Private Sector & Development

A blog coordinated by Proparco

“Investment in agriculture as a key poverty reduction lever”

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The World Bank’s World development report was first published in 2008. It was co-written by Alain de Janvry and Elisabeth Sadoulet among others and it highlighted agriculture as *“an essential development vector for achieving the Millennium Development Goals”* designed to halve the percentage of people suffering from extreme poverty and hunger throughout the World by 2015. Now, ten years later, the two co-authors revisit the lessons of this report.

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Proparco: What has changed in the 10 years since the World development report on agriculture?

A. de Janvry & E. Saduolet: The report’s key finding was that agricultural countries in which the bulk of the poverty is concentrated in the rural sector – which is generally the case in African countries – need to invest more in agriculture and in agribusiness in order to harness all of that sector’s potential to reduce poverty. In 2007, only 3 African countries were investing over 10% of their public expenditure in agriculture (the minimum recommended by the CAADP). This figure had risen to 10 in 2009 just after the world food crisis, but today it has dropped to 2.

And yet, investing in agriculture can be highly profitable and constitute a key lever for reducing poverty which remains overwhelmingly rural and agriculture-related. This observation is reinforced by the poor prospects for low-skilled, labour-intensive industrialisation which is being thwarted by robotisation and the repatriation of high-tech industries to countries with the requisite technological capacity. The challenge is to invest more in agriculture but to do so more effectively than in the past to get governments interested.

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What are the recommendations for boosting smallholder competitiveness?

One potentially convincing way of investing more effectively in agriculture is to ensure the competitiveness of smallholders within value chains both in the domestic and international markets. This requires a concerted effort between public bodies (notably to provide infrastructure and the legal system), the private sector (to negotiate contracts that secure state-of-the art resources, credit, insurance and technical assistance) and civil society (to transmit the necessary capacity and discipline for contractual relations to producer organisations).

This approach has demonstrated its ability to promote smallholder competitiveness and boost incomes but remains under-utilised, notably due to insufficient expertise. It reverses the focus for modernising small-scale farming by starting with the actual demand perceived by a commercial intermediary, and then going backwards by building a value chain that drives technological change at producer level. In doing so, it replaces or rounds out the traditional approach based around promoting technical change by tackling the constraints that hamper adoption – instead of creating demand-based adoption incentives – and which has displayed its limits given the stagnation in food crop yields and the use of chemical fertilisers in Sub-Saharan Africa.

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What must technical and financial stakeholders like development finance institutions do to make this happen?

There are many ways in which smallholders can participate in the value chain and in contractual arrangements. Effective coordination between stakeholders is absolutely essential for an efficient and inclusive value chain. Development finance institutions may intervene at different levels using their full range of solutions, i.e., financing dominant private operators within a value chain who have an interest in taking on a coordinating role given the potential social benefits, or helping to boost the organisational capacity of smallholders and their access to capital, especially human capital.

Because success is difficult to achieve and sustain and big question marks remain over the best way of tackling the problem for different products and specific contexts, more research is essential. We need to experiment more than ever with alternative management models in a way that is useful for both decision-making and action. It is the findings of such research that could convince governments that investing in agriculture has genuine economic and societal benefits.

Footnote:
1 The Comprehensive Africa Agriculture Development Programme (CAADP) is Africa's policy framework for agricultural transformation, wealth creation, food security and nutrition, economic growth and prosperity.