The Potential for Agricultural Transformation to Eradicate Extreme Poverty

USAID's Feed the Future Initiative is premised on broad based agricultural transformation within Africa's smallholder farming sector. On June 20 E3, BFS and Africa held a webinar to address whether this transformation is indeed occurring, and what is needed to hasten the process. The main takeaways were as follows:

1. **Some of Sub-Saharan Africa is achieving the same kind of structural economic transformation that has changed the face of Asia and Latin America.** For the first time ever the number of Africans living in extreme poverty has declined (Figure 1). There are four major elements of an economy's structural transformation: (i) the share of agricultural value added in GDP declines even as agriculture continues to grow (Figure 2); (ii) the share of the labor force working in agriculture declines, even as the agricultural labor force continues to grow; (iii) rapid urbanization; and (iv) a demographic transition in which birth rates fall very quickly. Since 1995 SSA is going through all of these changes and there is every reason to believe that this will accelerate over the coming years.

2. **Africa's smallholder farm sector can hold the key to both growth and rural employment, if the right policy actions are taken.** Over several generations, we can expect to see the same structural changes in African agriculture as were experienced in earlier smallholder based farm transformations in Asia, North America, and Europe: higher labor and land productivity leading to greater off-farm employment and economic opportunities; increased rural wages leading to mechanization; and increasing size of farms with the most marginal farms eventually exiting from agriculture. Keeping in mind that these changes are multi-generational, and that even with rural-urban migration, rural population will continue to grow for some time, it is urgent for policies and investments to maximize the growth and employment linkages from smallholder agriculture in Africa. For example, making sure that wage rates aren't held down and that rural equipment markets work can facilitate this change in employment- enhancing ways, while subsidizing tractors would hold back the employment impacts of structural change in agriculture.

3. **Agricultural growth has clearly had a major impact on poverty reduction in some African countries, but not in others.** Ghana, Uganda, Mali, Ethiopia have seen rapid decline in poverty accompany rapid agricultural growth. Other countries (e.g., Malawi, Zambia, presented in some detail in the webinar) have achieved impressive agricultural growth while failing to reduce rural poverty. One important reason for the failure of agricultural growth to reduce poverty is the inequality in land ownership and other productive assets among smallholder farmers. Growth is concentrated among the wealthier farmers and the indirect effects on poverty are minimal. This limited impact on poverty has been exacerbated by government agricultural spending going overwhelmingly to a small minority of farmers concentrated at the upper end of asset-holding.

4. **Malawi and Zambia have implemented large-scale input subsidy programs and revived marketing board operations to support agricultural growth. These programs have contributed to agricultural growth.** Yet because they primarily benefit the relatively large smallholder farmers, they have done little to reduce rural poverty rates and have contributed little to broader agricultural transformation processes. In Zambia, for example, input and output subsidy programs constitute almost the entirely of the agricultural budget, but have conferred only the most limited benefits on the 73% of the farming population with less than 2 hectares. As shown in Table 1, the input subsidies have been disproportionately channeled to relative large farmers, who in turn sell the most grain and benefit the most from the marketing board's price supports.

5. **Avoiding policy and program mistakes and focusing on "inclusive" and broad-based development is critically important to achieving agricultural growth with poverty reduction.** Policies and programs focused on inclusive agricultural growth involving smallholders raise the likelihood that Africa will experience sustained and robust agricultural and demographic transformations consistent with FTF objectives. It is well established that the rate of economic growth is influenced by the equality and inclusiveness of growth. Fortunately, solid research evidence has guided the way as to how governments and development partners can support inclusive agricultural

growth with poverty reduction:

a. Sustained commitments to the generation and dissemination of improved agricultural technologies through R&D. Investing in crop science, agronomic adaptive research, farmer training and extension programs, while not sexy, have consistently proven to provide high payoffs to both agricultural growth and poverty reduction.
b. Investing in physical infrastructure – ports, rail systems, roads, electrification and power generation
c. Input subsidies may have their place as long as they are targeted and do not crowd out other important public goods investments. This has been politically difficult to achieve in practice; once the subsidy genie is out of the bottle, governments worldwide have found it difficult to contain them.
d. Promoting rather than suppressing regional and international trade.

6. **Wise agricultural policy decisions recognize that agricultural transformation is part of a multigenerational, dynamic, economy-wide system.** While the right enabling environment will support rapid transformation, there are only so many short-cuts. Patience, perseverance, and sustained investment in many "unsexy" areas is also necessary, i.e., those that support labor mobility and labor markets, education, health and sanitation, energy generation, and private sector-led industrialization.

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