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Farming and the poor: seven new challenges

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A strongly established conventional wisdom is that agriculture is the primary motor of growth and poverty reduction in the poorest countries - specifically small farm agriculture, specifically small farm agriculture devoted to growing modern variety cereal staples, and specifically, though not always exclusively, small farm agriculture growing modern variety staples in relatively high potential and well-connected areas, with both water control options and access to markets. The evidence to support these propositions comes from analysis at village, regional and national level.

A set of prescriptions follows: engineer land reform, preferably in a market-friendly way, so as to privilege small farms; invest in research and extension to develop and spread new varieties; provide public goods, especially water, transport and communications infrastructure; intervene where necessary to compensate for missing or imperfect markets for both inputs and outputs; and design fiscal policy so as to maximise the labour intensity of production and the growth linkages for the poor.

There have been modifications over the years to the conventional wisdom. The contribution of cash crops to farm incomes and growth linkages has been recognised. The need to address the needs of resource-poor farmers in lower potential or weakly connected areas has been acknowledged. Social protection has emerged as an important theme, including the idea of linking relief and development. There has been much work on markets, in discussion about food security and more widely. The stifling effect of rich country agricultural subsidies has been highlighted. And the debate about secure and sustainable livelihoods has reminded us of the importance of diversification into non-agricultural enterprises (though often with a close connection to agriculture).

Still, this remains a strong ‘narrative’ about agriculture. Why, then, be concerned? There are seven reasons.

First, prices. The conventional wisdom originated in the 1960s at the time of the Green Revolution. The fact is that agricultural prices have halved in real terms since then. For all but a few products, this has very little to do with rich country subsidies, but quite a lot to do with the interaction between a supply curve shifting quite quickly to the right and a relatively inelastic demand curve shifting much more slowly in response to growing population and rising income. If farmers are able to innovate quickly enough, they may be able to increase productivity fast enough to compensate for falling prices. However, the critical question facing agricultural planners today is whether it will be possible to engineer a new green revolution, or even a doubly green revolution, at half the price.

Second, subsidies. The first green revolution benefited greatly from historic investments in roads and irrigation, for example in the Punjab. These could safely be regarded as sunk costs. They were supplemented by new investments and by subsidies on a scale hardly conceivable today – up to 10% of agricultural GDP in some cases. If agricultural growth relies on large-scale fertiliser, water and electricity subsidies, as well as major investments in roads – well, there are many competing claims for public expenditure.

Third, sustainability. Agricultural growth has historically been resource-intensive. It has been associated with heavy use of fossil fuels, falling water tables, soil problems related to salinisation and compaction, and a variety of residue problems in the environment and in products leaving the farm. Despite talk of environmentally friendly options and the idea of ‘regenerating agriculture’, and despite the growth of niche markets for organic products, environmental considerations seem more likely to constrain agricultural growth than to accelerate it.

Fourth, changes to the supply chain. This could be the most important challenge of all, as urbanisation and the industrialisation of the food system transform the way

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food is produced and marketed in developing countries. Small-scale, under-capitalised and often under-educated farmers find it particularly difficult to meet the quantity, quality, timeliness and traceability requirements of the new supply chains – and have yet to find widely replicable institutional solutions, for example through cooperatives. Note that the supply chain revolution affects particularly the higher value products with high income elasticities that best serve to protect profitability. These include livestock products.

Fifth, economies of scale. The Green Revolution technology, centred on seeds, was scale neutral. Small farmers could participate freely, especially as modern varieties became less risky. New technologies are more likely to involve mechanisation and capitalisation or require high levels of education, both of which may disadvantage smaller farms.

Sixth, planners. The new 'technology' of aid and public expenditure does agriculture few favours. In particular, agriculture has not fitted well with the new modalities of sector-wide approaches and public expenditure plans locked into medium term expenditure frameworks. Few Poverty Reduction Strategy Papers deal well with agriculture. This is because the new way of working is geared to sectors where the public sector dominates, public expenditure is the main instrument available, and there is a direct connection to the Millennium Development Goals (for example on health and education). This is frustrating, but agricultural planners need to find ways to engage.

Finally, interests. Historically, farmers have been a powerful lobby. Increasingly, in urbanising societies, but also in societies characterised by highly diversified rural economies, this power is on the wane. Urban bias may be harder to counteract now than in the past.

Needless to say, the seven challenges manifest themselves in different ways and to different degrees in different places. The case for agriculture needs to be made in different ways accordingly. It is also important to remember, however, that the situation is constantly evolving. The spread of supermarkets, for example, with all their impact on farming, has been remarkably swift, and is far from over.

Of course, agriculture remains and will remain a big business, and remains, and is likely to remain (though that is more problematic) a big employer. The questions are about the structure of the sector (small or large farms), the degree of mechanisation, the institutional arrangements, the crop mix, the growth linkages.

If the analysis is pushed to its limits, it is plausible to imagine that:

- The growth potential of agriculture as a sector lies largely in non-staple production, where resources should therefore be concentrated;
- Individual agricultural enterprises will prosper to the extent that they are able to deliver predictable and traceable volumes of high quality produce to increasingly sophisticated and integrated market agents;
- Farms that cannot meet these requirements will survive only to the extent that they are subsidised by non-agricultural incomes, as homestead plots or part-time, often recreational enterprises;
- The 'new economies of scale' mean that small-scale commercial farms will be increasingly disadvantaged;
- There will be many benefits to poor people, partly indirectly through lower food prices, but also more directly, through new kinds of growth linkages associated with a prosperous commercial farming sector;
- However, these benefits will manifest themselves in new ways, for example as jobs in food processing or manufacturing, or in other ways in the supply chain.

This is not necessarily a pessimistic view of agriculture – but it is one that implies a different package of public interventions from the one with which we started.

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