

# **Agricultural policies for poverty reduction and food security**

**Upali Wickramasinghe**

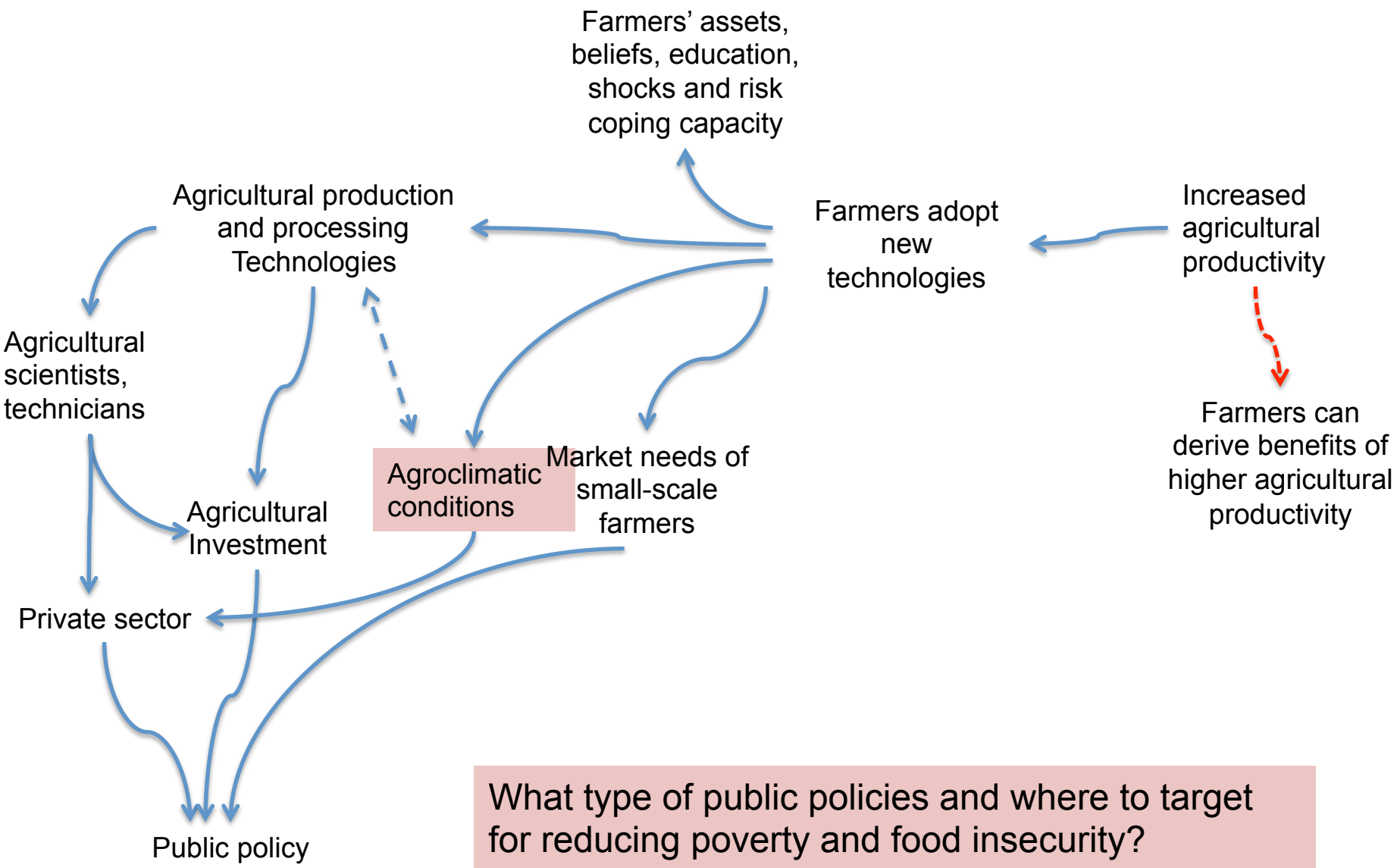
**Regional Adviser on Poverty Reduction and Food Security**

**ESCAP-CAPSA**

# Five key ideas emerged from our discussions

1. Agriculture-poverty-food insecurity nexus → **agricultural productivity is a key** for poverty reduction and food security through several channels (Income / employment channel, Education channel, Gender equality channel, Reduced exposure to diseases)
  2. Sustainable agriculture is critical for the poor to move out of poverty and food insecurity
  3. Economies adjust away from agriculture dependence
  4. Desirable form of urbanisation / spatial organisation takes place
  5. Institutions evolve from informal to formal
- Will turn to these five areas next...

# 1. Increasing agricultural productivity requires sound public policy



# Smallholder growth likely to be pro-poor

- Majority of the poor live in rural areas and smallholder farming is predominant
- Subsistence farming still exists
- Smallholder development increase returns to assets
- Linkage effects
- Overwhelming support to smallholder-led growth as a strategy to address poverty reduction and food security (Hazel, et al. 2007; FAO and World Bank, 2009; de Janvry and Sadoulet, 2009)
- Rio+20 “The Future we want”: “58. k. Enhance the welfare of women, children, youth, persons with disabilities, smallholder and subsistence farmers, fishers and those working in small and medium enterprises, and improve the livelihoods and empowerment of the poor and vulnerable groups in particular in developing countries”

# Public policies for promoting smallholder agriculture

Economic sustainability → farm profitability

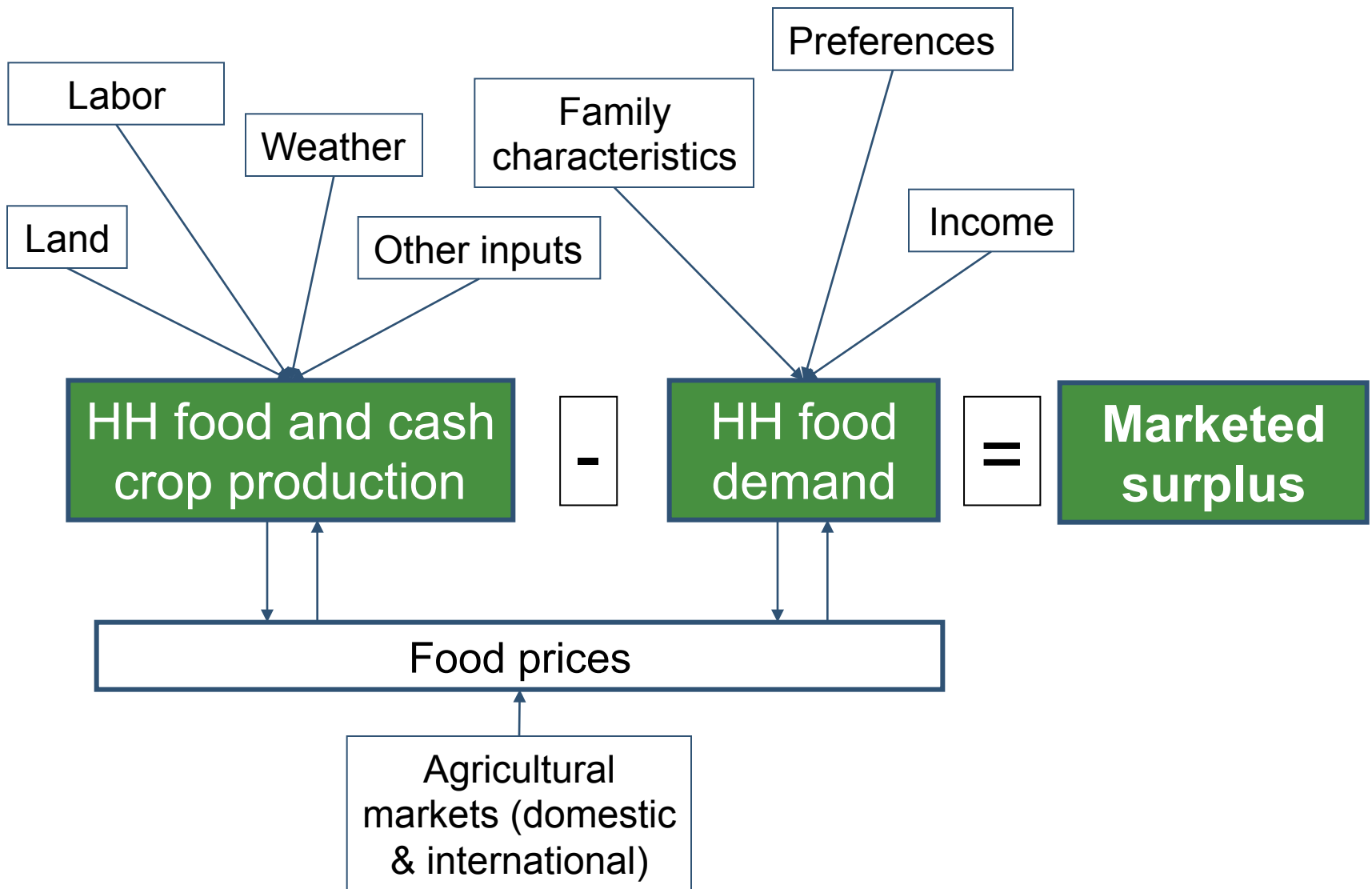
Food and cash  
crop production

-

Food  
demand

=

**Marketed  
surplus**



Do you see farmers as profit maximising people?  
 If not, why not?  
 If yes, what are the constraints they are facing?

# 200 years of knowledge on fundamental factors that shape agricultural growth and development

- Division of labour is central driving force
- Increasing returns to scale –not larger operations-
- Functional operation of firms (purchasing and storing materials, transforming materials into semi-finished products, and semi-finished products into finished products, storing and selling the output, and extending credit to buyers) further enhances increasing returns to scale
- Increase in the size of the market and lower average fixed costs of new intermediate products induce firms to become specialized and increase the number of products and the number of transactions
- Process of commercialization of agriculture induces changes in the opportunity cost of labour, which affects fertility choice and the composition of family labour

Encouraging smallholders to raise productivity, produce marketable surplus, and participate in markets

- Barriers for smallholders to enter into markets
  - Well integrated areas
  - Remote areas

### **Well integrated areas**

- Conventional price and trade policies can work
- But in such environments, market supply will come from relatively wealthier farmers with land, livestock, capital and improved technologies.



# Remote areas: Removing entry barriers is key

## Micro-scale barriers:

- Households' insufficient private access to productive assets
- Financing
- Improved production technologies

## • Breaking these semi-subsistence poverty traps require:

- Interventions to build up assets
- Facilitate uptake of technologies to increase productivity of assets
- Break down barriers to finance and market access that impede asset accumulation and technology adoption

# Location-specific barriers (some call meso-scale barriers)

- Highly remote areas
- High cost of commerce is a key barrier for market access, price transmission or trader competition → thinner and volatile markets
  - Limit household incentives to increase productivity and marketable surplus
  - Limit traders incentives to incur fixed costs reach such remote locations
  - farmers tend to engage in subsistence agriculture
  - Exchange rate depreciation, devaluation, import tariffs, export bans, pricing by marketing boards are generally ineffective in such environments

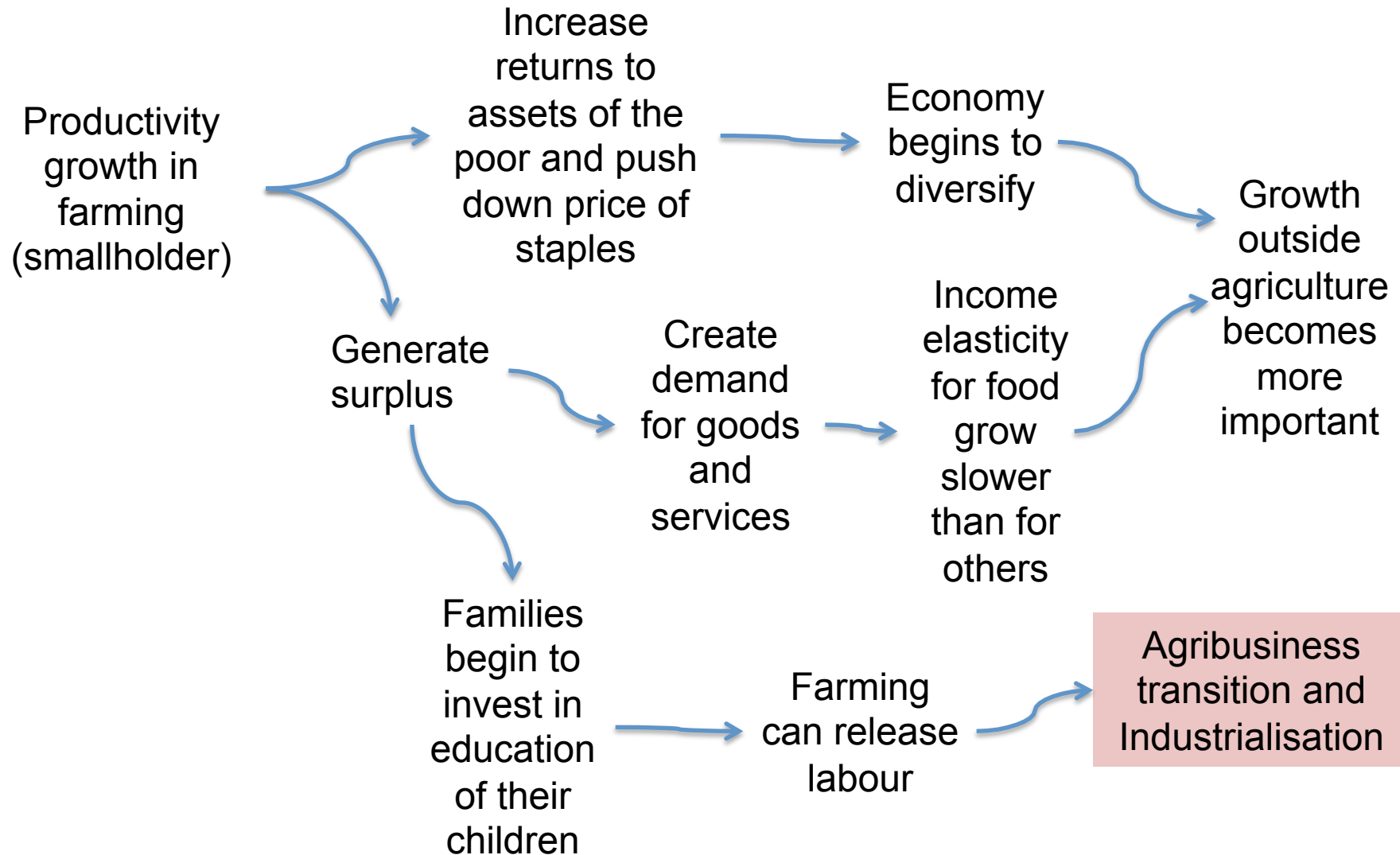
## **Policies that might help:**

- Building up institutional and physical infrastructure at community and regional scale
- Policies that reduce marketing costs for households and traders
- Interventions to uptake improved technologies and increase stock of productive assets

# What does it mean for research / statistics?

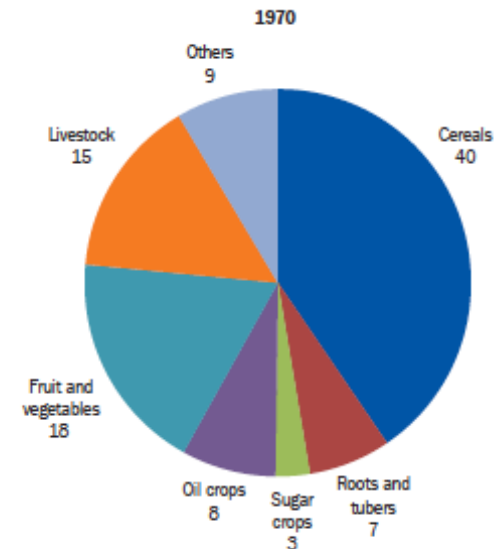
1. For the minority of farmers who participate in markets, need to study patterns of market integration and price transmission to establish where markets do and do not function – macro and sectoral policies may work
2. Need to establish **when** barriers to market participation depend on:
  - a. Privately held assets (land, livestock, crop-specific capital)
  - b. Production technologies to generate surplus to induce sales
  - c. Physical infrastructure and institutional deficiencies
    - IF a & b, better response would be: improved financial services (credit, savings, insurance), technology transfer, and assets building
    - IF c, remedy local infrastructure deficiencies
3. Productivity growth and commercialisation in smallholder agriculture need to be coupled with policies to absorb who will exit agriculture

# Promoting pro-poor structural transformation

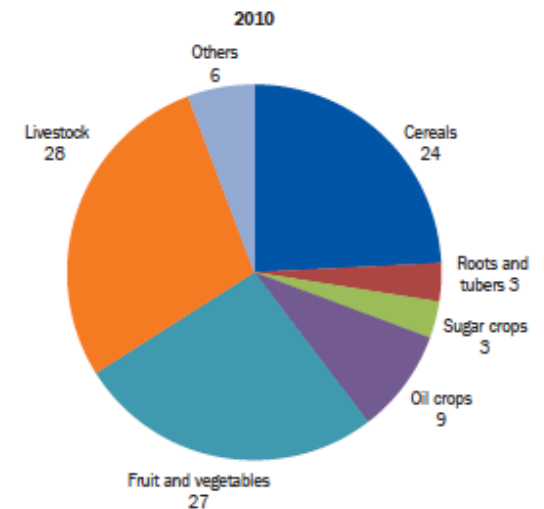


# Facilitating “agribusiness transition”

- Composition of agricultural output is changing - “agribusiness transition” involving the three main levels:
  - Share of inputs providers (farm equipment, logistics firms, business providers, finance, marketing etc.) is rising
  - Agriculture is shifting from traditional (coffee, coca, tea, sugar, spices, and nuts) to high-value products (horticulture, seafood, processed products)
  - Share of agriprocessors, distribution companies, retailers and service providers has increased



Source: FAOSTAT. <http://faostat.fao.org> (accessed September 2012).



# Asia-Pacific transformation...

- Land /Labour productivity
  - Japan 1881-1890 & 1911-1920 doubled
  - Korea after 1945
- Key factors
  - Land reforms (Tokugawa Japan; Saemaul movement in Korea, post-1945)
  - R&D → selection of high-yielding varieties
  - Use of technology
  - Rise in application of fertilizer
  - Improved farm practices
  - Nurturing small-scale industries close to farming communities → create non-farm earning opportunities