

WDR 2008 – Agriculture for Development

Sussex consultation: Political economy of policy

I. The WDR

- A WB flagship report. Developed cooperatively. Reaches a broad audience.
- Determinants of success (WDR on Health):
 - A few key messages that can make a difference
 - Strong supportive evidence
 - Concern with implementation (political economy)
- Last WDR on agriculture was in 1982, followed by ag trade in 1986
- Huge changes in world of agriculture → Need for a new agenda, especially as new opportunities have emerged and donor interest in agriculture is returning.

Objective of this consultation:

Political economy of policy a key issue for WDR 2008:

Positive: Observe policy distortions, reform failures, second-best policy instruments, under-investment, regressive public transfers, incomplete WDR 1982 agenda:

→ Provide an interpretation in terms of political economy

Normative: WDR 2008 messages and agenda in using agriculture for development:

→ What to do to defeat political economy bottlenecks?

→ Need: (1) Analytical framework(s)

(2) Illustrative case studies of success and failure in managing the political economy of policy

II. Main message

“Agriculture remains one of the most effective instruments to reduce world poverty”

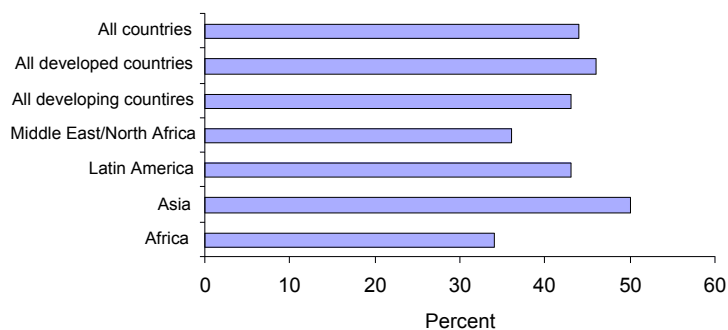
“There is a **huge cost** to current under-investment in agriculture, mis-investment, policy neglect, and anti-agriculture policy biases.

Opportunities exist to use agriculture for development more effectively than in the past with the emergence of a “new agriculture” and improved market, state, and civil society contexts.

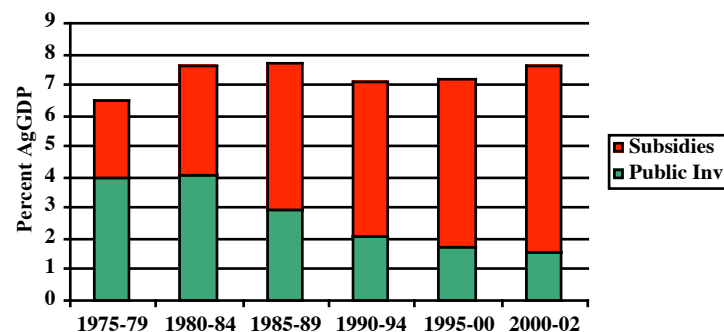
For these reasons, agriculture **must play a redefined and far more important role** in national and international development agendas.”

Supportive evidence for message (with poleco interpretations):

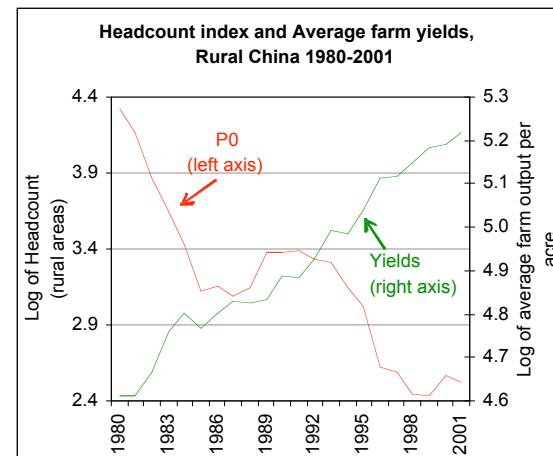
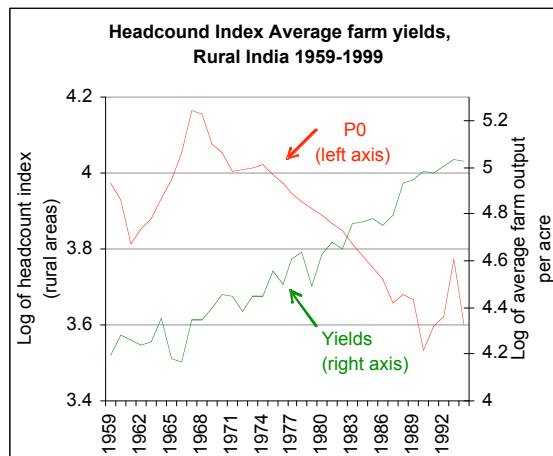
- Under-investment in R&D and infrastructure: IRR estimations.
- Cost of failed trade and subsidy reforms in the OECD and developing countries.
- Foregone growth due to mis-spending on subsidies: India, LAC
- Opportunities exemplified by successes in China & India and localized success stories worldwide, including in Africa.
- The share of agriculture in ODA has fallen more rapidly than the share of the rural sector in poverty.



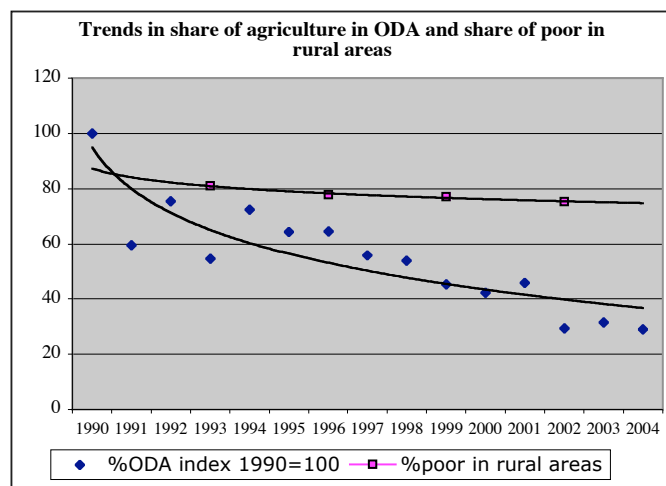
Rates of return to investment in ag research and extension



Share of subsidies in ag public expenditures in India



Rising yields accompanied declining rural poverty in China and India



The share of ag in ODA fell more rapidly than the share of the rural sector in poverty

III. WDR structure

(1) The basic duality of agriculture

- Agriculture is an **economic sector**: source of GDP growth, of business opportunities, and a user and miss-user of natural resources
 - Agriculture is a **social sector**: a way of life, an instrument for poverty reduction, and often for food security
- This **duality** makes it both effective for development, and also difficult to use as there are more often trade-offs than win-win.
- Duality translates into deep rooted **dualism** among smallholders: market-oriented and subsistence-oriented.
 - Globalization and structural transformation imply a **crisis of livelihoods** among smallholders: need to adapt to compete, with winners and losers; need to reallocate labor inter-sectorally to overcome rising income gaps, with rigidities.

(2) **Posing the ag for dev problem** (Chapters 1 to 3)

- **Importance** of agriculture: as economic sector (34% of GDP growth in SSA, 85% water), as social sector (75% of world poor, 400 million rural poor in South Asia, 2.5 billion people related to agriculture)
- **Specificities** of agriculture: “a sector not like others” (dependency on nature, global linkages, market failures, state role, dualism, gender roles, collective action)
- **Rapid changes** in agriculture: Emergence of a “new agriculture” and a new context for agriculture (scenarios)
- A changing rural **population**: importance of diversified livelihoods (pluriactive), negative sorting due to migration, geographical proximity of wealth and poverty.
- **Past agendas** of agriculture for development have often failed: political economy interpretations. New hopes? (Box)

Box: Why have past agendas failed?

1. Falling international commodity prices.
2. Failure to reform OECD farm policies.
3. ODA driven by debt crisis and HIPC demands: transfers.
4. ODA demand-driven by governments with urban-industrial priorities.
5. Implementation problems: Sectoral approaches insufficient; integrated top-down approaches ineffective, especially in heterogeneous & incomplete contexts.
7. Environmental groups look at agriculture as enemy.
8. Dysfunctional ministries of agriculture and public services.
9. Ill-defined roles of state and private sector post-adjustment.
10. Food security is a poverty problem: D-side concern only.
11. Global agenda lagging and acting as constraint.

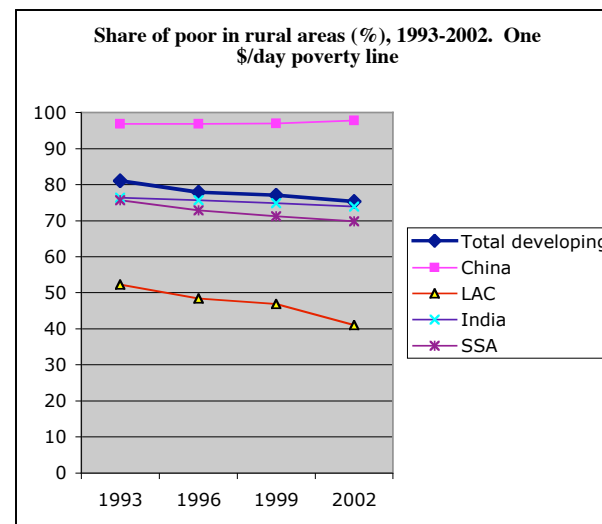
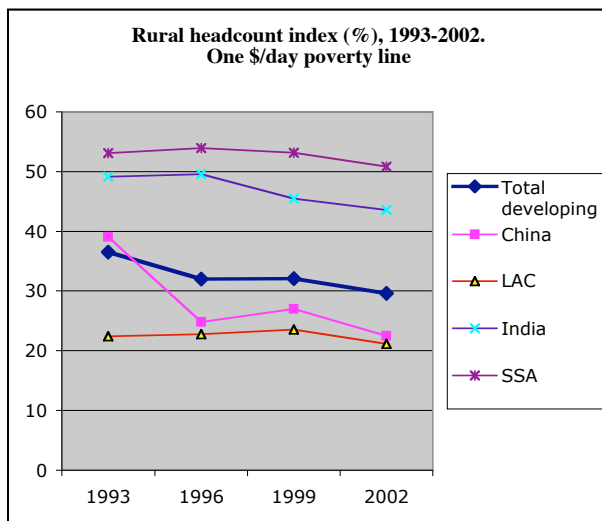


Figure. Rural headcount index and share of poor in rural areas (Ravallion, Chen, Sangraula, 2006)

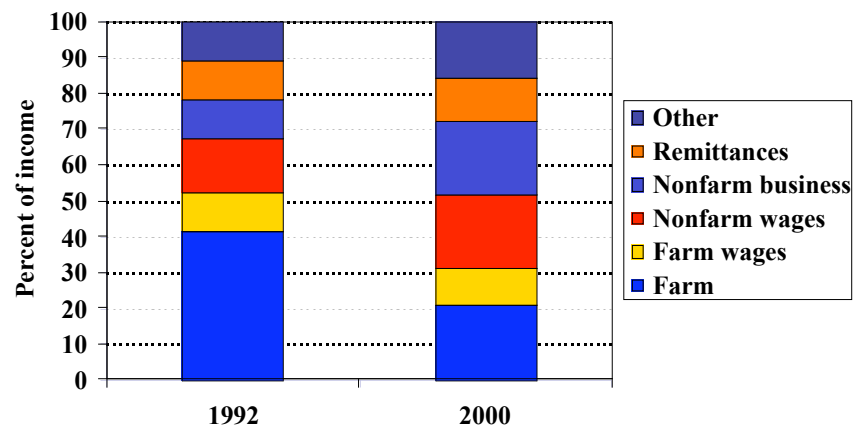


Figure. Diversification of sources of income among rural households in Bangladesh, 1992-2000

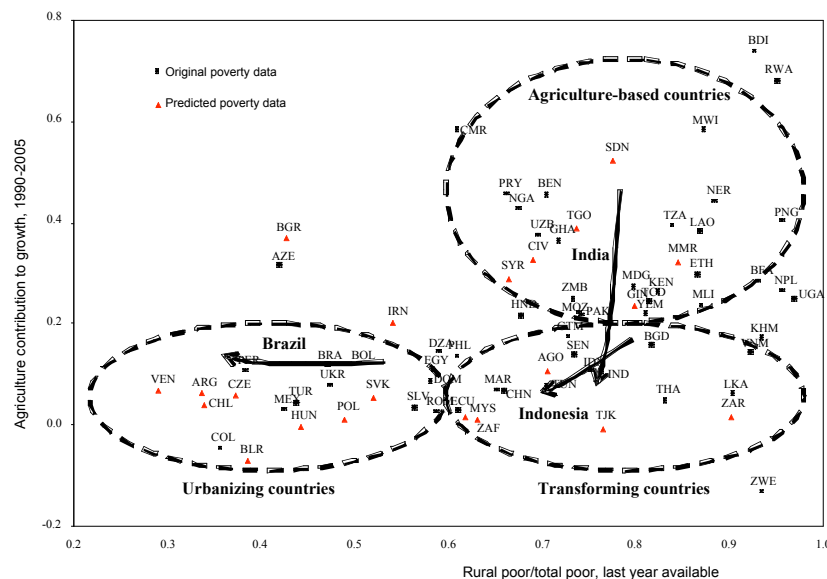
(3) Heterogeneity: The three worlds of agriculture, and their transformations

Share of ag. in growth and the share of rural poor in total poverty:

(1) **Agriculture-based** countries: mainly SS-Africa

(2) **Transforming** economies: mainly Asia, MENA, Eastern ECA

(3) **Urbanizing** economies: mainly LAC and Western ECA



(4) Behavioral responses: the pathways framework

- Role of **asset** endowments: rural households as actors
- Role of **context** where the assets are used: state (policies, public goods), markets, institutions, technology, value chains (with a broader set of actors, including outside agriculture).
- **Pathways (Behavior)**: Farming (F: Fm, Fs), rural non-farm employment and self-employment (L: Lag, Lnon-ag, non-ag self-L), migration (M), and combinations with F (“diversified livelihoods”)
- Role of social **assistance**
- **Political economy** responses (policy loop: state, RPO, political actors, policy process).

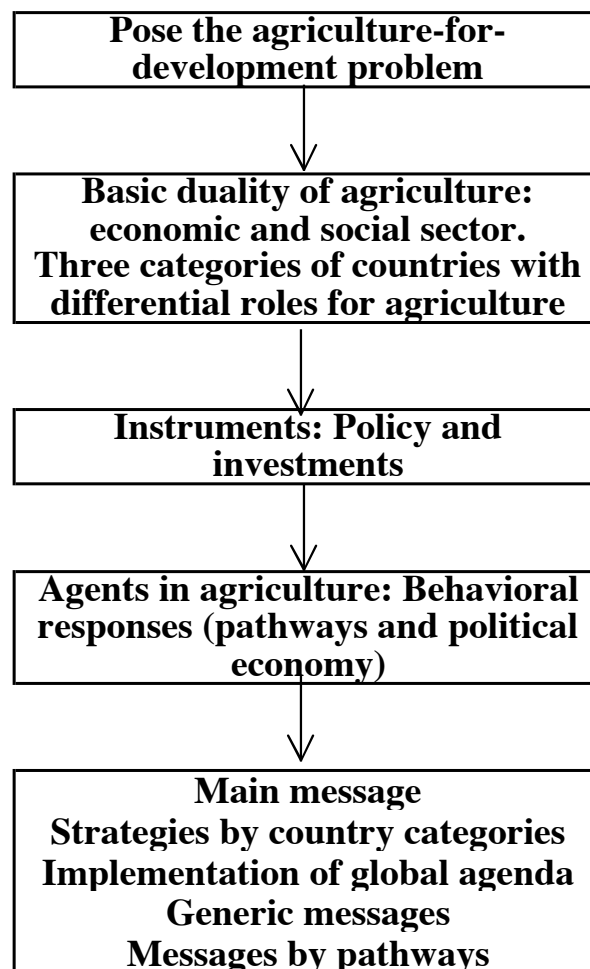
(5) Policy instruments and investment options

- Trade, price policy, and public spending (Chpt 4)
- Making markets work (Chpt 5)
- Institutional innovations for smallholder development (Chpt 6)
- Science and technology (Chpt 7)
- Natural resource management (Chpt 8)
- Labor markets, rural non-farm economy, migration (Chpt 9)
- Reducing risk and vulnerability (Chpt 10)

(6) Headlines and messages: A baker's dozen

- Two (+1) country-category strategies and a global agenda
- Six generic messages
- Differentiated policies for four pathways

(7) Summary of WDR structure



IV. Development strategies by country type and global agenda

Message 1. Sustained agricultural growth is a sine-qua-non for prosperity in agriculture-based countries

Rationale

Agriculture is the entry point for growth and improved livelihoods.

New opportunities exist to be successful.

But it will not be easy: multi-pronged approaches needed.

What should be done: big push on agriculture in Africa

Coordinated investments, and local adaptation.

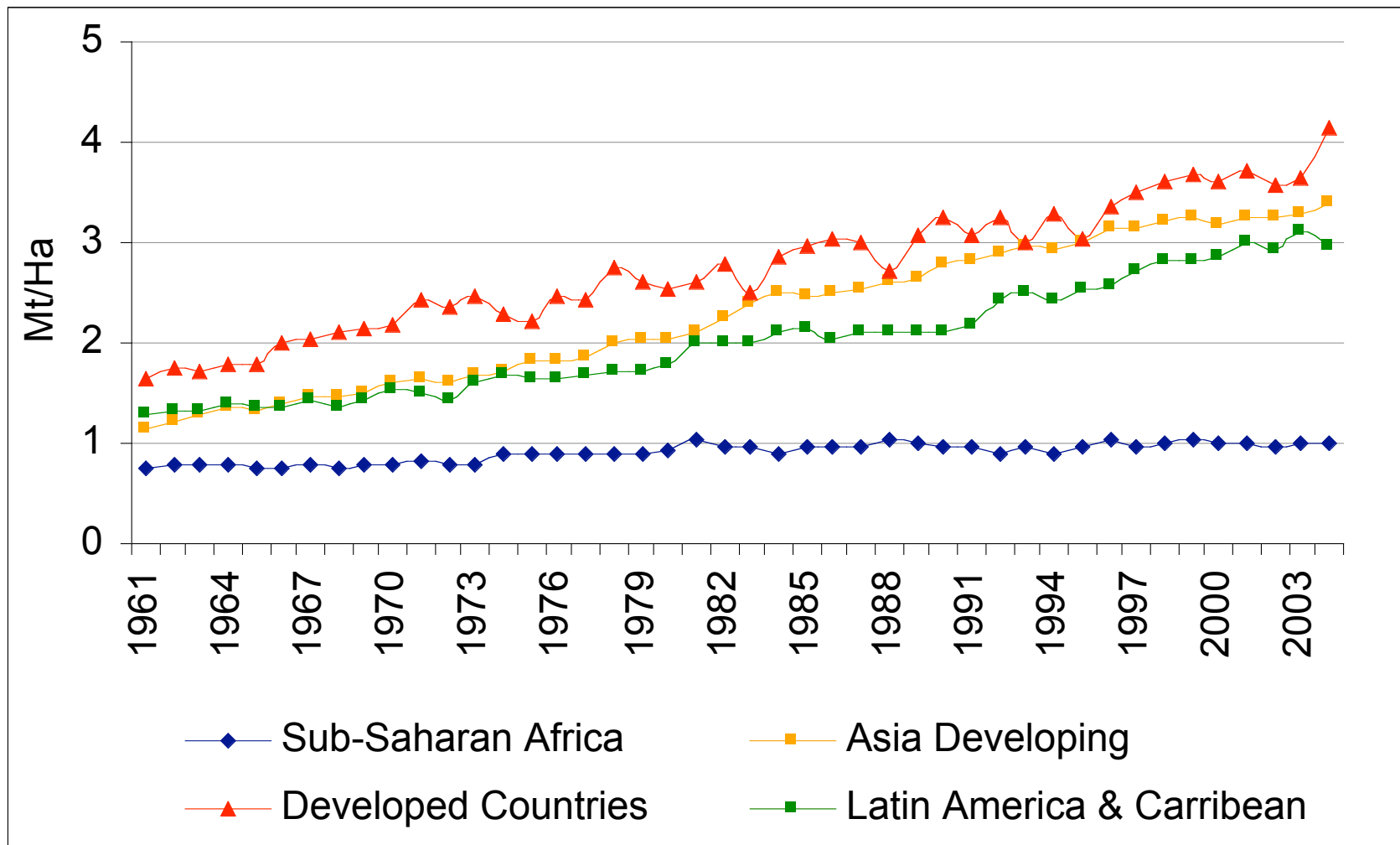
Improved price and trade policy: both OECD and Africa.

How should it be done (poleco)

Target the entrepreneurial smallholders, promote RNFE.

Empower farmers (women), local governments, and private sector.

Massive resource mobilization: public I, rural investment climate.



Figure, Gap in cereals yield gap between Africa and other regions

Message 2. Agriculture is the most effective instrument to reduce destabilizing rural-urban income gaps in transforming countries

Rapid GDP growth, only 9% coming from agriculture, but 72% of their poor in rural areas.

Widening income gaps between rural and urban populations.

What should be done?

Use the powers of agricultural growth & RNFE to reduce income gaps.

How should it be done (else than by subsidies)? Poleco

Shift to HVA and green revolution for lagging areas.

Investment climate for RNF enterprise development in secondary towns.

Invest in human capital and skills to facilitate inter-sectoral labor transfers.

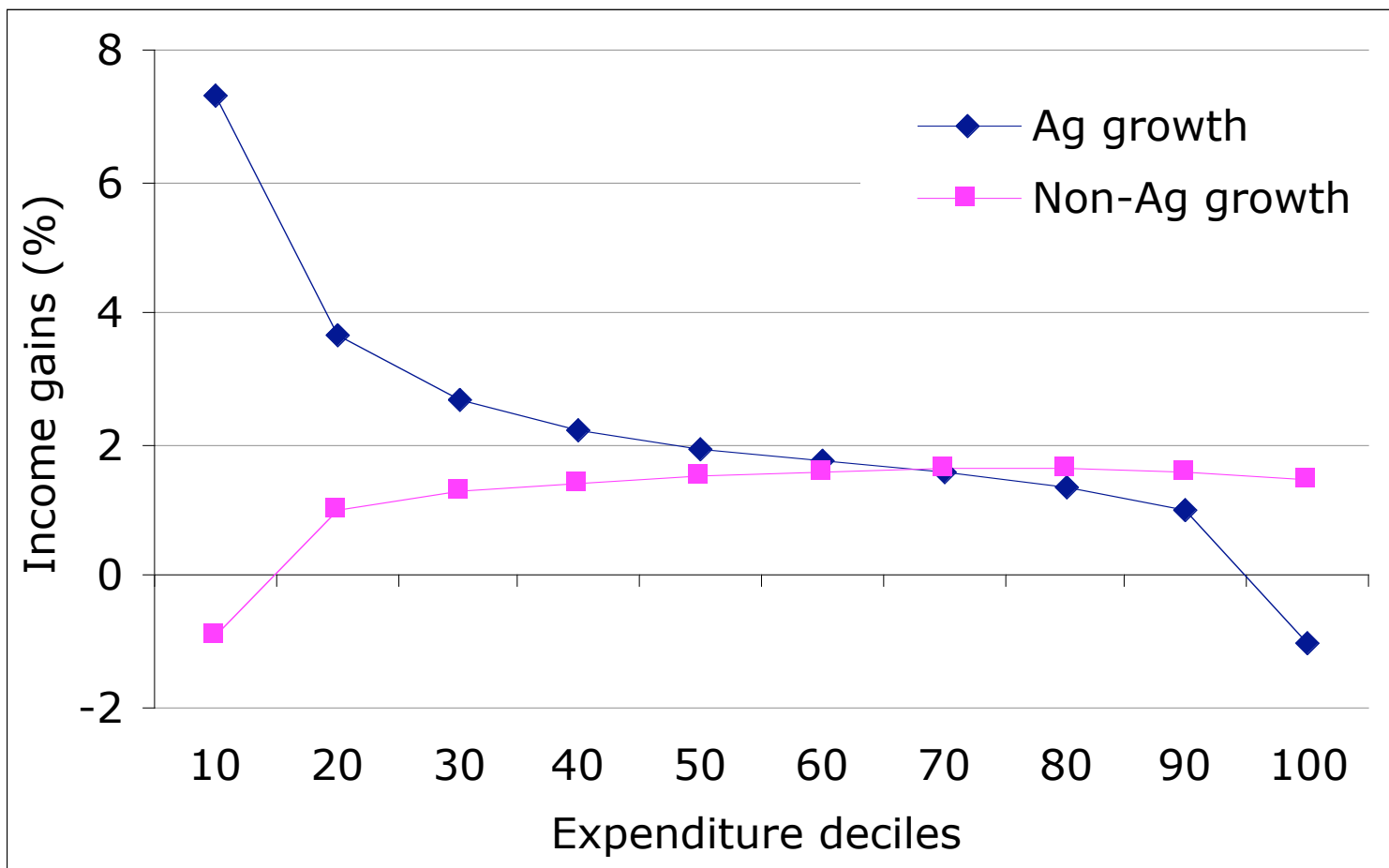


Figure. Poverty reduction effects of GDP growth originating in agriculture and non-agriculture across 42 countries

Message 3. Successful national agriculture-for-development strategies are conditional on delivery of a global agenda

- **Effective delivery on a global agenda necessary for national success:** trade reforms, OECD farm policies, climate change, international public goods in science and technology, conservation and access to genetic resources, control of human and animal diseases, and rising energy prices.
- **Reciprocally**, success in the emerging global agenda of health, environment, poverty, and security is increasingly **conditional on success of national agriculture-for-development agendas.**

How should it be done

Align incentives (reduce harm, win-win), improve coordination of global actors, and seek commitment devices (loss-win).

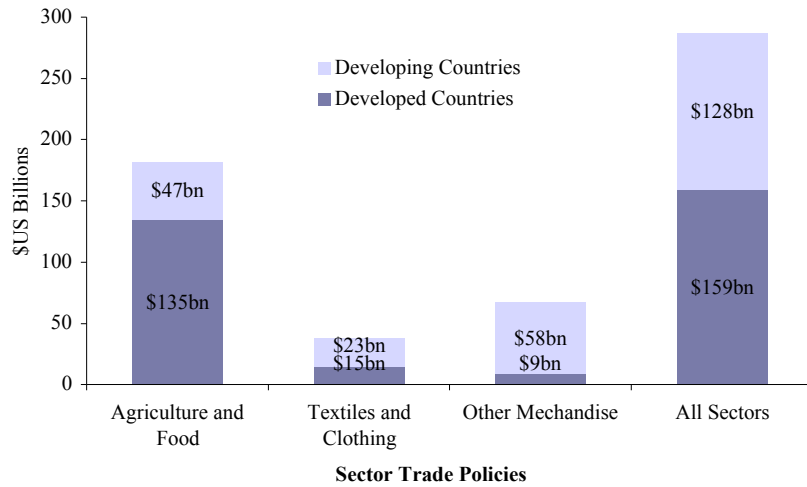
V. Generic messages

Message 4. Getting the price incentives right remains an unabated priority for successful use of ag-for-dev, calling on initiatives to break political economy deadlocks

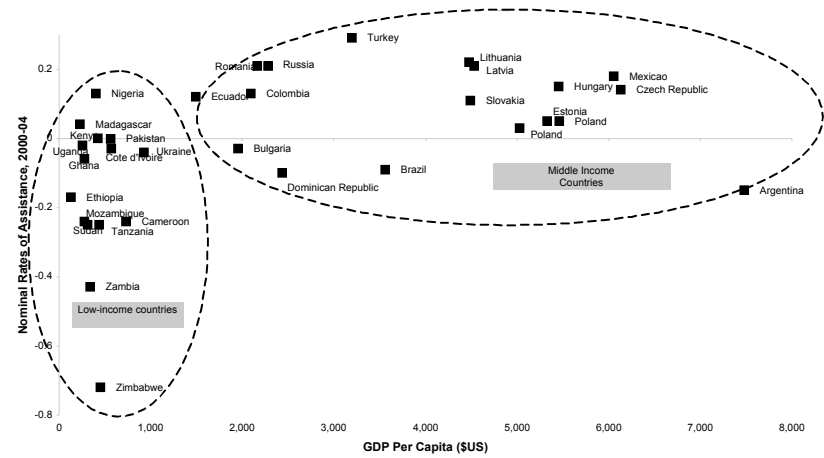
- OECD agricultural trade protection and farm subsidies have not been reduced significantly (Anderson & Martin).
- Progress has been made in reducing price distortions in developing country, but policies continue to penalize agriculture (Krueger et al. update).

What should be done (Pol Eco)

- Get prices right, compensation for losers, and complementary agenda for smallholder supply response.
- Reduce non-productive and regressive public expenditures in middle-income countries



Cost of current tariffs and subsidies



Low income countries tax agriculture, middle income protect

Message 5. Making markets work for smallholders is essential for their competitiveness

- **New market opportunities** are opening in HVA (supermarkets), and in staple foods through urbanization and regional trade.
- **Niche markets** for organic and fair trade (with adding-up)

Yet, many markets have huge TC, economies of scale, and demanding standards, making it difficult for smallholders to compete.

→ **Need innovations** in soft and hard infrastructure (transport improvements, market information systems, commodity exchanges, warehouse receipts, RPO) and price risk management tools.

→ Need redefine the **role of the state** in markets: **poleco**

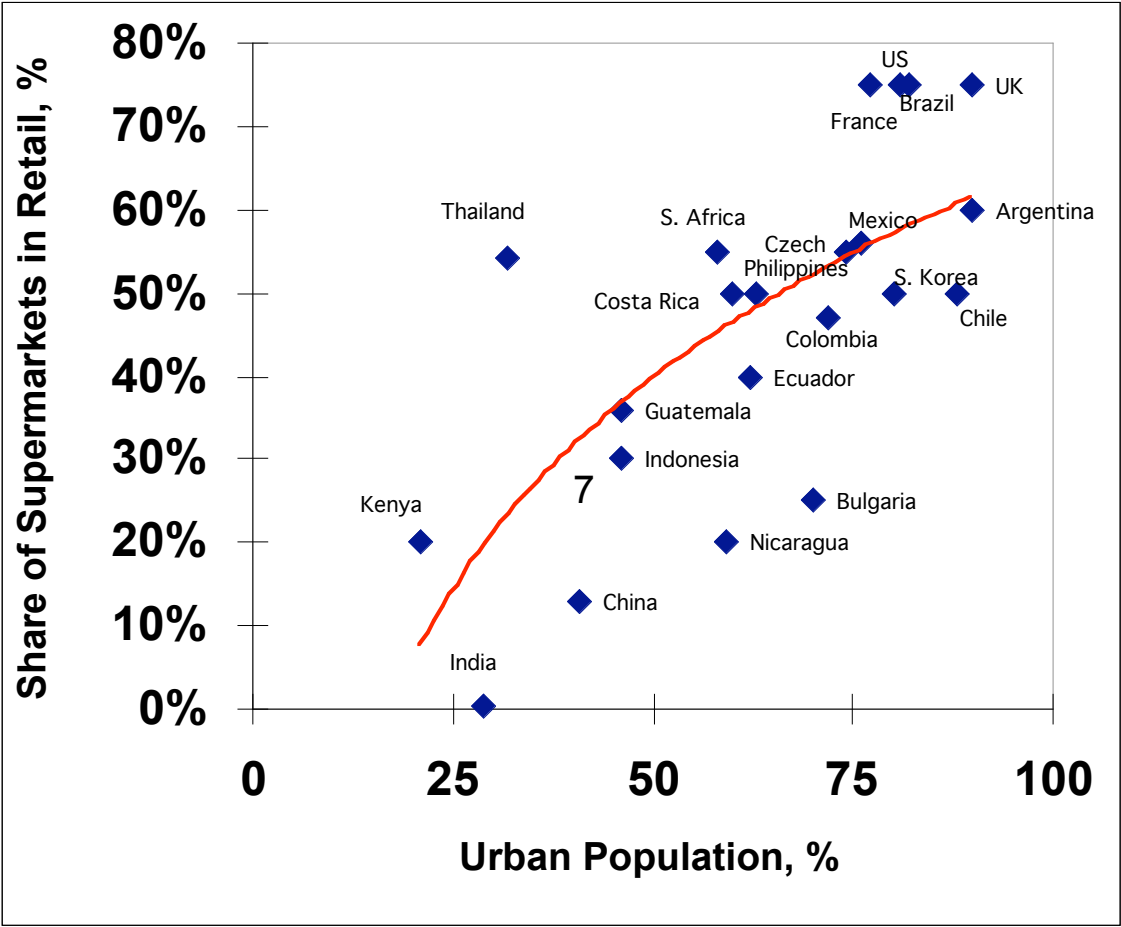


Figure. Supermarket growth is associated with urbanization

Message 6. Increase investments in core public goods

- The **share of public investment** allocated to agriculture has been declining in all regions, but especially in Africa.
- As a share of agricultural GDP, developing countries spend only **one-tenth** what industrial countries do on R&D.
- And there is evidence of a **growing divide** among developing countries, with Africa experiencing a relative decline in funding.
- Yet, there is substantial evidence of **high payoffs** to spending in agricultural R&D (an average rate of return of 43%), rural roads, and rural education.

→ Address the political economy of under-I in Ag public goods

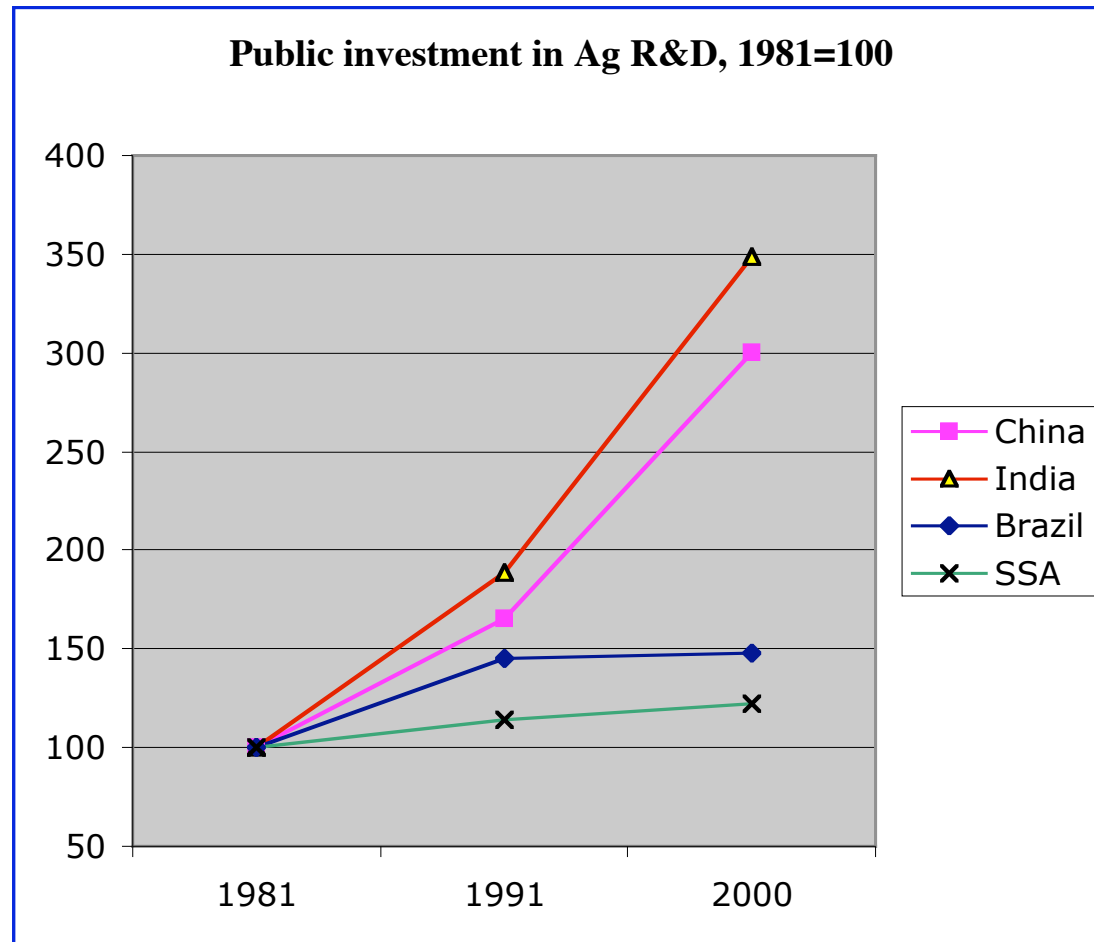
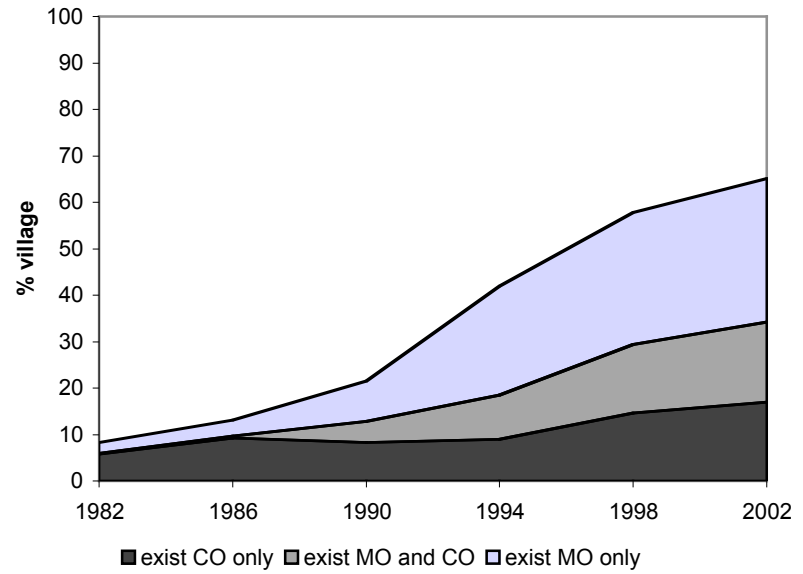
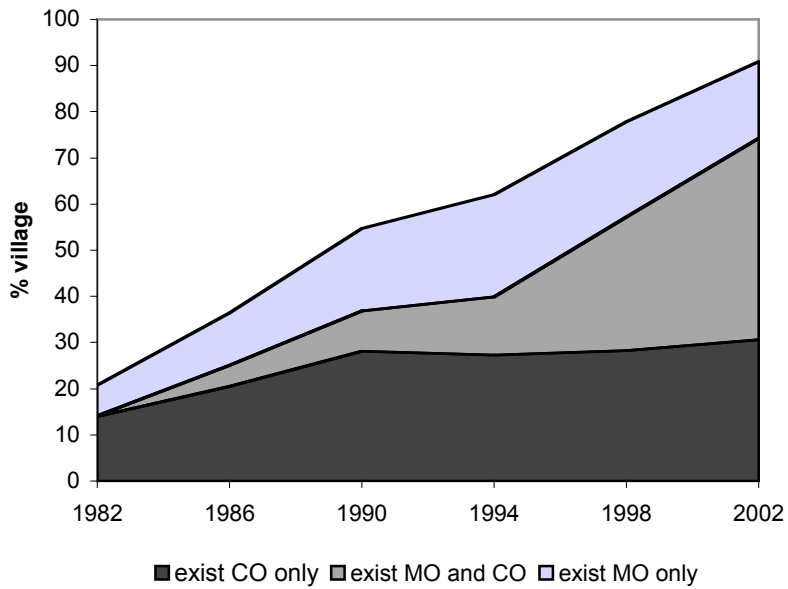


Figure. Rising divide in public investment in ag R&D

Message 7. Empowering rural producers organizations for service, market power, and voice in public affairs

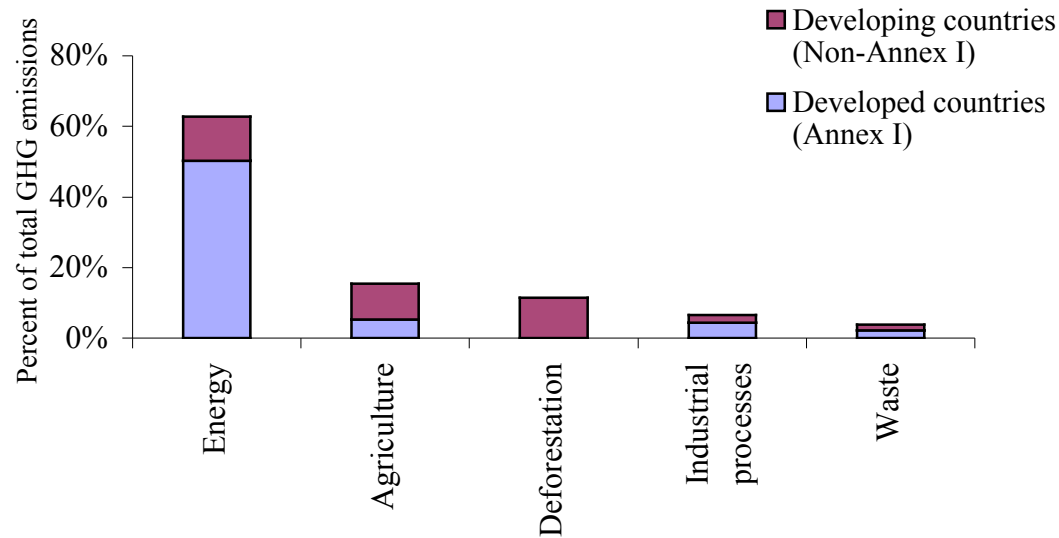
- With extensive market and government failures, rural producers organizations (RPOs) are increasingly important instruments for smallholders to obtain **service**, local **public goods**, market **power**, and gain **voice** in public affairs.
- With globalization, the emergence of integrated supply chains, and increasing heterogeneity of farm populations, RPOs face **new challenges** regarding technical capacity, large farmer capture, and distancing from their grassroots.
- Governments must offer **platforms** for their participation to public affairs, and innovative mechanisms to reinforce their **capacities** without leading to clientelistic dependency or continued reliance on donors → **Poleco** of RPO support



Increase in COs and RPOs in Burkina Faso and Senegal, 1982-2002

Message 8. Making agriculture part of the environmental solution

- Agriculture is a **major user, and abuser**, of natural resources: 85% of world fresh water; emits 30% of the GHG.
- Resource degradation occurs both in **intensive** cropping systems (chemical and livestock pollution, loss of biodiversity, and excessive water use) and also in **extensive** ones (soil mining, deforestation, and desertification).
- Major opportunities exist to **reduce the resource burden** of agriculture through elimination of perverse incentives, more complete property rights, enhanced community capacity to manage CPR, new technologies in particular for soil & water management, and schemes of **payment for environmental services** → Poleco of regulation (or second-best win-win?)



Agriculture and deforestation are major contributors to GHG emissions

Message 9.

Managing the political feasibility of reforms
Empowering local governments

VI. Differentiated policies by pathways

Message 10. Private investment in smallholder agriculture remains the cornerstone of an agriculture-for-development approach (Fm)

- At a world scale, **dynamic private smallholder enterprises** have been the foundation of successful agricultural growth and development.
- Competitiveness of this sector is **threatened** by the forces of globalization, and deep realignments in the roles of the market, the state, and civil society in affecting the rules of competition.
- Special efforts need to be made to enhance the competitiveness of the **most entrepreneurial** subset of the smallholder sector as an instrument for successful agriculture-for-development strategies → **Poleco** of self-selection

Message 11. Productivity gains in subsistence farming are needed to reduce world poverty (Fs)

- As both an economic and social sector, agriculture worldwide is characterized by a deep degree of **dualism** between market-oriented and subsistence-oriented smallholders.
- The former are inserted in product and factor markets, and the latter in **labor** markets, **self-employment** in RNFE, and (partial) **migration** (esp. MAR), while remaining attached to subsistence farming (PES in MAR).
- Special attention needs to be directed at the income generation capacity (**Fm, pluriactive**) and food security status of these large populations which harbor most of the world's poorest of the poor, with emphasis on gender, ethnicity, and FAR/MAR.

Message 12. The agricultural and rural labor market, and the RNFE, can provide effective pathways out of poverty

- Traditional mechanisms through which TFP growth in ag translated into poverty reduction were the **direct** adoption by smallholders and a decline in the domestic **price of food**.
- With threats to the competitiveness of many smallholder farmers and increased tradability of food, these mechanisms are replaced by **employment and wages** on labor markets, and **self-employment** in RNFE.
- Making **labor markets** work better for poverty reduction is thus essential for the success of an ag-for-dev strategy.
- Boosting the **RNFE** through a better investment climate is also an important area of policy interventions: territorial approach.
- Both largely **neglected** and lack **experimentation** → **Poleco**

Message 13. Massive investments in the human capital of rural populations are necessary for successful exit from agriculture and migration

- **Population transitions** out of agriculture are already in progress in Latin America and China, and will reach flood proportions in Asia in the next two decades.
- To make this process both **efficient** in labor use and effective for **poverty** reduction, major investments need to be made in **preparing** populations for these transfers and **pacing** transfers to the absorptive capacity of the dynamic sectors of the economy.
- Need be accompanied by efficient **land markets** in reallocating land → Poleco of access to land

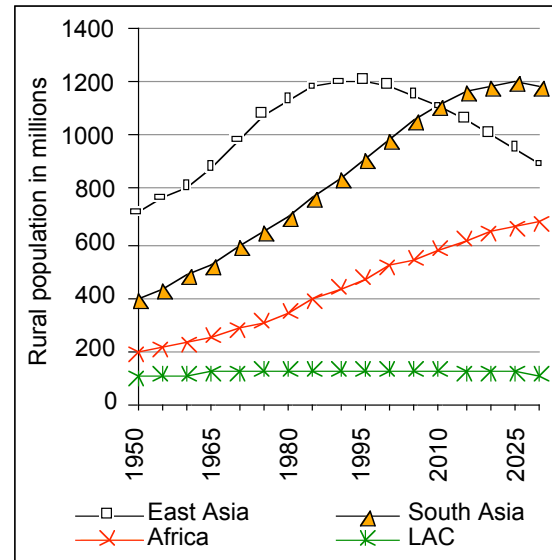
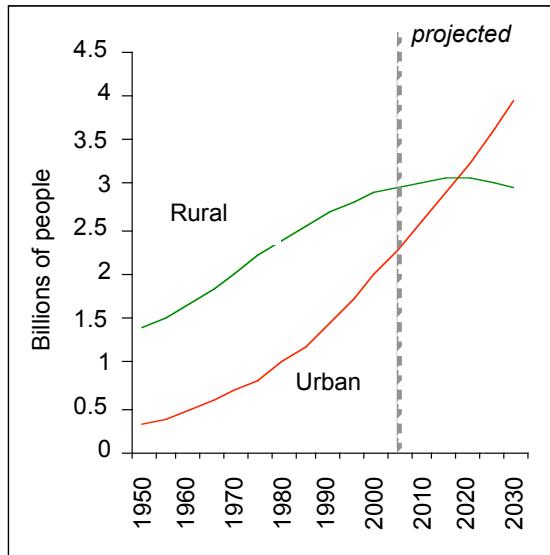
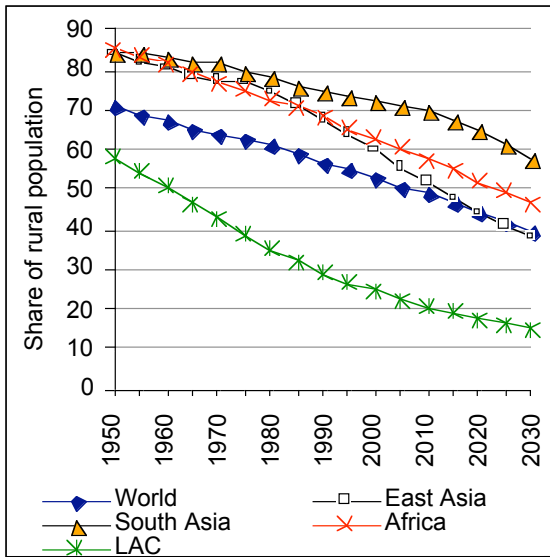
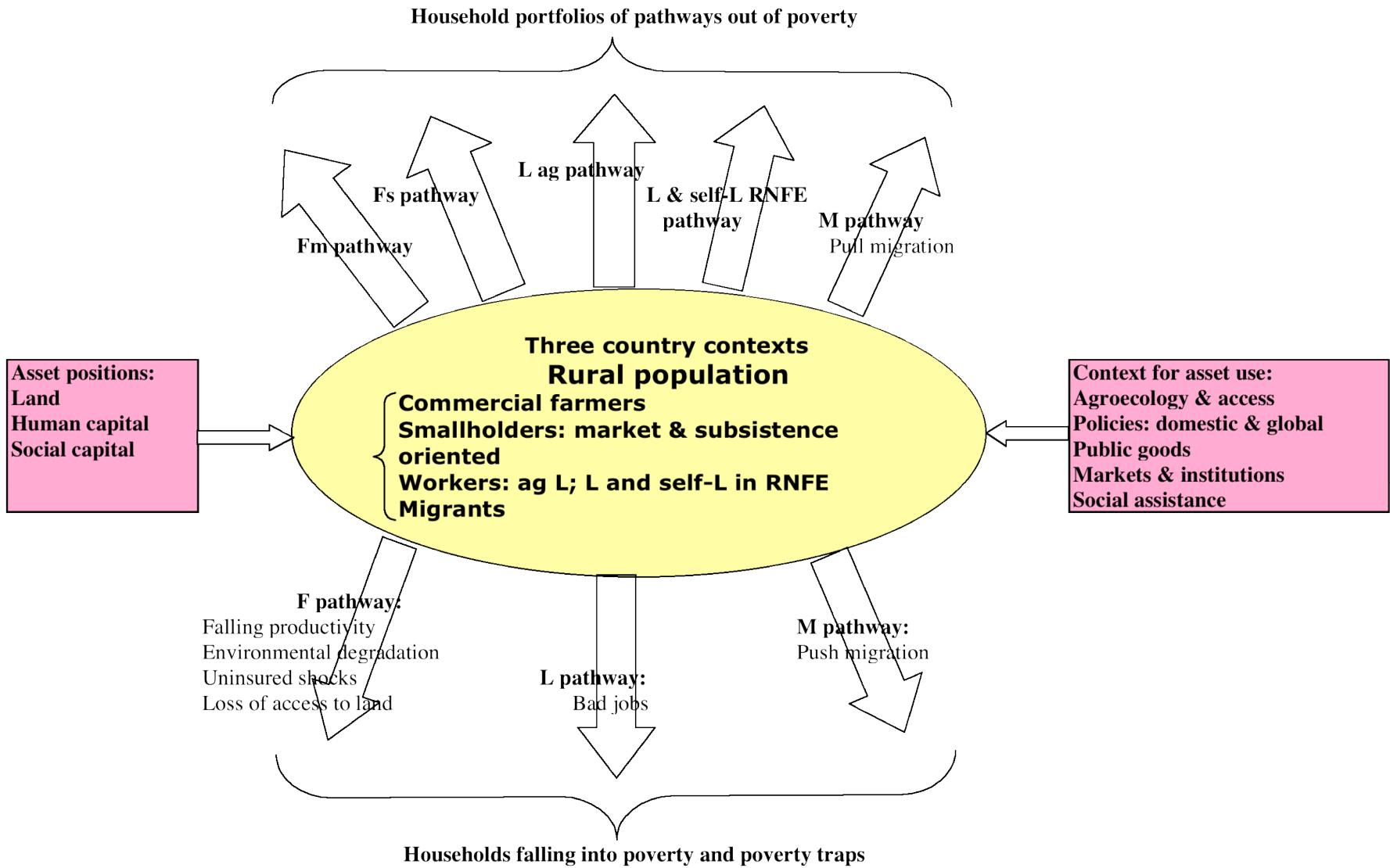


Figure 3.2 Population transitions out of agriculture



Political economy issues: lobbying, politician-citizen deals

Reform of OECD trade and farm policies

Domestic agricultural policies: reduced taxation

Descaling of non-productive regressive subsidies

Under-investment in public goods for rural areas and agriculture.

Under-investment in R&D for agriculture

Land reform and land titling

Decentralization and local governance

Internalization of environmental externalities

Support to rural producer organizations

Provision and targeting of social protection

Food subsidies vs. cash transfers

Donor commitment to a global agenda