the majority of the poor. Net-seller smallholders will lose and need to be compensated, for example through a decoupled transfer program such as Procampo, which was instituted in Mexico following NAFTA. But the key issue is the ability to respond to the new system of incentives (away from corn and toward high value products and nontraditional exports). Will smallholders have a chance? Procampo did not help beyond transferring cash. Conditions will need to be set up for smallholders to be competitive under the new trade rules. This requires a proactive approach, where the state actively works to enhance their competitiveness. A new role for the state is essential if trade is to help reduce poverty.

The rural nonfarm economy (RNFE) has a key role to play. A remarkable phenomenon in the last 20 years has been the decentralization of national economies away from the main cities toward rural territories, with a corresponding increase in access to off-farm sources of employment and income for rural populations. In Mexico, the rural nonfarm economy and remittances provide 75 percent of rural incomes (with farming and the agricultural labor market providing the remaining 25 percent). Promoting the RNFE as a means of reducing poverty requires investing in the skill-formation of rural populations to enhance their employability and a territorial approach to promote the local availability of employment and investment opportunities. Agriculture will not reduce rural poverty alone. Here again, local governments have a proactive role to play in enhancing the competitiveness of rural territories. In these regions, cooperation among farms and enterprises in rural clusters is the key to being better able to compete.

Agriculture-for-Development: A Time for Action

Agriculture has shown its capacity to trigger economic growth, reduce poverty and deliver environmental services. Yet, this power has increasingly been underused, at high social and environmental costs. Today, concerns with continuing rural poverty and food insecurity for millions, rising food prices, the uncertain impact of biofuels, climate change, loss of biodiversity, competition over scarce water, rising subsidies in the upcoming U.S. farm bill and stalled international trade negotiations have elevated agriculture to becoming a key player in global and national agendas. New opportunities exist for a renewed use of agriculture as a powerful instrument for development, ranging from dynamic markets to technological and institutional innovations to new roles for the state, the private sector and civil society organizations. The window of opportunity to make a major difference for development is here, but it will not remain open forever. This opportunity should not be missed, particularly in Latin America and the Caribbean, but it requires developing country-level agendas and mobilizing political and financial support for implementation. This is a chance that must not be wasted.

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Bas-relief of "Agriculture" on the U.S. Federal Trade Commission's building.

Photo by takomabibelot.