



AGRICULTURE FOR DEVELOPMENT POLICY BRIEF

The Agenda for Latin America and the Caribbean

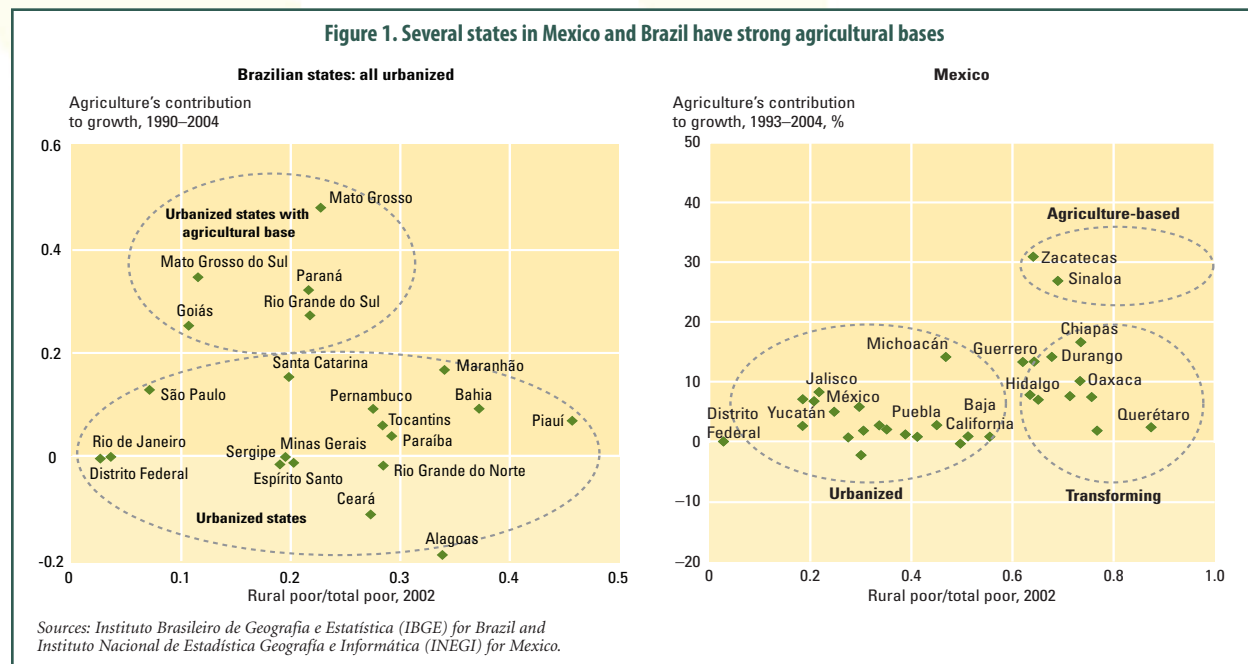
Agriculture makes a small direct contribution to growth in Latin America and the Caribbean overall, but it is important for growth in several small countries and areas within large countries, for comparative advantage in specific subsectors, for agribusiness and food services, and for rural poverty that remains stubbornly high. The quality of growth must be changed to have greater impact on poverty. Using agriculture for development would focus on enhancing the competitiveness of smallholders in modern food markets, improving livelihoods in subsistence farming, making employment in agriculture better paying, and promoting territorial development to increase investment and employment opportunities in the rural nonfarm economy. To succeed, this agenda requires improved governance for agriculture at the national and local levels.

While agriculture accounts for a small share of national growth in LAC countries—7 percent from 1993 to 2005—several agricultural subsectors with strong comparative advantage have sustained spectacular growth—for example, soybeans in the Southern Cone countries, biofuels in Brazil, fruits and salmon in Chile, vegetables in Guatemala and Peru, cut flowers in Colombia and Ecuador, and bananas in Ecuador—and the agribusiness and food services sectors are large in national GDP signifying strong forward linkages. While the region is largely urbanized, Central America and Paraguay have the character of agriculture-based countries. Mexico has states with agriculture-based features (Zacatecas, Sinaloa). And Brazil has the unique feature of states that are both urbanized and highly dependent on agriculture for growth (Matto Grosso, Matto Grosso do Sul, Paraná, Rio Grande do Sul, Goiás). Agriculture is also essential for poverty reduction, and as a source of environmental services, with pioneering programs of payments for environmental services in place in several countries. For these reasons and in ways that are specifically Latin American, agriculture remains important for development in most countries in the region.

Successful use of agriculture for development faces many challenges. Domestic food markets are being transformed by the procurement practices of international value chains and supermarkets, posing serious challenges to smallholders in maintaining competitiveness in these markets. As commercial agriculture expands, the rural labor market in agriculture and the rural nonfarm economy become important in linking productivity gains in agriculture to rural poverty reduction. Yet, employment in agriculture rarely provides a pathway out of poverty, harboring in fact some of the poorest of the poor. And access to remunerative employment in the rural nonfarm economy requires higher skills, limiting access for the rural poor, particularly women.

The overall goal in using agriculture for development in these countries is to promote the inclusion of smallholders in new food markets and to provide remunerative jobs in agriculture and the rural nonfarm economy while preserving the rural environment.

Figure 1. Several states in Mexico and Brazil have strong agricultural bases





Structural features of LAC countries

Persistence of high rural poverty and inequality. In general, a distinctive feature of Latin America is that, compared to other regions, agricultural growth only has demonstrated weak powers in reducing rural poverty. Rural poverty has remained stable at 27 million with a US\$1/day poverty line, and the rural poverty rate in 2002 was 21 percent, a share largely unchanged over the past 10 years (in spite of a 30 percent increase in agriculture value added) and more than double the urban poverty rate. Subsistence agriculture remains important, providing the ultimate safety net to many of the poorest people.

The transformation of food markets. An important challenge in using agriculture for development is to maintain the link between modern food markets and the national food supply in a context of increasingly globalized food chains. Rising incomes and rapid urbanization have increased the demand for high-value products. Domestic consumption is the main source of demand for agriculture, absorbing three-quarters of output, with 60 percent of domestic retail sales channeled through supermarket chains. Traditional exports remain important, accounting for 80 percent of the region's agricultural exports, offering new markets as they become increasingly "decommodified" to adjust to differentiated consumer tastes, for instance organic coffee and Fair Trade. High-value exports have been expanding rapidly, with smallholders moving into niche markets, such as specialized vegetable production and organics in Central America.

Diversification of the rural non-farm economy. Sources of income in rural areas have diversified rapidly away from self-employment in agriculture. The agricultural labor market and the rural nonfarm economy often account for 70 percent of rural incomes and employ 55 percent of the active rural labor force (based on representative household surveys that cover 85 percent of the Latin American population). For smallholders, household income diversification into the rural nonfarm economy helps maintain viable farming operations integrated into food markets. Even so, many smallholders will remain engaged in subsistence farming until they can enter the agricultural market economy as producers, find work in agriculture or in the rural nonfarm economy, or migrate. They are held back by lack of assets to enter agricultural product markets, unfavorable contexts (including limited access to markets and weak support institutions), and lack of skills to qualify for better jobs or migrate to towns. Historically there have been stark inequalities in the distribution of productive assets among households and geographical areas within the countries in the region. Such inequalities constrain how the rural poor share in the benefits of growth, even under today's better policy regimes.

An agenda for urbanized countries

Even after structural adjustments in the 1980s, Latin American countries have continued to support public programs in agriculture which are dominated by subsidies to private goods (absorbing 54 percent of public expenditures) to the detriment of productive public investments. This has been complemented by social assistance delivered through (often conditional) cash transfers targeted at the chronic poor and regional pockets of poverty. In Brazil, for instance, rural poverty has been falling in the context of a booming agriculture, but this has been due principally to transfers via social programs and to employment in the rural non-farm economy, not to earnings from agriculture. Many countries are turning to an alternative approach, seeking to reduce rural poverty by increasing earned incomes in agriculture and the rural nonfarm economy as opposed to social assistance, thus attempting to reconcile growth

with poverty reduction. In this alternative model, the policy objectives are as follows:

Smallholder inclusion in the new food markets. A transformation of traditional, low-productivity agriculture into modern, commercial agriculture is needed, to create both growth and jobs. Increasing the competitiveness of smallholder farmers in dynamic domestic food markets requires paying special attention to deep-rooted inequalities in access to assets, public services, and support institutions. Producer organizations and contract farming are essential for these smallholders to take part in value chains and cater to demanding supermarket standards. Also important are public-private partnerships, with an agribusiness sector active in organizing smallholders as competitive suppliers in these markets. Small farmers, acting alone, are unlikely to effectively compete in markets dominated by intermediaries with asymmetric bargaining power and information. Conversely, participation in productive alliances with marketers and processors, backed by strong associations, can provide stable, reliable, and remunerative incomes along with increased access to technology and information.

Improving livelihoods in subsistence agriculture and social assistance. Subsistence farming can be a holding pattern in the long transition out of low-productivity family farming. Some subsistence farmers can become viable smallholders and also diversify their incomes to improve their well-being, but the agricultural part of their income in many circumstances has little potential for growth. There are, however, clear social benefits in investing in the agricultural part of their incomes for two reasons: it is critical for their food security and basic nutrition, and it sustains their well-being in waiting for better income earning options. These investments have to be complemented by investments in education, skills training, and health. Payments for environmental services can also become an important source of income in many geographical areas if markets for these services are developed. Improving livelihoods also requires social assistance, especially pensions for those too old to be retrained. Rural noncontributory pension programs have expanded rapidly, helping the younger generation gain earlier access to land and reducing selective migration of the more entrepreneurial out of agriculture.

Territorial development to create new sources of income. The rural non-farm economy is a source of employment, but it is demanding. Enhancing skills to help the rural poor access high-productivity jobs provides pathways out of poverty. But, for this, rural employment opportunities must exist. Many countries in the region are pursuing territorial approaches to create rural investment and employment opportunities by promoting clusters of complementary firms in selected geographical locations. Local agricultural production systems can capitalize on the comparative advantages of a territory's agroecology, proximity to urban centers, and institutional and cultural endowments to develop activities with local spillovers and growth potential.

With attention to improved governance. Poverty reduction through rural income generation requires a reassessment of the quality of governance for agriculture. Institutional innovations are needed to accommodate the post-structural adjustment context. Ministries of agriculture have to be redesigned to assume the public good functions of the state, regulatory roles in markets and environmental spillovers, leadership in public-private partnerships, and support to desirable social outcomes. Innovative solutions include greater assignment of public functions to autonomous agencies and contracting for services with the private sector, and civil society has to be engaged as an active participant in governance. Improving governance for agriculture and rural areas must be a priority, requiring experimentation with alternative options and learning from observed outcomes.

This policy brief has been extracted from the World Bank's 2008 World Development Report, *Agriculture for Development*. Further information and detailed sources are available in the Report. The Report uses a simple typology of countries based on the contribution of agriculture to overall growth, 1990-2005 and the share of rural poor in the total number of poor (2002 US\$2-a-day level). In agriculture-based countries (mostly Africa), agriculture contributes a significant (>20%) share of overall growth. In transforming countries (mostly in Asia), nonagricultural sectors dominate growth but a great majority of the poor are in rural areas. In urbanized countries (mostly in Latin America and Europe and Central Asia), the largest number of poor people are in urban areas, although poverty rates are often highest in rural areas.