



Agricultural Development Led Industrialization (ADLI)

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Topics for discussion

- Dimensions of poverty and rural poverty
- Key role of agriculture growth in rural poverty alleviation
- What determines the growth of agriculture
- How this growth translates into rural poverty alleviation
- Summary and conclusions



Dimensions of Poverty and Rural Poverty

- Poverty is found in practically all countries in larger or smaller degrees
 - In some countries it is geographically concentrated (N.E. of Brazil)
 - In others, it affects specific ethnic groups (Guatemala, Bolivia)
 - But in some, such as Ethiopia, it is pervasive
- But in all cases, poverty is concentrated among the rural population
- The rural population has a higher proportion of poor than in urban areas
- Of the about 1.2 billion people living on less than one dollar a day, about 75% work and live in rural areas



Some Rural Poverty Data

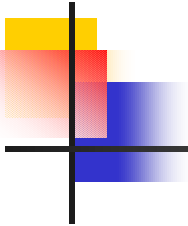
	% Pop Rural		% Rural Pop below poverty line 1996
	1980	2000	
Ethiopia	90	82	47.5
China	80	68	7.9 (4.6% in 1998)

- Alleviating rural poverty is an ethical as well as socio-economic issue (there is a huge economic potential that is untapped). And it is the issue that PRSP aims to address



Agriculture and Rural Poverty

- Sustained and permanent alleviation of poverty, requires that the economy, overall, and not only the agriculture sector grow
- Agriculture has been the “leading” sector that has accelerated growth in countries such as China, India
- But it has not always been the case
 - In XVIII and XIX century Europe, it was industrial innovations
 - In other countries, it has been exports (manufacturing or agricultural or of labor) or services (tourism). Countries such as Korea, Malaysia or my own country, Spain, are good examples of this
- However, when the main productive sector in the economy is agriculture, rapid growth will not occur unless agricultural productivity increases



	Share of GDP in Agric		Growth Rate of Agric		GDP/Cap	
	1980	2000	1980	2000	1980	2000
Ethiopia	56.1	52.3	-	1.2	-	100
China	30.1	15.9		5.2	220	840
India	38.6	24.9		3.2	270	450
Sudan	32.9	37.2		n.a.	470	310

- Note (a) the huge share of GDP in agriculture in Ethiopia, and how little it has declined in 20 years, compared to China and India, (but it has increased in Sudan), and (b) if agriculture grows only at 1.2% per year, it only contributes 0.5% to overall growth (52.3% x 1.2%). At these rates, poverty will never be alleviated



Agriculture vs. Industrial Growth

- Declining share of agriculture in GDP in all countries that are growing explains the debate between “agricultural versus industrial growth”
- In the 60s and 70s many countries (and even some today) “taxed” agriculture and drained the surplus to promote industrial development
- Agriculture can be “elegantly” taxed without a tax collector
 - An overvalued exchange rate (Ivory Coast, Venezuela)
 - Marketing boards or price fixing by government that lowers prices of outputs or increases price of inputs
 - Providing higher tariff protection to industry



Agriculture vs. Industrial Growth (continued)

- Approach predicated on two (false) assumptions:
 - Farmers are at subsistence level and will not increase demand for agricultural or industrial production, and
 - They do not save
- Result was stagnant agriculture in many countries, inefficient industries (steel mills in Egypt) and no growth
- So, growth of agricultural productivity whether as a leading “growth” sector or as an accompanying factor matters very much



What Determines Agricultural Growth

So how does agriculture grow and how does that translate into poverty alleviation?

- About 50% of agricultural growth is accounted by the availability of standard inputs such as land, labor and capital in the agriculture sector (the more land, the more you can produce, etc.)
- But fully 50% of agricultural growth is due to a number of other factors which affect productivity
 - Improving research and extension (some studies indicate a return of 50% to expenditures on research)
 - Rural infrastructure (rural roads, rural telephones, electricity, irrigation)
 - Education (and also health)



What Determines Agricultural Growth (continued)

Other important factors for agricultural productivity improvements are:

- Institutional factors such as change to market mechanisms, bringing prices to world levels and opening trade
 - Abolition of collective production system or commune system (Eastern Europe and China)
 - The functioning of input and output markets (input distribution and access to markets were privatized in China, with a couple of exceptions). Role of cooperatives
 - The functioning of the financial markets and particularly improving the availability of rural financing



What Determines Agricultural Growth (continued)

- Structural factors. For instance, the structure of land ownership. There is ample evidence that land ownership itself is not a decisive factor, but there is overwhelming evidence that the farmer needs to have ownership or a strong and long-term lease on the land he/she cultivates to make most efficient use of it



What Determines Agricultural Growth (continued)

- Increasing agricultural productivity also allows the release of underemployed labor from the agricultural sector
- But, labor has to be able to find other productive employment Hence the importance of creating non-agricultural job opportunities in rural areas.



How Agricultural Growth Affects Rural Poverty

Agricultural growth reduces poverty via effects on employment, wages, prices of products and production of non-farm assets. More specifically:

- By increasing farmers income directly through the adoption of improved techniques which increases agricultural output and therefore their revenue
- By increasing the assets farmers own
 - Switch from unproductive to productive savings (bank vs. jewelry)
 - Enhanced property rights through land distribution/land reform
 - Human capital (education, health)



How Agricultural Growth Affects Rural Poverty (continued)

- Equally if not more important, agricultural growth helps
 - Generate non-agricultural employment as a source of additional income
 - Keep domestic prices for staple foods stable
 - Shift production to high value intensive agricultural commodities that stimulate demand for agricultural labor



Conclusions

- In an overwhelming agricultural country such as Ethiopia, agricultural growth is an essential ingredient for growth and for alleviating poverty – as China has shown us
- Agricultural growth will depend on the country's ability to promote growth through one or more of the factors that decisively influence productivity: research, extension, rural infrastructure, education, institutional changes (market liberalization, availability of rural finance, improving the working of input and output markets), structural changes, such as improving land property rights or land distribution



Conclusions (continued)

- The first burst of growth has to be broad based and affect a large number of the rural population
- It also has to lead to an increase in the consumption of the now larger volume of agricultural commodities and the increase in income has to be spent mostly in the rural areas themselves so it can generate induced non-farm employment
- This will generate increases in income as well as an increase in the assets that the rural population has or in the form in which they are held. And this is essentially the only way one can sustainably reduce poverty