

Agriculture and poverty reduction: unlocking the potential

A DFID policy paper

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DFID's commitment to agriculture

The UK is committed to supporting agriculture as a means of reducing poverty and achieving the Millennium Development Goals. This Paper shows why agriculture is important, summarises what we are already doing, and outlines our plans to overcome the factors limiting the effective contribution of agriculture to poverty reduction. This commitment is shown by:

- ❑ **Over £145 million of direct support** which we currently give to agriculture through DFID programmes.
- ❑ **Substantial support to agriculture and rural development activities** undertaken by our developing country partners through the provision of direct budget support.
- ❑ **An increase of £30 million over the next three years** in our support for the Consultative Group on International Agricultural Research (CGIAR).
- ❑ **A commitment of £5 million over 3 years to the new African Agricultural Technology Foundation (AATF)** which delivers affordable technology to African Farmers.

Agriculture – the key to poverty reduction

Agriculture has a fundamental role in the fight against poverty:

- ❑ It is central to the livelihoods of the rural poor who, in spite of rapid urbanisation, still account for the majority (around 70 per cent) of the world's poor.
- ❑ It is the economic heart of most countries and the most likely source of significant economic growth. In Africa, it provides two thirds of employment, half of exports and over one third of Gross National Income (GNI). In Asia, where economic growth and diversification have been rapid, agriculture provides jobs for 60 per cent of the working population and generates 27 per cent of GNI. The fastest rates of economic growth have occurred where agricultural productivity has risen the most – the reverse is also true.
- ❑ Growth in agriculture benefits the poor most. Recent research shows that a one per cent increase in agricultural yields reduces the percentage of people living on less than \$1 per day by between 0.6 and 1.2 per cent. No other economic activity generates the same benefits for the poor (Irz et al 2001).
- ❑ By providing affordable food, it ensures benefits to the poor beyond the countryside. While hunger and food insecurity have many causes – often outside agriculture – it remains a vital contributor to national and household food security.

- ❑ Finally, broad based economic development requires prior growth and productivity gains in agriculture. Few countries have developed diversified economies without first achieving growth in agriculture. But as countries become richer, agriculture will inevitably play a relatively less significant part in the economy and people's livelihoods - this is not a sign of agriculture failing.

Is agriculture playing an effective role?

Agriculture's global performance has been remarkable. Since 1970, global food production has outpaced population growth and food prices have declined progressively in real terms. But the global picture masks stark regional differences in productivity gains as shown in Table 1. In South East Asia, rapid agricultural productivity gains lifted millions out of poverty and provided the platform for diversified economic growth. Elsewhere, this is not happening - agriculture has performed badly when it needs to work well.

This is particularly true in sub-Saharan Africa. There, agricultural production declined by five per cent between 1980 and 2001 whilst the absolute number of people going hungry increased by 50 per cent – and is projected to increase further. But even in Asia, growth and productivity rates are slowing and the effects of the green revolution have bypassed millions – in India alone some 300 million people still live in extreme poverty.

Agriculture's relatively poor performance, combined with the poor performance of many rural development projects, has led to doubts about agriculture's relevance to strategies for growth and poverty reduction. Thinking has, however, evolved and the international community now recognises that for many poor countries there is no realistic alternative – and no more important challenge – than to make agriculture work. Achieving the commitment to halve the number of people living on less than \$1 a day by 2015 will need a dramatically improved performance in agriculture, particularly small and medium scale agriculture.

Table 1: Percentage change in per capita food production 1969/71 to 1997/99

Global	+16%
Developing countries	+27%
East Asia	+45%
South Asia	+16%
Sub-Saharan Africa	+4%

The need for new approaches to agriculture

There is a renewed enthusiasm for agriculture amongst development agencies and many developing country governments. But for this to benefit the poor, it must address the underlying factors that limit agriculture's contribution to poverty reduction. More aid spent on agriculture will on its own achieve little. The UK recognises this and has set as a priority the need to identify and adopt the practical measures needed to unlock agriculture's potential. We will work closely with developing country governments and development partners to improve our approach. We want to learn from the experience of others: there is no international consensus on the right mix of policies, or on the role a government should play in the sector.

Above all we need approaches that can work in situations far less favourable to smallholder farming than those experienced in the first green revolution in Asia. This means going beyond the creation of a broad framework of enabling conditions for agriculture and recognising that:

- ❑ Liberalisation of markets has not delivered the expected results because markets don't function smoothly or, in some cases, even exist.
- ❑ Access to assets (such as land and water) is unequal and often reflects intractable patterns of inequality.
- ❑ Poor people's decisions are geared to avoiding risk and vulnerability rather than optimising investment return.

We will continue to fight for a fair and equitable international trading system for agricultural products. But to do this effectively we need to understand more precisely how some developed countries' policies hurt the poor. We also need to understand the implications of market liberalisation. Freer agricultural trade will not necessarily benefit all poor people. A new area for us will be to engage in discussion with some of the larger developing countries on the impact of their own agricultural and trade policies, some of which are also damaging to the interests of poor people in their own or other developing countries.

Addressing the increasing problem of chronic food insecurity and vulnerability, including the impact of HIV/AIDS, will continue to be a major challenge in achieving national and household level food security. Support to agriculture, as part of a multi-sectoral response, will play a major part in meeting this challenge, not least because of the strong linkages between agricultural performance and the health of the broader economy in many countries, especially in Africa.

We are working on agriculture now

In 2002-03, the UK spent over £145 million on bilateral support to rural livelihoods, including agriculture, forestry and land policy. This represented a 25 per cent cash increase on 1998-99. Africa received 23 per cent and Asia 38 per cent of this bilateral expenditure – a difference that reflects the larger number of rural people living in poverty in Asia. In addition, we support multilateral institutions; contributions to the UN Food and Agriculture Organisation and the International Fund for Agricultural Development in 2002-03 amounted to £6.1 million and £3.0 million respectively.

International trade and product standards

DFID is committed to the rapid liberalisation of agricultural trade. We are participating in the UK's efforts to achieve further and significant reform of the European Union's (EU) Common Agriculture Policy and to ensure that the EU adopts a pro-poor stance in World Trade Organisation negotiations. We are working closely with other parts of the UK Government (DEFRA and DTI) to provide the evidence necessary to understand the impact of current trade distorting measures, and the likely implications (not necessarily positive) of their removal. This includes an assessment of possible negative implications for net food importing countries and countries facing the loss of preferential access to EU markets, such as for sugar. Our financial commitment to this work amounts to around £1 million over the period 2003 – 2005.

Rising product standards are increasingly influencing the ability of farmers in developing countries to participate in international markets. We are working with DEFRA, DTI and the Food Standards Agency to ensure that both public and private sector standard setting process reflect genuine consumer protection needs and do not become an effective non-tariff barrier. This includes working with the major international standards setting bodies such as the United Nations Food and Agriculture Organisation (FAO).

Agricultural and natural resources research

DFID is a major supporter of international agricultural research. Our total contributions to the Consultative Group on International Agricultural Research (CGIAR) in 2002 were about £15 million, making us the largest donor amongst EU Member States. In addition, we spend around £20 million per year through bilateral research programmes on crop protection, crop post harvest, fisheries, forestry, natural resources systems and plant sciences.

Recent evaluations of international agricultural research by the CGIAR and the International Food Policy Research Institute (IFPRI), partly supported by DFID, show widespread and diverse

impacts – a high proportion of which have benefited poor people. Producer returns comprise only a small proportion of the benefits, with the main gains arising from food price reductions resulting from supply increases. These benefit urban and rural poor people. In light of this we expect to maintain a substantial programme of agricultural research bringing together expertise in developing countries, the CGIAR, the UK and elsewhere. We will increase our support to the CGIAR by £30 million over three years from 2004-05 and we are supporting development of a new Global Alliance on Livestock Vaccines, which will work to develop new vaccines and treatments against livestock diseases that affect poor farmers.

What about Africa?

Around 70 per cent of Africans depend on agriculture for a living. There are complex reasons for the decline in agricultural productivity and Africa's shrinking share of world agricultural trade. While these include falling commodity prices, national

policies have also not provided the right incentives, aid has often been ineffective and private investment has declined.

Replicating the green revolution will be a challenge in Africa with its greater diversity of farming systems, lower population densities, a more variable climate and smaller local markets. Despite this, there is tremendous agricultural potential. Not every market is in decline: Kenya, for example, has risen to be the world's number one cut flower exporter. African farmers, like farmers everywhere, are entrepreneurs who will respond to the right price and market incentives. It is their efforts that will help lift the continent out of poverty. Our challenge is to learn to work together to provide the services, policy reform, infrastructure and economic environment that African farmers need to prosper. Some examples of the types of initiatives we are supporting in Africa are given in Box 1. These activities are delivering benefits directly to poor people as part of coherent country programmes that, in the cases of Ghana, Mozambique, Tanzania and Uganda, include direct budget support.

Box 1 – Examples of DFID support to agriculture in Africa

- ❑ In **Ghana**, we are assisting the ministry of agriculture to develop new agricultural extension and livestock services policies; build capacity of farmer based organizations; and to decentralize its operations. We are supporting the Ghana Federation of Agricultural Export Growers to develop a Horticulture Export Development Strategy and Action Plan.
- ❑ In **Kenya**, DFID has identified the agricultural sector as a key issue for pro-poor growth. Over the next six months, we will be working with other donors and stakeholders to promote and support the government's policy reform initiatives. We will work on reducing risk and vulnerability of rural people and strengthening disaster preparedness and prevention. We are working with development partners to support the land policy formulation process, through engagement with government and civil society.
- ❑ In **Lesotho**, we have worked with the World Bank on major reforms programme including the impact of subsidies. We are funding programmes by international and local non-government organisations that reduce poor people's vulnerability to drought. We have supported a review of land policy and drafting of a new Land Act.
- ❑ In **Malawi**, our targeted inputs programme is revitalising agriculture in a country where rural poverty has reached depths where people lack even the most fundamental means to farm the land. We are also working with World Bank to increase access to agricultural land for people from densely populated areas, through purchase of underutilised estate land based on willing-buyer willing-seller arrangements.
- ❑ In **Mozambique**, we are working with development partners to restructure of the Ministry of Agriculture. We are supporting a study on processing and export opportunities for 14 crops. We fund seed and agricultural input fairs, an innovative approach to relief that uses vouchers to stimulate local markets. We are designing a programme to help communities register land and forestry rights and negotiate with investors.
- ❑ In **Nigeria**, we are designing a major programme on pro-poor agricultural commodity and service markets. We are working to improve analysis and policy advocacy in relation to non-oil growth, primarily through agriculture. We are working with the World Bank and the African Development Bank to improve the design of their agricultural programmes. We are supporting rural access in Ekiti, and steps to improve access to financial services.
- ❑ In **Tanzania**, we are working with development partners to support government in developing and implementing their agricultural sector development programme that aims to deliver high quality services to farmers and to provide a good business environment in which farming and relating enterprises can flourish.
- ❑ **Regionally**, DFID is providing £5 million to the new African Agricultural Technology Foundation (AATF), which delivers affordable technology to African farmers. This is part of the UK's commitment to the G8 Africa Action Plan to improve African access to agricultural technology. Technology transfer is particularly effective at supporting small-scale farmers who lack the ability and resources to independently develop technology.

Box 2 – Examples of support to agriculture and rural development in Asia

- ❑ In **Vietnam**, we support sustainable rural livelihoods through targeted programmes in rural transport, education for disadvantaged children and integrated rural development.
- ❑ In **Nepal**, we aim to improve access for the poor to productive resources (seeds and agricultural inputs) and markets. We anticipate annual expenditure of some £10-11million on growth for the rural poor from the now until 2006.
- ❑ In **Cambodia**, we are working with the Asian Development Bank and the World Bank on programmes to support rural livelihoods. Decentralisation is a major theme. Improved security of tenure through distribution and titling is the main measure to support agricultural production. We envisage two further mutually supportive themes: access and decentralised management of land, forests and fisheries; and rural employment.

Asia

Sixty-five per cent the world's poor live in Asia. The potential of agriculture to boost further growth and poverty reduction is constrained by failures of governance, policy and trading systems. We plan to re-examine our regional approach to agriculture in Asia. This will involve gathering and sharing evidence to improve understanding of agriculture's role in growth and poverty reduction, to encourage appropriate policy reforms and approaches that will allow agriculture to remain a "ladder out of poverty".

Our country level programmes are driven by local decisions and demand, and seek to complement the activities of other donors. Some examples of our work that support agriculture are shown in Box 2.

Other DFID activities that support agriculture

Getting financial services to the rural poor

The heavily subsidised and targeted agricultural credit programmes of the 1970s and 1980s failed to reduce poverty and left a legacy of inefficient or loss-making state banks. Having focused on successful models for microfinance – mostly developed in urban and outer urban areas – development agencies now need to reappraise the state's role in agricultural finance. Instead of ignoring state banks, we need to identify and support banks with the right leadership, management and infrastructure to deliver financial services to rural areas, and investment in agriculture.

Two of the most successful models over the last fifteen years come from Indonesia and Thailand, where near-bankrupt state banks were transformed into effective providers of financial services (one of them now serves half of all Thai families living in rural areas). We are also active in the financial sectors of many countries including Bangladesh, India, Kenya, South Africa and Uganda seeking to improve capacity to meet the needs of

poor rural and urban households. DFID chairs the Executive Committee of the leading multilateral donor organization specialized in microfinance, the Consultative Group to Assist the Poor (CGAP). This 29-member body seeks to improve the practice and extend the outreach of microfinance across the developing world and to harmonize approaches to the industry. CGAP is also working with Africa Bank Holdings to buy up state banks in Africa with big rural branch networks, and turn them over to microfinance.

Governments and donors play an important role in improving investment conditions by reducing risk and improving returns for rural enterprise. Risk mitigation measures include finding means of using land to secure loans (as in Vietnam); index-based crop and weather insurance such as The World Bank-supported Monsoon-Indexed Lending for small farmers; and introducing better governance and transparency in financial institutions. Measures to improve returns depend largely on attracting private investment that raises agricultural productivity, e.g. through better seed and crop varieties, and the African Agriculture Technology Fund.

Box 3 – The impact of rural feeder roads on agriculture in Ghana

Antobam and Chichiso villages are in western Ghana. Their main economic activities are cocoa and food crop production. Farmers suffered high levels of waste, as they were unable to get their crops to market. Both villages were cut off during the rainy season. Since connecting the villages farm production has increased markedly. At least five or six vans come every market day. Taxis can now get through, reducing the journey time to the nearest big town (Manso Amenfi) to 15-20 minutes.

Rural connections

Effective transport is essential to nearly every aspect of rural activity and to reducing rural poverty. The link with agriculture is no exception. Many national poverty reduction strategies identify the need for improved access. One example of DFID's support to rural infrastructure comes from Ghana where we are helping build rural bridges and feeder roads (see Box 3).

The link between agriculture and food security

Agriculture contributes to food security in three ways:

- ☐ It helps keep prices low so that food is affordable to poor people.
- ☐ It provides income and employment that help poor people access food.
- ☐ It provides a tax base to support service delivery that helps ensure access to food by poor people.

DFID's *Eliminating Hunger* strategy emphasises the importance of investing in agriculture, but makes it clear that we need to look beyond production and availability of food to the other factors that prevent poor people from obtaining it and using what is available to them.

Through the World Trade Organisation and the European Union, we are working to ensure that trade reforms strengthen the agriculture, food security and livelihoods of poor people. In southern Africa we have developed a regional Hunger and Vulnerability Strategy to address why poor people still lack the means to access food, even when it is available. Making basic food staples affordable will be a key element of this strategy in countries most badly affected by the recent food crisis. Through our country programmes, for example in Bangladesh, we are supporting the development of better domestic food security policies that also address the increasingly important issue of malnutrition in women and girls. In Malawi we are supporting agriculture and food security through a programme of targeted input packs and safety nets for the most vulnerable. This has delivered improved crop seeds to every one of the 32,000 villages in the country and is assisting in establishing village seed banks to help communities maintain these seeds for future seasons. With the World Food Programme and the Food and Agriculture Organisation (FAO), we continue to improve the understanding and assessment of vulnerability including the targeting of food aid. Also with FAO we are working to improve the measurement of hunger, including the development of a suite of indicators that better capture the many dimensions of

hunger. In Ethiopia, DFID is playing a leading role in designing a groundbreaking national safety net programme to address the problem of increasing chronic food insecurity amongst poor people who depend on agriculture for their livelihoods.

Next Steps

Working with partners at home, in developing countries and internationally we will by the end of 2004 produce new guidelines to direct our work in agriculture. We will also use the process to encourage wider thinking on agriculture and the factors influencing its performance, and not just amongst those working directly in developing countries. Many policies and decisions made in the developed world have serious implications for poor farmers. Developed country trade and agricultural policies are obvious examples. But other less known trends are equally significant. One example is the increasingly important role played by supermarkets in developed and developing countries. This is creating many changes in the value chain from producer to consumer, some of which are not helpful for small producers.

A dedicated team within DFID's Policy Division will take this work forward. Using a consultative process, including an e-forum on "New directions for agriculture in reducing poverty" to be launched in February 2004, the team will focus on a number of key questions:

- ☐ Is our approach to agriculture in terms of poverty reduction and growth strategies right?
- ☐ How can we increase the benefits that poor people realise from agricultural trade?
- ☐ What measures are needed to increase investment in agriculture in poor countries and how can we ensure that this benefits the poor?
- ☐ What measures can we find to reduce the risks facing poor rural households in order to encourage them to invest their time and resources in agriculture?
- ☐ How can we work with major northern supermarkets to ensure that changing retail patterns are more supportive of local agricultural development?

If you wish to comment on any of the issues discussed in this paper, or would like further information, please do so by contacting agriculture@dfid.gov.uk

Links and further information

Better livelihoods for poor people: The role of Agriculture.

DFID Issues Paper, August 2002

[http://www.dfid.gov.uk/ Publications](http://www.dfid.gov.uk/Publications)

Consultative Group on International Research. Impact:

http://www.cgiar.org/who/www_impact.html

Eliminating Hunger. Strategy for achieving the Millennium

Development Goal on hunger. DFID Plans, May 2002.

[http://www.dfid.gov.uk/ Publications](http://www.dfid.gov.uk/Publications)

Impact of Agricultural Research on Poverty, 2003.

International Food Policy Research Institute (IFPRI)

<http://www.ifpri.org/divs/eptd/dp/papers/eptdp111.pdf>

Irz, X, Lin Lin, Thirtle, C and S Wiggins (2001). *Agricultural productivity growth and poverty alleviation.* Development Policy Review 19(4): 449-466.

<http://www.blackwellpublishing.com/journal.asp?ref=0950-6764&site=1>

Making Connections. Infrastructure for poverty reduction.

DFID Issues Paper. September 2002.

[http://www.dfid.gov.uk/ Publications](http://www.dfid.gov.uk/Publications)

Department for International Development

The Department for International Development (DFID) is the UK Government department responsible for promoting sustainable development and reducing poverty. The central focus of the Government's policy, based on the 1997 and 2000 White Papers on International Development, is a commitment to the internationally agreed Millennium Development Goals, to be achieved by 2015. These seek to:

- ☐ Eradicate extreme poverty and hunger
- ☐ Achieve universal primary education
- ☐ Promote gender equality and empower women
- ☐ Reduce child mortality
- ☐ Improve maternal health
- ☐ Combat HIV/AIDS, malaria and other diseases
- ☐ Ensure environmental sustainability
- ☐ Develop a global partnership for development

DFID's assistance is concentrated in the poorest countries of sub-Saharan Africa and Asia, but also contributes to poverty reduction and sustainable development in middle-income countries, including those in Latin America and Eastern Europe.

DFID works in partnership with governments committed to the Millennium Development Goals, with civil society, the private sector and the research community. It also works with multilateral institutions, including the World Bank, United Nations agencies, and the European Commission.

DFID has headquarters in London and East Kilbride, offices in many developing countries, and staff based in British embassies and high commissions around the world.

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