

# Beyond Agriculture ? : The Promise of the Rural Economy for Growth and Poverty Reduction

FAO Rome, January 16-18 2006

## Objectives:

1. Understand how changes in “drivers” (such as globalisation and changes in food systems) may cause a shift in the prevailing Rural Development Paradigm, and what may be the regional characteristics of such a paradigm.
2. Raise awareness on a poverty reduction/rural development strategy and the role of agriculture in such a strategy.
3. Examine rural household strategies for getting out of poverty
4. Produce guidelines or a checklist of issues to be considered in guiding rural development policy.
5. Learn how the paradigm shift translates into analysis and policy directions primarily for FAO.

## Structure:

The workshop will last 2 and a half days. There will be an opening plenary session, 7 sessions in the workshop and a closing round-table discussion. Three presentations will be made during the plenary session one of which will be scene-setting/introductory paper. Plenary papers will be open to all FAO staff and outsiders; the sessions will be open to a restricted audience mainly due to space restrictions.

## DAY 1: Monday, January 16, 2006

- Registration (8:30 – 9:15)
- Session 1: Plenary – **Austria Room** (9:30 – 12:00): Reflections on the evolution of rural development policy and the paradigm shift: issues and trends

Chair: Mafa Chipeta, Director, Policy Assistance Division, FAO

Reporting: Alessandra Basilico and Emilia Rinaldi, Economists, ESA.

### Introduction/Welcome : TBA

(09:30-09:50 ) Setting the scene: Issues and Perspectives on Rural Development  
Kostas Stamoulis , Chief, Agricultural Sector in Economic development Service,  
FAO

This presentation will set the stage for the workshop, focusing on a broad discussion of issues such as : definitions of “rurality”; the role of agriculture in rural development ; rural poverty ; and the shifting relationship between rural growth and poverty reduction, including the role of agriculture.

**(9:50- 10:20) Agricultural Growth and Economic Development: looking through the globalization lens.**

**Prabhu Pingali, Director Agricultural and Development Economics Division, FAO**  
**(10:20- 10: 30 ) Discussion**

- **(10:30 – 10:45) Break**

**(10:45 – 11:30 ) MAIN PLENARY PAPER :**

**“How effective is a demand-driven approach to rural development ?”**

**Alain de Janvry, Professor, University of California, Berkeley**

Major structural changes have transformed the determinants of rural poverty and the availability of pathways from poverty. This paper reviews the nature of these changes and identifies the opportunities and difficulties they create for defining strategies to reduce rural poverty. Key dimensions of the approaches being followed include the promotion of regional economic growth, human capital development and social protection, institutions for the competitiveness of smallholders and small and medium enterprises, decentralization and enhanced capacity for local governance, empowerment of civil society organizations, and risk reduction through subsistence plots, diversification of sources of income, and social safety nets

**(11:30-12:00 ) Discussion**

- **Lunch Break (12:00 – 14:00)**
- **Session 2 – Lebanon Room (14:00 – 15:45): Transformations in Agriculture and the Impacts on Rural Development**

**Chair : Doyle Baker , Chief , Agricultural Management, Marketing and Finance Service (AGSF), FAO.**

**Reporting: Ellen McCullough, Economist, ESA**

This session will look at how changes in production technology and the diffusion of retail chains affect rural development and rural poverty.

a) **Background paper (Peter Hazell, Imperial College London)**

Agriculture has played a key role in recent decades in kick-starting economic growth and reducing poverty and hunger in many developing countries. Moreover, most of the countries that have failed to launch an agricultural revolution remain trapped in poverty, hunger, and economic stagnation. But the conventional conclusion that these countries should invest more heavily in their agricultural development is being challenged. In an era of globalization, trade liberalization, changing market structures and demand, and ample world food supplies, a new breed of agricultural skeptics argue that poor countries should now downplay the importance of food staples and small farms and focus instead on commercial farms, higher-value agriculture, and rural income diversification through migration and nonagricultural development.

b) Study 1: **Transactions costs and quality control in the fruit and vegetable market in India. (Marcel Fafchamps, Professor, Oxford University)**

Using original survey data collected on producers, traders, processors, markets, and village communities, we compare the situation in four states -- Tamil Nadu, Uttar Pradesh, Maharashtra and Orissa -- and contrast regulated and unregulated markets. We test a number of hypotheses regarding the way information about quality is conveyed (or not) along the value chain and about the services offered by different marketing environments and infrastructures.

c) Study 2: Evaluation/ what works. A review and synthesis of experiences regarding the impact of changes in domestic food systems on poverty and rural development. What are the contextual characteristics of success or failure ? **(Tom Reardon, Professor, Michigan State University)**

d) Discussion: Discussant's comments, Wrap up, Conclusions and next steps **(Rubén Echeverría, Director, Secretariat of the Science Council to the CGIAR, FAO )**

- **Session 3 – Lebanon Room (16:00 – 17:45): Rural non-farm income generating activities: refuge/survival strategies or a pathway out of poverty?**

**Chair : Fabrizio Bresciani, Economist, Comparative Agricultural Development Service (ESAC), FAO**

**Reporting: Frank Mischler, Economist ESA**

While the importance of the RNF economy for rural areas has been widely documented, there is a significant information gap on the details of the sector (for instance, which types of RNF activities are associated with poverty reduction; the relationship between the various RNF activities and agriculture; the spatial relationship between activities, etc.). These information gaps have made the support of RNF activities as part of a rural development strategy difficult. An additional problem is the fact there is an institutional gap in that RNF activities may fall under a variety of ministries' jurisdictions and yet be directly supported by none of them. Similarly, there are tensions between the national, regional and local authorities over responsibilities with respect to the rural economy.

Recently, there have been attempts to overcome this institutional gap by pursuing a territorial or spatial approach to rural development, but these experiences have yet to be properly evaluated. These limitations suggest the need to carefully and systematically analyze RNF activities and to clearly identify policy instruments that can be used to promote RNF activities alongside agriculture in a manner that facilitates the reduction of rural poverty.

- a) **Background paper (Gero Carletto, Economist, World Bank).** The paper will present some of the key conceptual issues related to Rural Income Generating Activities and the FAO-WB-American University RIGA project and database.
- b) Study 1: **Rural Income-Generating Activities in Developing Countries: A Multi-Country Analysis.** (Paul Winters, Associate Professor, American University Washington DC).

In the past decade, numerous empirical studies have been conducted that analyze the income-generating activities of rural households in developing countries. A key objective of these analyses has been to highlight the fact that rural households are involved in a range of activities and that policy interventions should recognize this reality. While providing valuable insights into the importance of rural nonfarm activities, weaknesses in the data available for this analysis have limited the ability of researchers to make broad cross-country comparisons. To overcome data limitations, in this paper a systematic analysis of rural income-generating activities in rural areas of developing countries is conducted with a particular emphasis on understanding the role of the rural non-farm economy in detail.

- c) Study 2: **Rural Nonfarm Dynamics: Implications for the Poor ( Steve Haggblade, IFPRI)**

The rural nonfarm economy accounts for 30% to 45% of rural incomes throughout the developing world. And in most locations, it appears to be growing rapidly. Since the early 1990's, the twin forces of globalization and liberalization have opened up the rural nonfarm economy as never before, to new competition and to new markets in increasingly concentrated global supply chains. Given the extreme heterogeneity of rural nonfarm activities, this rapid change brings both new opportunities and new challenges to the rural poor as they attempt to navigate what are often rapid structural transitions.

- d) Discussant's comments Wrap up, Conclusions and next steps (**Paul Siegel, World Bank**)

## **DAY 2: Tuesday January 17, 2006.**

- **Session 4 – Lebanon Room (09:00 – 10:45): Migration and Rural Development: Is migration out of rural areas promoting or hampering rural development?**

**Chair: Benjamin Davis, Economist ESAE, FAO**  
**Reporting: Romina Cavatassi, Economist, ESA**

Labour migration is a pervasive feature of economic development. There are very significant migration flows in some developing regions, with considerable impacts on individuals, households and regions. While, the economic literature has dealt with motivations of migration, the literature on the impacts of recent migration flows is rather thin and costs and returns of this growing social phenomenon remain still outside the public policy realm. This is true especially with respect to migration of people from rural areas of developing countries. The purpose of this session is to review key issues relating to rural labour migration and its links to economic development in the areas of origin, while also reporting on selected country-specific/cross-country studies linking migration to agricultural and rural development.

a) **Background paper: Migration and Rural development (Robert Lucas, Professor of Economics Boston University.)**

This background paper summarizes the key routes through which internal and international migration impact rural development and some of the evidence pertaining to these effects in low income countries. In particular the paper looks at: the effects of labor withdrawal versus remittance inflows on rural production; the contrasts between permanent and circular migration effects; the links between internal and international migration; migration as a risk-spreading device for rural families; the impact of migration opportunities on the incentive and opportunity to obtain an education; the influence of geography upon migration propensities and hence the isolation of ‘remote’ rural areas; the potential for trickle-down effects of migrant departure upon non-migrants; and hence the consequences for rural poverty reduction. The paper draws upon evidence on these aspects in South and Southeast Asia, in North and Sub-Saharan Africa, as well as parts of Latin America and some of the transition economies of East Europe.

b) **Study 1: Migration, Remittances and Production: Evidence from Rural Mexico. (Ed Taylor, Professor, of Agricultural and Resource Economics, University of California Davis)**

The migration of labor out of rural areas and the flow of remittances from migrants to rural households is an increasingly important feature of rural economies in less developed countries. Understanding how migration and remittances influence rural production activities is of growing interest to policy makers as well as to researchers. This paper will propose a simple theoretical model and use new survey data from rural Mexico to explore whether, and to what extent, farm and nonfarm production in rural households are affected when these households participate in migration and receive remittances.

c) **Study 2: Migration and resource allocation in Albanian agriculture (Nancy McCarthy, Research Fellow, IFPRI)**

As with many transition economies, Albania redistributed its collective farmland to private individuals starting in the early 1990s. In this paper we present the development and results of an econometric model examining the factors affecting resource allocation on farm, with a particular emphasis on determining the impacts of migration. We use data on about 850 rural households from the Living Standards Measurement Study surveys collected by the Albania Institute of Statistics (INSTAT) in the period 2002-

2004. Following the literature on migration, remittances and resource use and allocation, we test two competing hypotheses regarding the impact of migration on rural household in the communities of origin. The first hypothesis is that migration will lead to more resources allocated to high-value, and potentially riskier activities due to relaxation of cash/credit constraints and insurance market failures. Alternatively, to the extent that high-value, riskier activities require greater supervision and management, migration may tighten these specific labor constraints, thus reducing resources allocated to these activities

- d) Discussant's comments, Wrap up, Conclusions and next steps (**Riccardo Faini, Professor of Economics, Universita di Roma Tor Vergata, Rome**)
- **Session 5 – Lebanon Room (11:00 – 12:45): Addressing the balance of government spending**

**Chair: Astrid Agostini, Economist, Investment Center , FAO**  
**Reporting: Christian Romer Lovendal, Economist ESA**

The impact of government spending for social assistance *vis-à-vis* the productive sectors for Rural Development. What are some of the issues related to government spending during the “agricultural transformation”?

- a) **Background paper (Ramón López, Professor of Agricultural Economics U. of Maryland)**  
**Fiscal Policies in Highly Unequal Societies: Implications for Agricultural Growth**

Governments tend to spend a large share of the public revenues in private goods (including mainly subsidies to the wealthy) and too little in public goods. At the same time, governments in developing countries often have tax systems which are quite regressive as a consequence of their extreme dependence on indirect taxes and of large tax evasion. This makes the tax system quite regressive. In this paper we argue that the under investment in public goods in a context of a regressive tax system is a factor leading to slowdown economic growth over the long run, worsen wealth distribution and contributes to exacerbate environmental degradation. We provide empirical evidence for the rural sector in 15 Latin American countries over the period 1985-2001 showing that: (i) A large share of public expenditures (often reaching 50% or more) is devoted to non-social subsidies although in many countries in the region such subsidies have slowly decreased over the period; (ii) Econometric analyses on the rural sector show that a high share of subsidies (and concomitantly a low share of public goods) significantly reduces economic growth in rural areas, lowers the income per capita of the bottom 40% of the population and promotes a pattern of growth that is environmentally more demanding; (iii) The quality or composition of public expenditures is much more important to promote growth, equity and the rural environment than the level of expenditures; (iv) Analysis of the determinants of the composition of public expenditures shows that while the historical distribution of wealth is an important factor that promotes public expenditure biases in favor of subsidies to the wealthy (and hence under spending in public goods) thus promoting a vicious cycle of wealth concentration-public expenditure

biases and subsequent consolidation of such concentration, certain institutional and political factors may help breaking such vicious cycle. One may speculate that the participation of important international institutions may directly through their policy advice and indirectly by promoting institutional changes, also contribute to breaking such vicious cycle.

b) Study 1: **Governance and Rural Expenditures (Gustavo Anríquez, Economist FAO-ESA).**

This study examines the effects of corruption in the allocation of public rural expenditures. Using data from Latin America this study explores the hypothesis that corruption reduces rural public investments and that this has measurable effects in rural development.

c) Study 2: **Rural and Urban Dynamics and Poverty: Evidence from China and India. (Shenggen Fan, Director, Environment and Production Technology Division, IFPRI)**

The rural and urban sectors of an economy are interconnected economically, financially, and socially. Ideally, resources such as capital and labor should move freely between these two sectors. In an undistorted economy, marginal returns to production factors should be equal. As a result, labor productivity and consequently per capita income should be the same. Many have argued that there should not be any distinction between rural and urban sectors. Indeed, there has been a growing interest in the development literature on the linkages between rural and urban development (DfID 2003).

However, the relationship between urban and rural sectors in many developing countries is still characterized by an economic dualism, in other words, by the coexistence of a modern urban sector and a traditional rural sector. This duality arose because many developing countries, including China and India, pursued a heavy industrialization development strategy based on the transfer of resources and labor surpluses from the traditional (or rural) sector to the modern (or urban) sector. This development strategy largely favored the development and growth of the urban sector at the expense of rural areas.

The framework we used in this analysis is based on the equalization of returns to factors between rural and urban areas. Within this framework, any distortions that affect the free movement of resources should be removed. Government policies should be designed to correct market failures in order to achieve higher efficiency and also better income distribution. Under this circumstance, both efficiency and equality can be achieved, and greater synergies can be obtained between the two sectors.

Our hypothesis is that further correcting urban bias would lead to higher growth in agriculture and therefore larger poverty reduction in both rural and urban areas, as a result of better rural-urban linkages.

d) Discussant's comments, wrap up, conclusions and next steps (**Alexander Sarris, Director, Commodities and Trade Division, FAO**)

- **LUNCH BREAK (12:45 – 14:30)**

- **Session 6 – Lebanon Room (14:30 – 16:15): Institutions and Rural Development: Issues and Experiences**

**Chair: Leslie Lipper, Economist, ESAE FAO**  
**Reporting : Madelon Meijer, Economist, ESA**

This session will look at how shifts in perspectives in rural development and impact assessment of previous policies have altered the way rural development programmes are currently managed as well as the changes in corresponding institutional framework. Are institutions small-farm or staple production oriented? Is there an institutional void when it comes to rural development? What are the regional perspectives on these issues?

- a) Background paper (**Gustavo Gordillo, Former Assistant Director General – FAO Latin America Regional Office**)

- b) Case Study 1: **Institutional Aspects of Rural Development Programmes and Strategies Implementation in Ghana (Abena Oduro, CEPA - Ghana)**

In both the Ghana Vision 2020 for the period 1996-2000 and the Ghana Poverty Reduction Strategy Paper for the period 2003-2005 the importance of rural development has been emphasized. However, that a policy focuses on a particular issue does not mean that during the implementation phase the objective will be maintained. This paper examines the progress that has been made in rural development in Ghana in the 1990s and examines the institutional framework that exists to achieve policy objectives. Several projects have been implemented to achieve rural development objectives. To investigate the institutional aspects of rural development, this paper will assess some of the projects that have been embarked upon in the last six years. These are the Village Infrastructure Project, the Agriculture sub-Sector Project, the Rural Enterprise Project and the Rural Enterprise Development Project.

- c) Case Study 2: **Bounded Rationality Along the Policy Chain in Vietnam (Leigh Anderson, Professor of Economics, University of Washington, USA)**

Behavioral economists have documented the results of hundreds of experiments that challenge our assumptions of how we make decisions, especially under uncertainty and over time. The accumulated evidence is largely from laboratory experiments in the U.S. and Europe, with little comparable work from the field or from developing or transition countries. Yet this evidence suggests that similar behavioral anomalies in less developed countries may be at least as prevalent because of the greater incidence of poverty and food insecurity, large rural populations, and poorly functioning markets, and these behaviors will more acutely affect policy outcomes because there are fewer formal institutions to temper their effects.

Our particular interest is in exploring whether behavioral economics can help to explain systematic and recurrent biases in resource allocation and program design, by identifying regular differences in patterns of bounded rationality between the policy makers and the program recipients. Using original data collected from a stated preference survey in Vietnam, we test a theory of decision making based on effort and association (Kahneman, 2003). We posit that decision effort is a function of one's responsibility and experience over decision making, and the expected net value of the outcome. Expected net value depends on risk attitudes and the benefits and costs of the

decision. These costs are affected by their access to information, both internal (through association) and external (through exposure). Our initial results suggest some significant differences in views of fairness, cognitive effort, and decision heuristics that may affect resource allocation decisions.

- d) Discussant's comments, wrap up, conclusions and next steps (**Pasquale Scandizzo – Professor of Economics, Universita di Roma Tor Vergata Rome**)
- **Session 7 – Lebanon Room (16:30 – 18:15): Rural development strategies of the multilateral development banks.**

**Chair : Gary Howe, Chief Development Strategist, IFAD**

**Reporting: Carlo Azzarri, Economist, ESA**

Rural development has been gaining ground recently on the agenda of the multi-lateral development banks. How are current and expected changes in food systems reflected in the rural development strategies? What are the experiences with implementation?

- a) World Bank (**Karen Brooks**)
- b) Inter-American Development Bank (**César Falconi**)
- c) Asian Development Bank (**Yuen Loh Yee**)
- d) The International Conference on Agrarian Reform and Rural Development, Porto Alegre, 07-10 March 2006 (**Parviz Koohafkan Director of Rural Development Division, FAO**)
- e) Discussant's Comments (**Michael Wales, Principal Adviser, Investment Centre, FAO**)

**DAY 3: Wednesday January 18, 2006 (by invitation only).**

**9:00 12:00 AM : Round Table Discussion Lebanon Room:** Enhancing the role of RD – pushing the agenda forward

**Chair: Kostas Stamoulis, Chief, ESAE FAO**

**Reporting: Alberto Zezza, Economist, ESAE FAO**

A morning session on DAY 3, with restricted group of participants, to discuss how workshop findings can contribute to sharpening focus of ESA research programme and FAO's assistance to the policy process. The panel discussion openers will be :

**Alain de Janvry, Professor of Agricultural and Resource Economics, University of California, Berkeley**

**Peter Hazell, Imperial College, London.**

**William Meyers, Professor of Agricultural Economics, University of Missouri, USA**

**12:15 Closing remarks**