



AGRICULTURE FOR DEVELOPMENT POLICY BRIEF

The Agenda for Transforming Countries of Asia and of the Middle East and North Africa

The transforming countries of Asia and the Middle East and North Africa present an unprecedented challenge to reduce massive poverty and confront widening rural-urban income disparities. Asia's fast growing economies remain home to over 770 million people living on less than US\$1 per day, and 80 percent of them live in rural areas. The top priority is to generate rural jobs by diversifying into labor-intensive high value agriculture linked to a dynamic rural nonfarm sector in secondary towns. Massive investments in human capital are needed to prepare rural people for better jobs in rural areas and to help them successfully migrate. Reducing the environmental footprint of intensive agriculture, confronting acute land and water scarcity, and developing lagging regions all require special attention.

In transforming countries, nonagricultural sectors have been the fastest growing in the world. Agriculture in those countries is no longer a major source of economic growth, contributing only an average 7 percent to growth in gross domestic product (GDP). However, with 600 million rural poor, poverty remains overwhelmingly rural (79 percent of all poor). Transforming countries, typified by China, India, Indonesia, Morocco, and Thailand, have more than 2.2 billion rural inhabitants. Ninety-eight percent of the rural population in South Asia, 96 percent in East Asia and the Pacific, and 92 percent in the Middle East and North Africa are in transforming countries.

A distinguishing feature of transforming economies is the widening gap between urban and rural incomes. In China, the incidence of urban poverty declined twice as fast as that of rural poverty between 1980 and 2001; in Indonesia, it declined 2.5 times as fast over the same period; and in Thailand, it declined 3.7 times as fast between 1970 and 1999. Even with rapidly growing nonagricultural sectors, the transition of people out of agriculture and rural areas is not keeping pace with the restructuring of economies away from agriculture. The reasons are lack of skills, an aging population, rigidities in land and labor markets, and social and community ties. Thus, the number of rural poor is likely to exceed the number of urban poor until at least 2040.

The main goal of the agriculture-for-development agenda in transforming countries is to narrow urban-rural income disparities and reduce rural poverty while avoiding the subsidy and protection traps to support rural incomes. Those challenges have been poorly addressed thus far. With growing political attention to these widening income disparities, there are strong pressures to better use the powers of agriculture for development.

Transforming countries have common—and diverse—structural features.

Specific structural features must be considered in designing the agriculture-for-development agenda for transforming countries, which also display wide diversity across and within countries.

Demographic pressures and declining farm sizes. In Asia, the average farm size is already quite small—in Bangladesh, China, and the delta areas of Vietnam, the average farm size is a mere 0.4 to 0.5 hectares. In South Asia, that decline will continue because the rural population is growing at 1.5 percent a year and is not expected to peak until at least 2020. Continued population growth, declining farm size, and growing landlessness puts huge pressures on rural jobs.

Water scarcity. Fresh water supplies are already fully used in many countries, and escalating demands for industrial, urban, and environmental uses will reduce the water available to agriculture. Water scarcity is particularly acute and projected to worsen with climate change and rising demand in the Middle East, North Africa, and large parts of China and India. High reliance on groundwater irrigation in many countries has led to overpumping, falling groundwater tables in aquifers with low recharge, and deteriorating groundwater quality.

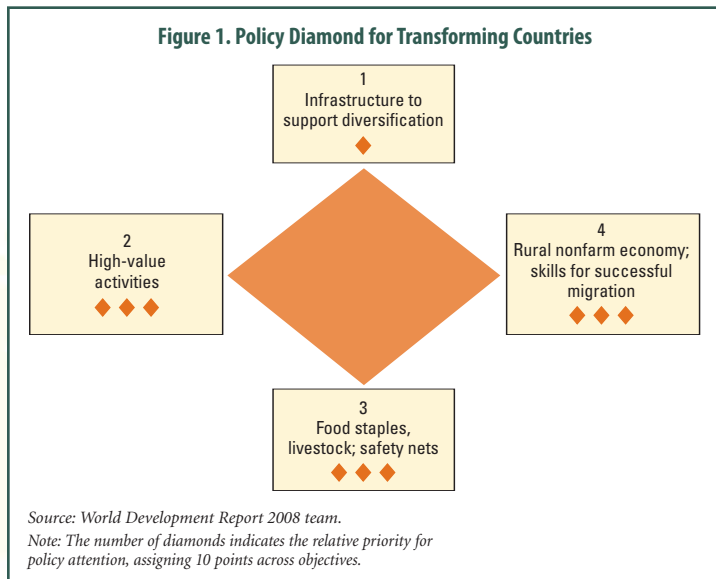
Lagging areas. Some rural areas have prospered with overall economic growth, but others have stagnated with high levels of poverty. Lagging areas are found in the interior of China, several states in eastern and central India, the upland areas of Vietnam, and the drier areas of North Africa. The causes are varied—poor agricultural potential, low investment in roads and irrigation, poor governance, and social and ethnic marginalization. But some of those areas have good potential for agricultural growth and could be future breadbaskets (as in eastern India).

Political economy of agricultural policies. The political pressure of farmers to reduce the urban-rural income gap through protection and subsidies is increasing. Because of the large number of poor people, protecting food prices to raise farm incomes may have high costs for poor consumers, including most small farmers, who are net food buyers. Another form of support to farm incomes is through subsidies on inputs such as water and fertilizer. Those subsidies are not only regressive in distributing benefits to larger farmers and harmful to the environment but also distort fiscal priorities

away from investment in core public goods, such as rural infrastructure. Political capture of protection and subsidies by larger farmers can slow the reform process.

An agenda for transforming countries is needed.

Because of demographic pressures and land constraints, the agenda for transforming countries must jointly mobilize all pathways out of poverty (figure 1): farming, employment in agriculture and the rural nonfarm economy, and migration.



From green revolution to the new agriculture. Rapid growth of urban incomes and demand for high-value products are the major drivers for faster agricultural growth and poverty reduction in transforming countries, although sustainable productivity growth in food staples requires continued attention. Because there are scale economies in processing and marketing of many high-value products, institutional innovations such as contract farming can reduce the transaction costs and risks to smallholders. Linking smallholders to processors and retailers can also create access to more financial capital through banks—and provide technology, extension, and buyback arrangements, while monitoring food safety. A high priority is to improve the investment climate for agribusiness and facilitate collective action through producer organizations to reach scale in marketing and to bargain for better prices. Reform of price and subsidy support to cereals will also be needed in many cases to provide the incentives to diversify to high-value products (see brief on Getting Prices Right).

Dealing with water scarcity. Reforming institutions in irrigation, removing policy distortions such as water and electricity subsidies, and providing a supportive environment for trade and macroeconomic policies are all important steps in improving water productivity and meeting competing demands. Broad-based reforms require strong champions and equitable allocation of water rights to overcome the political obstacles. As scarcity worsens, water markets may come into play, with support needed for their emergence and eventual regulation.

Making intensive systems more sustainable. Reducing the environmental footprint of intensive agricultural systems, especially agrochemical and animal waste pollution, is a priority for improved environmental and human health. It will also reduce the drag on productivity growth from land and water degradation. More sustainable agricultural practices will require a judicious combination of getting incentives right (through input and output prices), application of improved management technologies such as integrated pest and nutrient management, and better regulation (see brief on Agriculture and the Environment).

Development of lagging areas. With the shift to the new agriculture and the declining farm size in high-potential areas, increasing farm productivity and incomes in less-favored regions can secure the livelihoods of subsistence farmers and bring them to the market. Productivity growth in these regions rests on major investments in soil and water management, in agricultural research, and in new approaches to extension, supported by reforms in pricing and marketing for grains.

Rural development off the farm, linked to towns. Growth in rural nonfarm employment in many cases remains closely linked to growth in agriculture, as agriculture is the main supplier of intermediate inputs to other sectors such as processed foods (forward links). Regional and territorial development of agricultural clusters—with the processing and packaging of high-value products—is an opportunity for rural nonfarm development. In densely populated countries, urban-based industries will drive the rural nonfarm sector

through urban-to-rural subcontracting. Investments in infrastructure and skills and improvements in the investment climate for the private sector are the policy priorities. Developing land market to enable small farms to consolidate for efficient operation and to shift labor to nonfarm activities and migration is also a priority.

Skills for successful migration. Successfully moving out of agriculture, whether by moving to the rural nonfarm sector or by migrating to urban areas, depends on more and better-quality education. Massive investments in human capital are needed to prepare the next generation to leave agriculture. Programs that provide conditional transfers, such as cash grants in Bangladesh conditioned on school attendance, can increase the demand for education, but they will fail unless the quality of rural education is greatly improved.

Safety nets for those left behind. Transforming countries have the largest concentration of the world's poor, so direct support through well-designed and well-governed employment schemes in rural areas—including rural infrastructure, reforestation, soil conservation structures, small dams, and desilting of canals and ponds—can reduce poverty, improve the rural investment climate, and restore degraded natural resources. Significant monitoring, accountability mechanisms, and rigorous evaluations are needed to ensure effective and equitable resource use.

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.