

## *The WDR 2008: What it has to say about agriculture*

*The World Bank's World Development Report 2008, entitled "Agriculture for Development", shows how agriculture can make a crucial contribution to overall economic development, how important it is to make the most of this potential, and which measures are needed in order to do so.*

For the first time since 1982, the World Bank has again made agriculture the central issue of its World Development Report (WDR) 2008. Its rationale for doing so is based on the following observations: three out of four poor people in developing countries live in rural areas; of these, 2.1 billion live on less than two US dollars a day (USD/day), and 900 million even on less than one USD/day. The overwhelming majority of them are dependent on agriculture. The Millennium Development Goal of halving poverty by 2015 can be achieved in the poorer countries only if the potential of agriculture is used for development. Smallholder farming, often underrated and neglected, is a proven form of organisation and should be at the centre of an "agriculture for development agenda". For many millions of people living in rural areas, smallholder farming and employment in new forms of agriculture or in the growing non-agricultural sectors are the only ways out of poverty.

The analyses and policy recommendations of the WDR 2008 follow a typology of countries based on (1) the share of aggregate growth originating in agriculture and (2) the share of aggregate poverty in the rural sector. Three clusters emerge (see Table 1).

The key issue of how agriculture can best be used for development is addressed in relation to three questions:

---

### *Question 1: What can agriculture do for development?*

---

The importance of rural areas in overcoming poverty becomes clear from the fact that of the five billion people living in developing countries, three billion live in rural areas; of these, 2.5 billion are in agriculture and 1.2 billion in smallholder households. The relative reduction in poverty that occurred between 1993 and 2002 was due solely to a reduction in rural poverty; urban poverty increased. An estimated 45 to 55 percent (up to 80 % in the countries of sub-Saharan Africa) of the reduction in rural poverty was due to improvements in the situation

in rural areas and not to out-migration of the poor. Growth generated by agriculture led to greater than proportional increases in income in the lower income groups. In China the growth generated by agriculture proved to be 3.5 times as effective in terms of poverty reduction compared with growth generated outside agriculture.

The contribution of agriculture to poverty reduction and to growth stimulation is addressed in relation to countries in Group I in particular. In countries where the share of agriculture as a proportion of Gross Domestic Product (GDP) is high, growth in this sector makes a considerable contribution towards overall growth on the basis



of simple arithmetic alone. In addition, a greater supply of food leads to lower prices and lower wages, which favour growth. The direct price effect is strengthened via forward and backward linkages with other sectors, leading to “agriculture demand-led industrialisation”.

In many countries these opportunities have hardly been used. Where it would have been needed most, investment in agriculture has been too low. In areas where agricultural growth has not taken place, high population growth and missed opportunities for income diversification have led to a persistence of mass poverty and food insecurity, to a declining soil fertility, and an increase in income disparities and political tensions.

The WDR 2008 notes with regret that donors have turned their backs on agriculture. The reasons for this include falling world market prices, which have made many agricultural projects appear unprofitable, and a lack of reforms in the OECD countries, which have caused many developing countries to resort to protectionism

**Table 1: Typology of countries**

	Share of aggregate growth originating in agriculture	Share of aggregate poverty in the rural sector	Rural population
<b>Type I:</b> Agriculture-based countries: Most countries of sub-Saharan Africa	70 %	32 %	417 million
<b>Type II:</b> Transforming countries: Typical representatives are China, India, Indonesia, Morocco, Thailand	70 %	7 %	2200 million
<b>Type III:</b> Urbanised countries: Most of the countries of Central Asia, Eastern Europe and Latin America	39 %	7 %	255 million

and subsidies. In addition, new priorities have been set in development cooperation, such as budgetary assistance and balance of payments aid, as well as debt relief, and a certain anti-technology mood has prevailed in public opinion. Despite proven high economic profitability (internal rates of return between 35 % and 50 %) underinvestment in agricultural research persists.

The WDR sees in more recent evolutions growing opportunities to use agriculture for economic development. This includes new markets, technical and institutional innovations as well as a new understanding of the role of both the state and civil society. Private entrepreneurs play an increasing role in value chains. Altered consumer preferences and regional integration have led to the creation of new markets for staple foods and traditional export products. The report mentions specifically:

- global market shifts with growing demand for high quality products and new market players (integrated food chains),
- large corporations in agribusiness,
- long-term decline in prices for staple foods and tropical export products,
- new niche markets (organic products, fair trade),

- new markets for biofuels,
- technical and institutional innovations,
- changed role for the state
  - less direct provision of goods and services for agriculture,
  - more provision of public goods, regulatory functions and compensation for socially undesirable impacts of reform measures, as well as environmental management where market forces may have negative external effects,
- increasing power of civil society organisations.

The private sector is the driving force in value chains. One important role for the state should be to correct market failure, to regulate competition and to increase the competitiveness of the agribusiness sector through strategic public-private partnerships, as well as to ensure the participation of smallholders and farm labourers. This depends on the extent to which rural households are able to realise direct welfare gains as net sellers and indirect gains as labourers and consumers of food. Production is done largely by smallholders, supported by their organisations. If they do not succeed in organising and marketing smallholder production collectively, the report sees a labour-intensive commercial form of agriculture as the better form of production, and efficient and fair labour markets as the key to poverty reduction.



Photo: J. Boehlfling

*The World Bank Report emphasises the development of the smallholder farming and how to network with agribusinesses in improving productivity and marketing.*



*When will the dream also come true for small-scale farmers to relieve their daily burden of hard work by using modern machinery?*

Education and health are accorded a key role in terms of strengthening human capital.

**Making smallholder farming more productive and sustainable.** In making smallholder farming more productive and sustainable – depending on the intensity of their market contacts – the following elements are of different importance:

Photo: J. Boethling

## Question 2: What are proven instruments in using agriculture for development?

In answering this question the authors distinguish between the following fields of action:

**Increasing access to assets.** The WDR 2008 names land and human capital the most important assets of households. An improvement in

assets often requires investment, but in many cases institutional improvements are more important. Most important are clear and secure land ownership rights as well as a functioning land market. The report names some examples of how better ownership rights can be introduced – such as by acknowledging traditional rights or certifying ownership rights – and of easier access to land via rental markets, as, for example, in China.

ing elements are of different importance:

- Improving price incentives and increasing the quality and quantity of public investment;
- Making markets (for products and factors of production) work better;
- Improving access to financial services and reducing exposure to uninsured risks;
- Enhancing the stature of producer organisations;

**Table 2: Country type specific strategies to combat rural poverty**

Policy objective	Country Type		
	Type I: Agriculture-based countries	Type II: Transforming countries	Type III: Urbanised countries
Focus of the strategy	Accelerating growth, poverty reduction, and food security	Reducing rural-urban income gaps and poverty	Linking smallholders to the new food markets and providing good jobs
Increase access to markets and establish efficient value chains	Building markets and value chains ++	Infrastructure to support diversification +	
Increase smallholder competitiveness and facilitate market entry	Smallholder-based revolution, promote exports ++++	High value activities +++	Inclusion on new food markets ++++
Improve livelihoods in subsistence agriculture and low-skilled rural occupations	Securing livelihoods and food security of subsistence farmers +++	Food staples and livestock; safety nets +++	Subsistence agriculture; social assistance +++
Increase employment opportunities in rural labour markets and enhance skills	Facilitate labour mobility and rural non-farm employment +	Rural non-farm economy; skills for successful migration +++	Territorial development; skills for the rural non-farm economy +++

*Note: Signs indicate relative priorities for policy attention assigning 10 points across objectives.*

- Promoting innovation through science and technology;
- Making agriculture more sustainable and a provider of environmental services.

**Establishing new sources of income, facilitating migration.** With the exception of sub-Saharan Africa, between 45 and 60 percent of the rural workforce is integrated into the agricultural and the rural non-agricultural labour market. The most urgent task is to create more jobs, even if they are modestly paid. The driving force behind a dynamic rural economy outside agriculture is an expanding agriculture and a favourable climate for investment. It is important that the non-agricultural sectors are linked to larger markets through a reduction in transaction costs by developing infrastructure and improving market information. The rural population's transition to higher quality occupations demands an adaptation of labour market rules and an improvement in qualifications. Offering social support to the chronically and transitionally poor via food aid or cash transfers improves not only their social situation but also the efficiency of the transformation.

---

### *Question 3: How to implement agriculture-for-development agendas?*

---

The final part of the WDR 2008 deals with the relative importance of the policy objectives

- 1 Increase access to markets and establish efficient value chains,
- 2 Increase smallholder competitiveness and facilitate market entry,
- 3 Improve livelihoods in subsistence agriculture and low-skilled rural occupations,
- 4 Increase employment opportunities in rural labour markets and enhance skills within the three country types and the respective development strategies. The results are summarised in table 2.

### **WDR 2008 – An OECD viewpoint**

---

Agriculture and rural development have returned to the political agenda. Alarmed by the hunger revolts in numerous developing countries, even the heads of state and government at the G8 summit will now be addressing the causes and impacts of the soaring food prices. It is to be hoped that the boost in political attention will not ebb just as rapidly when prices start to decline again. Concrete political consequences are needed to implement sustainable agriculture and rural development strategies. This applies worldwide, not just in developing countries but also in the “developed” OECD countries.

The 2008 World Bank report, for the first time since 25 years, has at last provided a comprehensive and differentiated analysis of agricultural development problems and potentials in developing and newly industrialising countries. The inadequate achievement rate of the Millennium Development Goals (MDGs), in which the community of states have committed to halve hunger and poverty by 2015, illustrates how urgently necessary this is.

The number of people suffering from hunger is to be reduced to 400 million. Instead, it has risen to 850 million at the present time and it is clear that especially Africa cannot achieve this MDG. The number of poor people living on less than one US dollar (USD) a day is to be reduced to 650 million. Today we still have more than 1.2 billion. About three quarters of these people live in rural areas, and mainly depend on agriculture. The World Bank Report pertinently shows that any successes in reducing poverty at all were made in the rural regions of East Asia, primarily in China. In towns and megacities on the other hand, poverty has increased by more than 20 percent all over the world.

The enormous difference between the development goals and the actual inputs made to achieve them is demonstrated by the Official Development Assistance (ODA) figures on development assistance published by the OECD Development Assistance Committee (DAC). Over the last two decades, the percentage spent on agriculture, forestry and fisheries dropped from more than 10 percent to less than 3 percent. This is equivalent to just about 3 billion USD. In contrast, OECD countries support their own agriculture with 270 billion USD each year.

The agricultural policy of the “developed” countries is an appalling example of how difficult it can be to actually put into action a policy which is recognised in theory as the right thing to do. This situation is co-responsible for the fact that not only has the agriculture of many developing nations not been promoted, but indeed it has been decisively hindered. Potential export countries have been refused access to rich countries' agricultural markets. Massive export subsidies and credits have caused prices on the world market – and in most cases also the prices of agricultural goods on the developing countries' domestic markets – to fall so low that they crush any incentive to raise national agricultural production, develop rural markets and invest in infrastructure.

The OECD analyses also indicate that agricultural protectionism in OECD countries themselves is neither economically, socially or ecologically sound or leading to sustainable rural development. It is necessary to dismantle sectoral subsidy mechanisms that distort markets and trade, and to make a transition to a geographically differentiated approach which optimally values both the agricultural sector and also the overall rural-development potential of a given area. Consequently, development policy, too, must take a holistic view of the potentials of rural regions. Only when agricultural prices and production have been assured, and also the pertinent infrastructure, above all for transport and stocking facilities, together with basic services such as training, extension, credits and also land tenure and water rights, will rural development strategies achieve sustainable success.

**Heino von Meyer**  
Head of OECD Berlin Centre

## The WDR 2008 and the current food crisis

Dramatic developments have taken place on the world's agricultural markets since the middle of last year. The price for wheat, for example, rose in the second half of 2007 from 180 to 420 USD/tonne, but then fell again with wide fluctuations. Similar price increases occurred in the case of maize and oil seed. The price of rice, which up until the end of 2007/beginning of 2008 had risen modestly to 330 USD/tonne, shot up after that to 750 USD/tonne, triggering a panic reaction among consumers and governments alike. The dramatic price increases led to food revolts in many countries (including Mexico, Egypt, India, Indonesia, Peru and, most recently, Haiti). Governments generally responded by imposing export prohibitions or export duties. The United Nations, World Bank and IMF are becoming increasingly concerned, given that political destabilisation on a large scale appears to be a real danger.

The price trend results from the fact that, on important agricultural markets, consumption rose faster than production. This can be shown by the world cereals market. In the years since 2000/2001 consumption has been higher than production, with the exception of a single year (2004/05). The result has been a drastic reduction in cereal stocks, which in 2006/07 were only 16 percent of annual consumption and in 2007/08, according to existing estimates, will fall to the unprecedented level of 14.6 percent. The immediate catalyst was failed harvests due to drought in several important producer countries, especially Australia.

Driving forces behind the increase in consumption were the increase in the world's population and growing per capita consumption in important developing and newly industrialised countries. Both facts had repeatedly been predicted in the past. All what may be seen as a surprise is the speed at which income-related consumption increased. The main reason for the inadequate development of production is the decades-long neglect of agriculture in development efforts, extensively dealt with by the WDR 2008 along with the reasons for it.

A crucial factor in the present scenario is the evolution of energy prices which has a direct bearing on the costs of inputs into agricultural production (fuel, fertilisers and pesticides, machines).

Moreover, as the price of energy increases, energy crops increasingly compete with food. In Brazil the production of sugar cane-based ethanol has a long tradition and is economically competitive. By 2015 production there is set to be increased from currently 16 million to 26 million cubic metres and the area given over to sugar cane from six to nine or ten million hectares. In other countries, biofuels have been rendered attractive by support programmes for the producers. Currently about 55 million tonnes of maize are fed into the bio-ethanol programme in the USA, and in 2016 this is due to be 110 million tonnes, which corresponds to an area of 14 million hectares. The EU is planning 28 million cubic metres of biofuels for 2016, the production of which will require 16 to 18 million hectares. Similar programmes exist in many countries, including China, India, Indonesia and Malaysia. As yet, the area of land actually used for this purpose is relatively small, so that they cannot be the main cause of the price increase. However, they do have a reinforcing impact and will do so to a much greater extent in the future if energy prices remain permanently high. The task of politicians is to support the development of more efficient biofuels and to subject current support programmes conceived under different conditions to critical re-examination.

If global harvests are good in the current year – and the signs are that they will be – the situation can ease quickly; if the harvest is poor, however, the situation may become dramatic. However, even if the situation eases, this should not be taken as a sign that it would be appropriate to return to a policy of “business as usual”, because the long-term trends have not changed. A repeat of precarious situations can only be avoided if agriculture is given the role it deserves in development policy. Fortunately, providing more support for agriculture does not compete with the goals of overall economic development, but rather contributes – as the WDR 2008 shows – towards achieving them.

## Assessment

Recent developments on the global agricultural markets show how necessary it was to bring agriculture back onto the development policy agenda. Since this time the focus was on the question of what agriculture can contribute towards overall economic development and not on how agriculture should be developed in order to meet the needs of a growing world population for food and agricultural raw materials, the WDR 2008 contains few forecasts or normative statements about the development of crop land, irrigated land, yields or inputs.

It was important and indeed correct to place the emphasis on the development of the smallholder farming sector, and in doing so to refer to the necessity of cooperation between businesses in production and marketing in the context of producer organisations. The report differs from the previously somewhat critical view of agribusiness in that it accords private actors an important role in the value chain and identifies potential for development cooperation in working with them.

On the significance of technical innovation, reference is made back to the Green Revolution, and unjustified criticisms of its distributional impacts is being corrected. In this context, reference is made to the central role of the Consultative Group on International Agricultural Research in making research results available as an international public good.

Quite rightly, the report stresses the necessity of going beyond the boundaries of the farming business and including the rural labour market, along with migration, as a way out of poverty. Equally rightly, it emphasises the importance of education and training as a prerequisite for taking up a higher quality occupation and migrating “successfully”. Successful migration here does not mean migrating to the megacities, nor migration due to push factors, but rather migration to cities linked to rural areas.

*The WDR 2008 notes with regret that the international community has neglected agriculture for many years. Investments in this sector have been far too low.*



Photo: Iarif

It was possible to show, from the country types, how the relative importance of the different functions of agriculture changes during the course of development (from forming the livelihood of the mass of the population through the provision of food – not least as wage good for those increasingly employed in non-agricultural sectors – to the producer at the start of value chains) and what consequences emerge from this for agriculture and those of its workers

whose pathway out of poverty leads them into other sectors. The report's strength lies in part in this perspective and in the associated inclusion of cru-

cial interfaces. It leads to strategies and support programmes that are oriented towards agriculture but that also go way beyond it.

## Zusammenfassung

Das zentrale Thema, wie die Landwirtschaft am besten zur Entwicklung genutzt werden kann, wird an drei Fragen abgehandelt:

- 1 Was kann die Landwirtschaft zur Entwicklung beitragen?
- 2 Welche Instrumente haben sich für die Nutzung der Landwirtschaft zur Entwicklung bewährt?
- 3 Wie sind „Landwirtschaft-zur-Entwicklung-Agenden“ zu implementieren?

1 Der relative Rückgang der Armut ist allein auf den Rückgang der ländlichen Armut zurückzuführen. Durch die Landwirtschaft verursachtes Wachstum führt in den unteren Einkommensgruppen zu überproportionalen Einkommenssteigerungen. Über vorwärts und rückwärts gerichtete Verknüpfungen überträgt sich Wachstum der Landwirtschaft auf andere Sektoren.

2 Wichtige Handlungsfelder dazu sind: Verbesserter Zugang zu Boden, Stärkung der Wettbewerbsfähigkeit der kleinbäuerlichen Landwirtschaft, Erschließung neuer Einkommensquellen und Migration.

- 3 Maßnahmen zur Verbesserung des Marktzugangs, der Wettbewerbsfähigkeit von Kleinbauern, des Lebensunterhalts durch Subsistenzlandwirtschaft und der Beschäftigungsmöglichkeiten auf ländlichen Arbeitsmärkten kommt in den Ländertypen (I) – von der Landwirtschaft geprägte Länder –, (II) – Transformationsländer – und (III) – verstädterte Länder – eine unterschiedliche relative Bedeutung zu.

## Resumen

El tema central del mejor aprovechamiento de la agricultura para el desarrollo debe analizarse con la ayuda de tres preguntas:

- 1 ¿Qué puede aportar la agricultura al desarrollo?
- 2 ¿Qué instrumentos han demostrado ser exitosos para el aprovechamiento de la agricultura con miras al desarrollo?
- 3 ¿Cómo pueden implementarse los planes tipo “agricultura para el desarrollo”?

- 1 La relativa reducción de la pobreza se debe únicamente a la disminución

de la pobreza rural. El crecimiento impulsado por la agricultura lleva a incrementos sobre-proporcionales en los ingresos de los estamentos de ingresos más bajos. A través de las interrelaciones hacia arriba y hacia abajo en la cadena, el crecimiento se traslada de la agricultura a otros sectores.

- 2 Para este fin son importantes los siguientes campos de acción: mejor acceso a la tierra, fortalecimiento de la competitividad del pequeño campesinado agrícola, creación de nuevas fuentes de ingresos y migración.

- 3 Las medidas para la mejora del acceso al mercado, la competitividad de los pequeños campesinos, los medios de vida basados en la agricultura de subsistencia y las posibilidades ocupacionales en los mercados laborales rurales adquieren una significación relativamente distinta dependiendo del tipo de país: (I) países fundamentalmente basados en la agricultura, (II) países en proceso de transformación y (III) países urbanizados.