



Food and Agriculture Organization
of the United Nations

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

WORKSHOP SYNTHESIS

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WORKSHOP OVERVIEW

The workshop entitled “Beyond Agriculture?: The Promise of the Rural Economy for Growth and Poverty Reduction” was held at the FAO headquarters in Rome from the 16th to the 18th of January.

In organizing the workshop, FAO was seeking to raise awareness on how recent trends and changes such as globalization shape the context in which rural economies operate and what are the implications for policies to reduce rural poverty. More than 70% of the poor live in rural areas where the agriculture sector plays a fundamental role. In this context, the purpose of the workshop was to gain a better understanding of how the current rural development paradigm is evolving, what are the drivers of these changes, what can make rural development strategies more effective and which role FAO could most strategically play in the effort of efficient and effective rural development.

The meeting’s objective were fivefold: (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 the regional characteristics of such a paradigm be; (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; and (5) learn how the paradigm shift translates into analysis and policy directions primarily for FAO.

The workshop combined a number of background papers and studies, some of a more general and theoretical level and some with a more regional or country focus. This format allowed firstly to set the scene of the specific topic and subsequently to delve into more specific facets of the specific issue under investigation.

The workshop lasted two days and a half and set off with an opening plenary session and was concluded by a closing round-table discussion. The workshop was divided into seven sessions, each of which contained the presentation of one background paper and two study papers then followed by the comments of a discussant. At the end of each session the floor was opened to a broader discussion with the participation of all present.

The first session set the scene of the workshop with an overview of definitions and current trends aiming at investigating the evolution of rural development policy and the paradigm shift. The second session discussed transformations in agriculture and the impacts on rural development. The third session focused on gaining a better understanding of rural non-farm generating activities: whether the latter are refuge/survival strategies or a pathway out of poverty. The fourth session aimed at gaining a better understanding of the reasons and effects of migration in an agricultural context and whether migration out of rural areas is promoting or hampering rural development. Session 5 addressed the issue of government spending and the impact of government spending for public goods vis-à-vis the productive sectors of the rural economies. Session six analyzed the variation in institutional frameworks in the context of rural development and the paradigm shift. Session 7 provided an overview of how multilateral banks are promoting their rural development strategies and what changes are being promoted.

The closing session consisted of a discussion of policy options, a summary of lessons learnt and of important issues to be addressed. A list of the workshop's participants follows as **Annex 1** to this synthesis, and the programme can be found in **Annex 2**.

REFLECTIONS ON THE EVOLUTION OF RURAL DEVELOPMENT POLICY AND THE PARADIGM SHIFT: ISSUES AND TRENDS

The first session of the workshop aimed at introducing and setting the scene for the discussion to be held. The workshop was opened by Mr. Mafa Chipeta, director of the policy assistance division in FAO. Mr Chipeta outlined the importance of this workshop within the scope of FAO's work and within FAO's mandate to help the poor and rural communities. He further stressed that agriculture should be associated with real prosperity and not solely with minimum growth.

The opening was followed by two introductory presentations by Mr Stamoulis and Mr Pingali. Professor de Janvry followed with the presentation of the background paper for the workshop.

“Setting the scene: Issues and Perspectives on Rural Development”

Kostas Stamoulis, Chief, Agricultural Sector in Economic Development Service, FAO.

The main focus of the presentation is not on the history of rural development, but it is important to define what rural development is: sustained improvement of rural populations' standards of living or welfare. It is important to be aware that overall growth may not be sufficient for poverty reduction, there has to be a specific focus on rural development leading to sustained improvement of the welfare of rural populations, the rural poor.

Definitions of rurality

Official definitions of rural vary country by country and there are different definitions of rural used in the international community environment, such as the geopolitical and the population agglomeration definitions. Depending on the definition and measurement method used, the percentage rural in Sub Saharan Africa, Latin America and Asia differ. Whichever of the indicators is being used, there are a few stylized facts on rurality:

- Most of the world's poor live in rural areas (900 million below \$1/day)
- Four of every five poor in Sub Saharan Africa live in rural regions
- Even poverty in Latin America is disproportionately rural (rural poverty rates are higher) despite more urban poor.
- Internationally comparable measures of rurality indicate that rurality is generally underestimated by official figures.

The strong correlation between rurality and poverty make it impossible to ignore the issue of rurality when discussing poverty.

The structure of rural household income

Roughly 60% of total rural household income is derived from agriculture, but the share of agricultural farm income tends to decrease with per capita rural income. Non-farm income activities doubtlessly mainly depend on agriculture. Without the contribution of agriculture, there is no rural development coming from non-farm income activities. It is difficult to get a unanimous insight into the structure of rural income, due to the fact that uniform data collection methodologies do not exist, the different definitions of rurality used, and varying definitions of what is included in rural non-farm (farm wages; remittances, etc.)

Issues related to rural income generating activities (RIGA)

- How does the role of agriculture in rural development change as food systems are modernised?

- Rural non-farm (RNF) activities poverty-inequality reducing?
- What is the role of migration?
- What is happening to RNF/agricultural linkages as food systems change? (labour/wage linkages; demand/investment linkages)
- Rural-urban interactions: With the introduction of space in the rural development debate, a promising approach for rural development / poverty reduction opens up based on interactions between rural areas and urban centres. The region is viewed as an urban-rural continuum and the rural poor can benefit from regional growth. The extent to which they benefit depends on the per capita GDP, the population density and the percentage of people living in rural areas.

Conclusions

For meeting the MDGs it is essential to bring rural development in the development debate more prominently than in the past. Rural is more important than what is shown in the official statistics. Agriculture can't be ignored and it is fundamental if we want to alleviate rural poverty, though diversification of rural income provides more entry points for policy to reduce poverty.

“Agricultural Growth and Economic Development: looking through the globalization lens”

Prabhu Pingali, Director Agricultural and Development Economics Division, FAO.

What are the latest trends in the discussion about agricultural growth and economic development? A lot of the discussion is about looking at rural development beyond agricultural production. Nevertheless it is to be pointed out that without a vibrant and robust agricultural sector, it is very difficult to see economic growth. Johnston and Mellor already in the 60s set out 5 propositions on how agriculture contributes to economic development.

The role and characteristics of agriculture have changed with time. As agriculture moves from a traditional sector to a globalized one, different parameters change, such as the share of agriculture in GDP (declining as the sector evolves), the share of labour in agriculture (declining over time), the market orientation (from subsistence through national to international), output mix (from food staples to highly differentiated), and the importance of scale economics (increasingly becoming more important in a globalized economy). These changing characteristics in the agricultural transformation process are a global phenomenon, driven by population growth, urbanization, improved technologies, market infrastructure, increased international trade, FDI and information technologies.

As these processes occur, farming systems evolve correspondingly, from traditional low productivity subsistence systems to high value commercial agriculture. The extent and speed of changing farming systems depends on the opportunity cost of land, labour, trade integration and economic growth. However, as the transformation proceeds, large numbers have been excluded by this agricultural growth under globalization. Even within countries with respectable agricultural growth, there are regions (i.e. Western China, Eastern India) where there are high levels of rural poverty. In a globalized world the exclusion set may be expanded towards small farmers and rural entrepreneurs, in particular those that live in marginal environments. There are many reasons for exclusion, such as demand factors, geographic factors (particularly environmental), institutions and poor policies.

Some examples of the issues include climate change, unfavourable production environments, distance to local and international markets. All of them contribute to create constraints. Poor institutions constitute a major issue, poor access to technology and resources is a consequence of poor governance systems.

In some countries policies of subsidies and incentives have had negative repercussions on agriculture. Growth hasn't been stimulated enough. Another problem is associated to the focus of the production on a narrow set of commodities. By doing so, limits are created to the growth of the entire economy. Another issue is the reduction of transaction costs. One of the lessons learned is that the transition process has been tough for small countries and smallholders. In any case, further obstacles to the transformation process of agriculture shouldn't be created, and Governments should be engaged to reduce transaction costs and provide safety nets instead of implementing policies to stop the expansion of supermarkets. The challenge is to ensure that every country, even the poor, can have a good level of nutrition.

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

Alain de Janvry and Elisabeth Sadoulet, University of California at Berkely and the World Bank –DECRG

Poverty around the world has proven to be a continuing struggle, with diverse outcomes in the various regions of the world. The world has witnessed extraordinary success in the battle against poverty in some of the Asian countries, relative stagnation in Latin America and rising or permanence of high rural poverty in Africa. Two thirds of the poor live in rural areas thus rural development remains critical for reducing poverty and inequality.

The ‘face’ of rural poverty has been changing over time due to migration, changes in employment activities and income sources (increasing share of income derived from off farm activities and remittances), labour force demographic variations, increasing local inequality and the failures in the capital and insurance markets. Migration has caused poverty to be increasingly concentrated in the best endowed areas.

New opportunities and constraints for rural poverty reduction have emerged. Globalization and international market integration have led on the one hand to a serious profitability crisis for small holders in traditional agriculture, on the other hand it has opened up opportunities offered by the ‘new agriculture’, responding to urban demands for high value crops and processed produce. Furthermore, many rural areas are increasingly industrialising and integrating economically with urban areas, opening up employment in non-agricultural activities such as manufacturing and services. Consequently rural and urban wages are converging. At the municipal level, governance has been progressively decentralized, which has induced changes in municipal budget allocation, although income generation expenditures have received a lower share than delivery of social services. For this, larger economic units are required, but regional development is the missing dimension. There has been much progress with local social capital formation, particularly the expansion of civil society organizations; the challenge is how to transform this ‘organizational revolution’ into an instrument for economic gain for the poor. Other opportunities are driven by the increasing demands for the provision of environmental services, which provide important new resource flows for rural development. Many of these opportunities have been taken advantage of at a

local level, and they often have a territorial base, but they have lacked in scale to make a difference in the aggregate poverty figures.

Various effective pathways from poverty can be identified, such as preparing people for migration, supporting diversification to enter into the “New Agriculture”, ‘bringing the village closer to the city’ to enable engagement in rural non-agricultural employment, and focussing on reduced vulnerability at household level through training and education so that opportunities created through regional development can be seized. In addition, transfer programs for social protection remain required and traditional agriculture for food security deserves attention. Not many poverty reduction programs aim the non-agricultural sector, yet it is well possible that the non-agricultural sector could increase the demand for traditional agriculture given the higher incomes generated by non-agricultural jobs.

Approaches to rural development have evolved from supply to demand-driven development. Innovative features of the Community Driven Development (CDD) approach include institutional development, mobilization of local information and participation, and evolution toward decentralization, with the objective to improve access to local public services, empower civil society, improve local governance, raise income and reduce poverty and vulnerability. CDD accounts for 20-25% of World Bank lending, yet reliable methods to evaluate its effectivity are missing (especially given the great differences across regions).

Points underlined in the question and answer session

- There is a need for a greater number of income generating projects
- Social investments and asset generating projects have to be balanced; projects should serve as transition mechanisms toward self sufficiency and self support
- Perhaps the non-income generating bias of present WB projects is due to the need to address more urgent problems (such as food shortages) and move to more asset generating projects only at a later stage
- CDD is good in assessing social problems, given it can resolve asymmetric information problems, but is not adequate in terms of asset generating projects
- There is little data on pro-poor impact. It is as of yet not clear what the relative impact of pro-poor CDD is vs. sectoral approaches and national level interventions.

TRANSFORMATIONS IN AGRICULTURE AND THE IMPACTS ON RURAL DEVELOPMENT

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

Background Paper: “Transformation in Agriculture and the Impacts on Rural Development”

Peter Hazell, Imperial College London

The role of agriculture in economic growth

Agriculture has played a key role 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, and particularly in food staples and small farms, is being challenged. Agricultural transformation these days is happening on an unprecedented scale: 3 billion people live in places where incomes are growing 5% per year or more; Europe shed 10 million farmers since WWII, Asia will have to find exit for 100 million farmers. If Asia spends anywhere near what Europe has spent it will be a phenomenal cost. New forces such as changing market chains, the withdrawal of the public sector without the private sector coming in to replace it, and the HIV/AIDS pandemic, present new challenges, particularly for Africa and South Asia. Land consolidation is taking place to exploit economies of scale, and small farmers survive in niche markets for high value products or by becoming part time farmers. The transition is not smooth. The speed of leaving agriculture is usually too slow (i.e. farmers leave slower than the decline in their income share) and the policy challenge is to manage the transition well.

Policy interventions

In an era of globalization, trade liberalization, changing market structures and demand, and ample world food supplies, a new breed of agricultural sceptics 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 non-agricultural development. Some even advocate that poor countries take advantage of the global glut in food staples to leap frog agricultural development altogether. Yet others note that rapid growth in urban-rural linkages and rural income diversification are making agriculture largely irrelevant for the rural poor. These arguments have merit, but they can also trigger simplistic and generalized conclusions that overlook the diverse needs and opportunities facing developing countries today. Not only are there still many viable opportunities for small farms, but the kinds of state withdrawal from agriculture being promoted by some could lead to a massive and premature exodus of small farms that could overwhelm the capacity of many developing countries to cope. Safety nets make sense in growing countries (e.g. Mexico), but in poor countries like Ethiopia there is a very large number of people trapped in poverty. The money spent on safety nets is growing geometrically - \$1 billion in Ethiopia per year. It is not sustainable.

The non-farm economy is unlikely to grow faster and with more labour intensity. Education and training can help find pathways for the rural poor into the non-farm rural economy.

In Mexico, Brazil and China the growth lies in high value crops. These help the small farmer from being squeezed out, and can provide win-win opportunities. But in poor African countries, high value crops are mostly exported, and comprise between 5% and 8% of agricultural output. Promoting agricultural growth in the Small Farm sector is still the most

efficient source of growth in Africa. Growth opportunities in Africa are with staples – roots, tubers, cereals, and meats, which together comprise 70% of agricultural output in Africa and are expected to double (from current \$50 billion in producer prices to \$100 billion per year by 2015).

Clarification Questions:

- Characterization of structural change
- Agricultural fertilizer inputs are declining. Huge inefficiency. With existing technology there is huge potential. And institutions and credit perform so poorly that they can also be improved. Given the world staple glut, should protection be considered as an instrument to promote agricultural growth in Africa?

Discussant's Comments

Rubén Echeverría, Director, Secretariat of the Science Council to the CGIAR

- We must move beyond traditional agricultural economics to understand other transformations – institutional change and social development are perhaps more important.
- There is no steady picture of income and employment. Good governance and institutional building are key for rural development. The state should provide some of this support, but which ones?
- The devil is in the details of the policy menu
 - The supermarket case is not so new, but more supportive policies are needed.
 - Organizations must be more active, and more progressive, to combat distortionary agricultural policies from rich countries.
 - Traditional vs. new approaches to natural resource management
- In Ethiopia, e.g., there are more staples vs. high value crops. But lacking are strong institutions, infrastructure, etc.
 - Reality is often oversimplified. Development efforts were too top-down in the 1980's. With the macroeconomic context right, and business flourishing, will civil society benefit?

Peter Hazell Response:

- A country typology is needed to separate such contrasting situations as Africa and Southeast Asia.
- The agricultural development community is obsessed with high value agriculture, which is not so relevant for Africa.
 - It only accounts for 8% of the agricultural GDP. It is only important in a few countries. There is little impact in Ethiopia, for example.
 - The Green Revolution was the key to spurring agricultural growth, but no one talks about it any more.
 - The Asian approach failed for Africa, it was not enough.
 - Agriculture is Africa's hope. Farmers must have the means to purchase inputs.
- How can small farmers link in with high value markets?
 - Are there light-handed ways to do this in Africa without parastatal institutions?
 - Few are working on this problem in Africa.
 - The problem is not a lack of subsidy – it's poor investment in productivity.
- Agriculture is an old problem in Africa, but it needs new solutions.
 - What is the alternative? Not manufacturing...

Study 1: “Quality Control in Non-Staple Food Markets: Evidence from India”.

Marcel Fafchamps, Oxford University, in collaboration with Ruth Hill (University of Oxford) and Bart Mitten (Cornell University)

India is experiencing rapidly rising incomes which translate into increasing demand for meat, fruits and vegetables. Using original survey data collected on growers, traders, processors, markets, and village communities, regulated and unregulated markets in four states in India are compared (Tamil Nadu, Uttar Pradesh, Maharashtra and Orissa). A number of hypotheses are tested regarding the way information about quality is conveyed along the value chains, and about the services offered by different marketing environments and infrastructures.

The conceptual framework considers observable and unobservable attributes (such as health risk). With non-observable traits, large firms use their brand name to build consumer trust. This gives rise to Vertical Integration – or the bypassing of intermediaries in order to facilitate information exchange throughout stages in the supply chain. Aside from trust, safety and quality information can be conveyed if a buyer can verify the attribute, which gives rise to a price differential associated with the attribute. This price differential should travel throughout the price chain. However, the cost of observing the attribute eats into the price differential. When the cost of observation is high enough, the information is not conveyed because there is no incentive to convey it.

The results show that little information circulates about unobservable crop characteristics. If buyer and seller do not trust each other, information about unobservable attributes cannot be credibly transmitted. Little information was found to be traded on varieties, planting time, pesticide and fertilizer use. Growers do receive a price premium for observable characteristics of the crop such as drying, grading and packing. These attributes serve to reduce transactions costs to traders, consequently they are only valued by traders and do not translate into unit price premia further down the value chain. No evidence is found that information about crop salubrity or agricultural practise circulates through the value chain or that growers are encouraged to follow specific agricultural practices for quality purposes. Vertical integration was not observed by his research group in India except for small isolated pockets. Market infrastructure was found to be deficient regarding sanitation, with few public toilets, inadequate drainage, and no coordinated pest control.

Given the level of development of the country, many Indian consumers are unwilling to pay a large price premium for higher quality fruits and vegetables. However rapid growth and the rapid rise in incomes are likely to result in a dramatic rise in the demand for safe high quality food. The current value chain is unable to satisfy this demand. Law changes are required that do not oblige products to go through the regulated wholesale market, so as to allow contract farming to develop. Aside from deregulation, sanitation must be upgraded, through coordinated action to improve the infrastructure and pest control practices of existing markets.

Discussant’s Comments

Rubén Echeverría, Director, Secretariat of the Science Council to the CGIAR

- More research and action is needed on contract farming.

Fafchamps’ Response:

- Why are markets not responding?
 - See transaction costs – information, enforcement. It is hard to organize a market around unobservable characteristics.
 - There are too many farmers, it is a tragedy of the commons problem.

- Another model is to promote agencies that vet and verify farmers. These parallel organizations are important – but who verifies them?

Study 2: “Globalization, transformed markets, and small farmers: Trends, Challenges, and Innovative Strategies.”

Thomas Reardon, Michigan State University, in collaboration with Julio Berdegué, Peter Timmer and Ronnie Natawidjaja.

Agricultural markets are transforming

All developing regions are undergoing market transformation, and the transition is taking place very rapidly. This is taking place at all levels: retail, processing, food service and wholesale. The transition has come in 3, possibly 4, waves: first came the retail transformation in South America and East Asia (except China). Supermarkets went from 10% of retail share in early 90’s to 50-60% today. Next, the transformation spread to Southeast Asia, Central America, and Mexico in the mid 1990’s. This was driven above all by liberalization of foreign direct investment. The third wave spread to India, Russia, and China. The spread in this phase has been the fastest supermarket transformation in history. A few other countries are early in the 3rd wave – Kenya, Zambia, and Pakistan. Much of Africa is pending in the supermarket transformation.

Structural change in the food industry is manifested by rapid consolidation and multinationalization. These trends are driven by the liberalization of FDI more so than by liberalization of trade. The procurement system is the interface between food industry and farmers. Four pillars of change can be identified. First there is a geographic expansion of sourcing from local to national to regional to global. Tesco in Asia, for example, is trading across the region. Integration and defragmentation of the “market shed” is creating trade. Second, a new generation of specialized wholesalers has arisen, dedicated to modern segments, who are managing preferred supplier systems. The supermarkets work as long as possible with the traditional distribution centers (e.g. Hortifruit regional center in Nicaragua) They work as long as possible with traditional markets. But eventually, they demand more quality and consistency than the traditional wholesalers provide. These markets are riddled with congestion costs and high transaction costs. Then they look for a supplier to upgrade the producers. Third, there is a shift from the spot market to preferred supplier systems (with implicit contracts). These are often indirect with fresh fruits and vegetables and direct with meat and meat products. Fourth, private standards emerge, to comply with quality and food safety concerns.

Farmer Participation in Transformed Markets

Procurement officers in supply chains first prefer large and medium producers. This occurs when there are enough large and medium producers; the domestic food industry can compete with export markets (e.g. Turkey); or where economies of scale are large and/or obvious (e.g. banana plantation, tradable fruit, processed dairy and meat in some countries). Large vs. medium dairy sourcing depends on the structural characteristics of the country. In Poland, there were no large processors, so the supermarkets went with the small ones and upgraded them. In Mexico, the supermarkets fill all of the orders that they can with the large farmers and then go to the medium and a few small ones. After using the large and medium producers, the supermarket chains prefer to import. Once these options are exhausted, and only under certain circumstances, will supermarkets work with small farmers.

Within the group of small farmers, the upper tier is preferred. In Nicaragua, e.g. they work with the most capitalized of the small farmers unless their hand is held by an NGO. They prefer that donors or the government pay for the upgrading because it is costly for them. A major question is the sustainability and replicability of the new generation of business linkage projects. In Nicaragua the cost is \$600-800 per farm, while the MOA budget amounts to roughly \$100 per farm. Governments cannot spend that much money. These projects mean huge sales and benefits for the lucky ones who are on the lists. As a last resort, supermarkets will get directly involved with small farmers. An example is Metro S in Croatia. Tomato growers needed resources to invest in greenhouses. They called the biggest bank and offered a “collateral substitute.” This was a cheap and useful way of facilitating market linkages for small farmers.

Challenges and innovations for Small Farmer Organizations (SFO's)

SFO's are often treated as a silver bullet. But, their image with supermarkets is that they are irresponsible and do not deliver, except in rare cases. In Chile, they have an 80% failure rate. In Guatemala, after initial success of an SFO accessing supermarkets and fast food chains, the scheme collapsed. Interesting emerging innovations are coming along though, which are a confluence of alliances over actors, organizational change, technological upgrading, and donors/governments assisting as minor partners. In order to get Small Farmer Organizations right, there is a need to solve coordination cost problems, create farmer-specific accountability, monitor closely to meet standards, and have legal contracts.

Success stories are found in multi-partner alliances such as Makar Buah, a small farmer organization in Indonesia. The first step is for the retailer to develop a market (e.g. Carrefour wants mini-melons for its Asia market). Then the wholesaler goes to a SFO and sets up a company within a coop. Usually the most capitalized farmers are selected. Next, the group goes to Syngenta, which is setting up organizations all over Indonesia. They get seeds and credit. Finally, they go to the government and ask for focused technical assistance for the farmers, within the budget of the government. Farmers CAN participate but they must be competitive. However, it is expensive and difficult to scale up the success stories.

Discussant's Comments

Rubén Echeverría, Director, Secretariat of the Science Council to the CGIAR

- Property Rights Issues:
 - Are they excessively assured? (e.g. China).
 - Property rights for investors are at odds with property rights for small farmers. There is resulting instability, social problems.
 - In Mexico, communities have been displaced by large industries. The communities were assured by the government of their future, yet the government is assisting (if not actively exploiting) the peasant farmers.
- The human element should be considered as opposed to broad economic development. Three people can create the environment for organizations to succeed. A few individuals might be the key to the future.
- Agribusiness firms have a role in promoting linkages between small farmers and global markets (e.g. Dragonhead dairy product in China – government promotion).

Reardon Responses to Questions:

- Donor programs who want to upgrade farmers must consider businesses. They must look to the traditional actors also.

- There are ways to combine NGO and business interests, given linkages, so both are more efficient.
- The Staple vs. High Value crop debate –
 - Many non-staples are eaten within African countries.
 - Supermarkets within Latin America buy twice the volume of Latin American exports.
- It is dangerous to take supply-side action without understanding the whole value chain.
 - For example, berries are a very high value crop, although there are many production, marketing, and distribution problems.
 - Supermarkets have said they will form regional berry corridors, pick their suppliers, upgrade them, and form chains around the entire planet for supermarkets.
 - The information about this reorganization is crucial for shaping the business perspective.
- In the 1960's the World Bank put names on markets. Then the Bank took the names off. Now corporations (e.g. Carrefour) are putting the names back onto the markets.

RURAL NON-FARM INCOME GENERATING ACTIVITIES: REFUGE/SURVIVAL STRATEGIES OR A PATHWAY OUT OF POVERTY?

While the importance of the Rural Non-Farm (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 inclusion of support to RNF activities as part of a rural development strategy difficult.

Additionally, there is an institutional vacuum surrounding RNF activities that severely complicates the allocation of the responsibilities once RNF strategy may be decided upon. RNF activities may fall under a variety of ministries' jurisdictions and yet be directly supported by none of them. Similarly, there may be 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 implementing a territorial or spatial approach when addressing 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.

This section reports on the background paper presented by Gero Carletto and on the specific studies presented by Paul Winters and Steve Haggblade.

Background Paper: "Rural Income Generating Activities in Developing Countries"

Gero Carletto, World Bank

The incidence of poverty is highest in the rural areas with severe inequality implications. In parallel, rural economies have also been witnessing a decreasing share of agriculture in GDP, increasing land fragmentation and consolidation in the food processing and retail sectors. In response to this rural households are increasingly relying more on off-farm income generating activities. This shows how there is a need to reassess Rural Non-Farm (RNF) policies to achieve poverty reduction and rural growth.

Currently the contribution of RNF activities to household income ranges between 30% to 45% and accounts for 25% of rural employment. These shares have increased rapidly over time and are predicted to increase even further, although the RNF shares vary significantly across and within countries.

Many aspects of RNF are still under research, data quality has been a constraint and policies including RNF activities have been sparse. These are the reasons calling for new RNF research, the Rural Income Generating Activities (RIGA) project, in conjunction with a reappraisal of previous findings.

RIGA is defined as multiple income generating activities, namely own farm crop production, non agricultural self employment, private and public transfers, etc. The RIGA project aims at measuring and characterizing RIGA, focusing on an array of income generating activities, not only non-farm activities. The project will strive to fill in some of the research gaps, build a

platform/control for future data control and analysis and contribute to rural development policy.

The main research areas cover the relative importance and determinants of RIGA, the poverty and distributional impact of RIGA, the spatial dimension of RIGA, the linkages between agriculture and the RNFE and institutional analysis. Datasets belonging to the four country groups, namely Africa, Asia, LAC and Europe country groups, will be used.

Study 1: “Rural Income-Generating Activities in Developing Countries: A Multi-Country Analysis”

Paul Winters, Assistant Professor, American University, Washington DC.

The paper presented is the first in a series of papers that will analyze the information contained in the dataset set up for the RIGA project and currently also under expansion.

In the past decade, numerous empirical studies have been conducted that analyze the income-generating activities of rural households in developing countries. Many of these studies have had a particular emphasis on rural non-farm activities showing that the rural non-farm sector is a key component of rural livelihoods.¹ 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. These findings call into question the historically dominant focus in rural development on smallholder agriculture. A secondary objective of this line of research has been to understand the behavior of rural households and the reasons households participate in certain activities. Through understanding this process, the hope is to identify policy interventions that can support certain activities in a manner that improves the overall income generating potential of rural households, particularly poorer households.

The rural non-farm sector comprises all income-generating activities of rural households outside of agricultural and livestock production (both on farm and agricultural wage labor). Surveys of the rural non-farm literature indicate rural non-farm income represents on average 42 percent of rural income in Africa, 32 percent in Asia, 40 percent in Latin America and 44 percent in Eastern Europe and the CIS (Davis, 2004; FAO 1998). These studies also suggest the rural non-farm economy is expanding and is likely to continue to increase its share of total rural income in the future. While the data indicates the importance of the rural non-farm economy in general, there is considerable variation across countries.

Aggregate statistics on the non-farm economy reported by Lanjouw and Feder (2001) confirm this range of results for rural non-farm employment across countries. However, they note that much of the variation relates not to differences across countries but to the weakness of the data being used. Data may be missing or outdated. If collected, the data may be limited since RNF is not considered when it is a secondary or tertiary activity. Further the actual definition of RNF may vary across countries. Recognizing these problems with national data, some researchers have turned to using case studies to assess rural non-farm activities. But data collected would not be nationally representative and would be case specific. These problems with measurement of rural non-farm activities suggest the need to systematically assess the importance of rural non-farm activities.

¹ Two significant collections of these articles were published in special issues of the journals *World Development* and *Food Policy*. See Reardon, Berdegue and Escobar (2001) and Barret, Reardon, and Webb (2002).

Along with questions regarding the importance of the rural non-farm sector, empirical evidence also highlights the large heterogeneity of specific sub-activities within the rural non-farm sector. For example the relative importance of the rural manufacturing sector compared to rural services and commerce. While in general services and commerce represent a greater share of rural non-farm activities, the relative importance of the rural non-farm categories tends to vary greatly within regions depending on local conditions. In many cases, however, details of the rural non-farm sector have not been available and there has been limited analysis of the relative importance of different sectors.

Now recognition of the importance of RNF activities and its potential role in reducing poverty and improving food security in rural areas are slowly gaining ground and the RNF sector is emerging as a viable complement to agriculture promotion. The interest derives, among other things, from the perceived role that augmenting RNF incomes can have in absorbing the work potential of a growing rural population and in stabilizing migratory flows. The negative externalities deriving from increased congestion in urban and peri-urban areas, and the growing pressure to curb (illegal) international migration, provides a strong, additional motivation for devising effective policies to promote rural productive activities in loco. However, moving away from the traditional paradigm that equated rural with agriculture has proven conceptually and operationally difficult.

The failure to adequately incorporate the RNF economy into PRSPs and other strategies related to rural development is due to a number of factors, namely lack of empirical evidence on the processes and distributional implications of participation in certain types of RNF activities, the concern of some policymakers with respect to the possibility that promotion of certain types of RNF activities may exacerbate inequality, if specific types of RNF activities tend to cluster in specific locations thereby creating agglomeration economies, institutional vacuums which causes ambiguity of who is institutionally responsible of the implementation of a congruent national rural development strategy.

In this context, the analysis seeks to conduct a systematic analysis of rural income-generating activities in rural areas of developing countries with a particular emphasis on understanding the role of the rural non-farm economy in detail.

The analysis is based on a unique 12 country dataset that has been built and is being expanded through a collaborative effort of the FAO, the World Bank and the American University.² The dataset brings together nationally representative Living Standard Measurement Study (LSMS) surveys or similar surveys carried out in each of the countries included in the project. The questions in the survey regarding income-generating activities are similar, as are the industrial classifications used to identify particular activities. The data thus allow the comparison of participation in different rural income-generating activities as well as the level of income generated from those activities. These results are then compared with the existing evidence available in the literature.

The study discusses firstly the range of issues that arise when attempting to conduct a multicountry analysis of rural income-generating activities; secondly the participation rates and share of income from different rural income-generating activities in order to provide a description of the rural income-generating activities across the countries in the study and compare the results to similar results presented in the literature; thirdly presents the results of the analysis of rural income-generating activities participation and returns to activities and determine the importance of different asset types in the decision to engage in certain

² This is the current number of country-level data sets that have been analyzed. The objective is to analyze a total of at least twenty data sets. See Carletto, et al. (2006) for details on the features of this new dataset.

activities; fourthly provide greater detail on the rural non-farm sector examining some of the individual rural non-farm activities in which households participate.

The analysis, while still partial and tentative, confirms the importance of rural non farm activities across a wide selection of developing countries. The study also confirms the great heterogeneity in the importance of rural non farm activities among countries, both between and within regions and the results found in Haggblade, Hazell and Reardon (2002) regarding the predominance of services and commerce over manufacturing within RNF activities. Again large variation among countries is found, and in some manufacturing is the most important RNF activity. Given the careful attention to the comparability of the country level datasets, however, it is now possible to attribute this variety to structural differences between countries, instead of to weakness of the data.

Clear patterns in terms of the role of assets across income generating activities are elicited. While assets tend to be activity or sector specific, some cross effects are evident. First, in every country schooling is positively and significantly associated with a greater probability of participation in, and greater level of income from, non farm wage employment, and in some cases non farm self employment. In the African countries, however, schooling has a positive impact on participation in agricultural activities, and in the African countries, plus Nepal and Vietnam, on livestock activities. Second, as expected, in most countries access to land and agricultural assets is associated with greater participation in crop and livestock activities, with some positive cross effects on non farm self employment. Third, conversely, non agricultural wealth is associated with a greater probability of participation in non agricultural employment activities.

Despite the importance of RNF activities, agriculture still appears to play a dominant role in the income generating strategies of rural households in this selection of developing countries. The participation rates in crop production ranged from 63 to 100 percent, and 39 to 100 percent in livestock production. However, the share of agriculture in total income is much lower than that implied by the participation rates, ranging from 23 to 69 percent. Thus, the importance of RNF relative to farm income is greater than that implied by participation rates alone. It is worth noting that in the context of missing or weak credit, insurance, labor and/or product markets, both farm and non farm activities may have importance beyond their simple share in total income, in terms, for example, of risk management and diversification or food security.

Policies to reduce rural poverty should start from a careful mapping of the structure of the rural economy and, in particular, the composition of the incomes of poor households. A careful analysis of the inter-dependence of agricultural and non-agricultural activities will determine to what extent policies to improve agricultural productivity will have direct and indirect impacts on rural poverty. The diversity of income generating activities in the rural areas calls for “higher level” policies with wider impact as opposed to policies addressing specific sectors: rural infrastructure such as communications, roads and electrification will have beneficial effects to a wide spectrum of rural activities.

There is scope for exploiting the inter-dependence between farm and non-farm rural activities. The results of the study imply that enhancing access to agricultural assets promotes household activity diversification, especially self-employment. This more generalized impact of agricultural growth should be taken into consideration in establishing policy and programme priorities.

Study 2: “Rural Non-Farm Dynamics”

Steve Haggblade, IFPRI

This study examines the dynamic changes in rural non-farm economies of the developing world. In the early stages of rural development, changes in agriculture largely govern prospects for rural nonfarm activity. In later stages, as productivity growth in agriculture permits structural transformation and a declining relative share of agriculture in overall national economies, the role of agriculture diminishes and competitive dynamics from urban and export markets become more important in driving trends in the RNFE.

Over the past generation, ongoing rural dynamics have fostered significant change in the RNFE, particularly in regions where Green Revolution technologies and public investments have significantly altered production incentives and opportunities for rural households. Since the early 1990's, change has accelerated as the twin external forces of globalization and liberalization have opened up the rural non-farm economy as never before, to new competition and to new markets in increasingly concentrated global supply chains. Given the scale and heterogeneity, and diverse spatial distribution of rural nonfarm activity, these rapid changes bring new opportunities and new challenges to rural entrepreneurs and the rural poor as they attempt to navigate what are often rapid structural transitions.

In this study “nonfarm” is defined as all economic activities other than production of primary agricultural commodities. Nonfarm, or nonagricultural production, thus includes mining, manufacturing, utilities, construction, commerce, transport, financial and personal services (ISIC Groups 2-9). Furthermore, in defining “rural”, the paper takes a broad view of a rural region as encompassing both dispersed rural settlements as well as the functionally linked rural towns where many of the ancillary nonfarm service and commercial activities typically congregate.

General principles governing rural dynamics are discussed. Initially agriculture is the main motivator of rural settlement and main income generator. Over time, as productivity gains permit the release of labour and capital to other sectors and as urbanization proceeds to knit rural areas more closely with town and national economies, a broader range of economic forces begin to influence incentives and opportunities for rural non-farm activity.

In prosperous agricultural settings where improved farm technologies become available, a growing agriculture stimulates growth of the RNFE through a number of key linkages. Rising labor productivity on the farm increases per capita food supplies and releases farm family workers to undertake nonfarm activities. Equally important, increases in farm incomes, together with high rural savings rates, make capital available for investment in nonfarm activities. Input requirements in agriculture increase demand for rural nonfarm repair, transport and input delivery services. Increasing production of agricultural raw materials requires additional nonfarm transport, processing and trade. Consumer demand from increasingly prosperous farm households likewise boosts demand for rural services of all kinds, particularly transport, prepared foods, education, medical services, housing and education (Mellor and Lele, 1973; Hazell and Roell, 1983; King and Byerlee, 1979).

The composition of rural nonfarm activity changes perceptibly over time in these buoyant agricultural settings. Increases in real wages raise the opportunity cost of labor, thereby making low-return nonfarm activities uneconomic. This leads to the demise of many low-return craft and household manufacturing activities and to the growth of higher-return

nonfarm activities such as mechanical milling, transport, commerce, personal, health and educational services.

In regions without a dynamic economic base, patterns of growth in the rural nonfarm economy unfold very differently. Where population growth continues unabated for many generations, land availability diminishes and ultimately, in the absence of careful land management, so does soil fertility. Without technological advance in agriculture, labor productivity and per capita farm production fall. In such settings, growing landlessness pushes labor force increments into nonfarm activity by default.

Thus, growth in rural nonfarm *employment* may signal good news or bad. In prosperous rural regions, growing employment in increasingly productive nonfarm activities signals the good news that household labor is being pulled into increasingly lucrative nonfarm professions. Yet in stagnant rural regions, a comparable growth in rural nonfarm employment may instead herald the bad news that an absence of opportunity is pushing increasing numbers of labor force entrants into self-employment in low-paying, labor-intensive nonfarm pursuits. For this reason, employment data must be treated with extreme caution and where possible supplemented with wage and income data in order to assess the performance of the rural nonfarm economy.

These general tendencies play out in a wide variety of settings and therefore result in patterns of rural nonfarm development that may differ significantly across regions. Outcomes are conditioned by a host of region-specific institutional, cultural, political and economic particularities.

In this context, four contrasting case studies are used to analyze the rural non-farm expansion: two in which change is agriculturally led and two in which the causes for change arise externally to the rural economy. The case studies are used to explore how change has unfolded in a series of specific rural non-farm subsectors and examine causes of change as well as consequences for various categories of rural nonfarm enterprises. The two agriculture led case studies include rice markets in Bangladesh 1985 and 2000 and Cassava in Zambia between 1990 and 2005. On the other hand Thai silk trade between 1960 and 1990 and garment exports in the Philippines between 1985 and 1995 offer two examples of urban export-led rural non-farm growth.

These case studies highlight several important governors of rural non-farm growth. First is agriculture. It clearly propelled rural non-farm growth in the Bangladesh and Zambian examples. Even in the urban and export-led case studies, agriculture exerted a significant influence on the rural nonfarm economy. In Philippine garment production, agriculture provided a key source of start-up capital as well as ongoing labor for the rural garment subcontractors. And in Thailand, where the export markets provided the source of demand, agricultural research proved vital to accelerating productivity and growth in modern silk supply channels. The direct labor market interactions observed in the Philippines further illustrate the tight links between productivity growth in agriculture and rural nonfarm activities. In locations where agriculture remains a dominant part of the rural economy, the prosperity of the agricultural economy will influence rural nonfarm growth, not only through output demand and input provision but, very critically, via factor flows between sectors.

Technology also emerges as an important motor of rural nonfarm dynamics. It played a key role in Bangladesh rice processing, in the increasing productivity of Thai silk producers and

in stimulating further growth in Zambian cassava production. Though frequently neglected in policy discussions, new technologies can and do transform production possibilities for rural nonfarm firms. Though this may introduce barriers to entry where capital requirements are steep, it also holds the potential to significantly boost labor productivity and wage rates of unskilled rural wage labor.

Rural infrastructure is likewise an important ingredient governing developments in the rural nonfarm economy. Given the predominance of trading and commercial establishments in the rural nonfarm economy, transport cost and communication systems become crucial determinants of rural nonfarm competitiveness. For subcontracting arrangements, as in the Philippines and Thailand, low transport costs are critical if rural subcontract production is to be viable. In the case of the Philippines, rural electrification was also necessary precondition for viable rural subcontracting.

Finally, these case studies suggest that debates over whether agriculture or nonfarm activities must lead rural growth are, in some ways, misleading. These sectorally based arguments often ignore the messy reality that developments in farm and nonfarm activity must often move together. Initial growth in agriculture appears critical in launching demand-led rural business growth, in services, processing and transport businesses. Yet in some instances, as in the Zambian cassava example, nonfarm processing and transport links may prove crucial for enabling and sustaining continued agricultural modernization. The Bangladesh example offers evidence of technological spillovers from agriculture to nonfarm economy. All four case studies involve extensive factor flows between agriculture and the rural nonfarm economy. Product market interactions proved crucial in three out of four. Thus, in these cases and in a great many other instances as well, agriculture and the nonfarm economy must move together. The supply chain perspective adopted here offers one means of understanding how these interactions influence rural nonfarm dynamics and the changing opportunities confronting the rural poor.

Discussion including Discussant's Comments

(Discussant: Paul Siegel, World bank)

- *Comment to the presenters and comment by the discussant*

Many discussants questioned the usefulness and added value of the RIGA project. It was criticised of being too diagnostic; the investment in time, labour and resources was disproportionate to the results which seem to reconfirm already known correlations. In particular the concern was raised whether increasing the number of datasets from 12 to 20 as intended really added much value.

The regressions presented by Paul Winters can be misleading as they ignore the local and regional contexts in which rural economies are functioning. There are many variables which are not captured by the datasets RIGA is using. The linearity the regression pretends is misleading; in fact straight forward causality relations do not exist in reality.

Some participants underlined that given the vast literature on non-farm income generation, the time is ripe for moving towards identification of instruments to boost the non-farm economy. RIGA should go more into depth and detail.

The presenter of the RIGA project, Gero Caletto, pointed to a conflict of interests. He argues that a cross-country analysis of the non-farm economy through a variety of existing data-sets is an essential pre-product for more in-depth and sectoral analysis. Without the first exercise the latter endeavour is impossible to get. Only illustrative case studies, like those presented by Steve Haggblade, could be done. But the findings of these cannot be generalized and replicated easily. In future, RIGA will indeed go into more depth. A discussion should be started where the threshold of sufficient data is before in-depth analysis can be started.

There also was some demand for regional comparison. Here again, argues Gero Caletto, a significant number of datasets is necessary in order to draw evidence-based conclusions.

Paul Siegel provoked the RIGA-project by arguing that if the non-farm sector was so important, the project should rather strive for a new survey that responds to the research-needs. The current approach of relying on existing surveys that were not designed to deliver information of the intended research is suboptimal.

The case studies presented by Steve Haggblade were criticised for being only anecdotal and for not transporting any valuable lessons. The case studies are too unrelated to provide clear guidance.

- *Which Engine of Growth?*

There significant debate around the issue of engine of growth. A long-enduring debate about this issue is historically divided into two clusters. The first group sees agriculture as the engine of development (the Asian view after the Green revolution). The other group (termed the Latin-Americans) point to development booms in regions which didn't originate from agriculture. The city of Cancun, once a small fishery's town, now a tourism and conference centre, was given as an example for non-agriculture led development. However, questions are how many of those pockets are feasible. To what extent are they replicable? And, can they be repeated in Africa given the local circumstances?

The issue was raised that the term 'engine of growth' is very simplistic, given the impression of a locomotive carting the economy. In fact, what is seen in many prosperous regions, there are many sectors which develop simultaneously. Sectors grow by cross-fertilizing each other.

- *Remoteness of rural areas problem*

One never should forget the single main important characteristic of rural areas, alas their remoteness and relative marginalization. Due to this factor all goods have to be transported to the communities, villages and small towns that form part of the rural areas. The size of each settlement, its relative distance to towns and market spots, transportation costs and the type of organization of the market will determine to what extent people are self-providers of daily goods and services. The example of a hair-cut was given: Whereas the population size of a town might be big enough for a hair-cutter to offer his services, the size of a small village might be insufficient. The inhabitants of this settlement thus have to self-provide this service. However, these transactions are usually not recorded.

MIGRATION AND RURAL DEVELOPMENT: IS MIGRATION OUT OF RURAL AREAS PROMOTING OR HAMPERING RURAL DEVELOPMENT?

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.

This section reports on the background paper presented by Robert Lucas and on the specific studies presented by Edward Taylor and by Nancy Mccarthy.

Background paper: “Migration and Rural Development”

Robert Lucas, Professor of Economics, Boston University

In the context of the workshop, the 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. Particular attention is drawn to a number of issues, namely 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. Empirical evidence on these aspects in the cases of South and Southeast Asia, North and Sub-Saharan Africa, as well as parts of Latin America and some of the transition economies of East Europe are presented as evidence of the theories discussed.

Early dualistic theories of migration focused on rural-urban migration. In this literature the migration of labour out of the rural sector and into industrial production was uniformly viewed as the key to modernization and income growth. No feedback loops through which rural-urban migration might alter rural incomes indirectly were recognized. Within these dualistic models, the decision whether to migrate or not was modelled at the discretion of the individual, potential migrant. Moreover, migrations were treated as permanent moves; a life-changing, discrete choice, usually taken early in life in order to reap the benefits over a longer time horizon. Therefore, although these early theories played an important role in their time, some of the key routes through which migration and rural development are linked have been neglected. Harris and Todaro in their seminal work added risks encountered by migrants moving to urban areas but did not account for similar aspects arising in rural areas. More recent theory contributions, although still neglecting some forms of migration, have begun to address some gaps in the literature, namely:

- a) *International migration and rural development;*

- b) *return migration;*
- c) *rural-rural migration;*
- d) *forced migration.*

Nonetheless, some of the potentially more important aspects still remain to be investigated systematically. South-south international migration may well be more important to rural development in the low income countries than migration of low-skill workers to the high income countries. Yet south-south migration remains largely neglected. Census data are weak in conveying information about return migration and specialized surveys are scant on this issue. Similarly, very little is known about the patterns, causes and consequences of rural-rural migration which is very important in its own right and far more common than rural-urban migration in low income countries. Finally, the in-pouring of refugees or internally displaced persons in some areas of the world can have critical implications for rural activities and incomes and little analysis of the possible impacts exist to date. Information on the economic re-integration of repatriated refugees following return is also very limited.

The range of effects from both internal and international migration upon rural development are manifold, as should be apparent from the scope of topics addressed. In particular it is important to recognize that both migration out of the rural areas and improvements for those left behind are part of rural development. Both those who leave and those who stay are part of the rural population of concern. Moreover, migration can touch families left in the rural areas even if none of their members migrate themselves. Links through labor replacement, chain migration, investments financed by remittances, insurance provided to the community and its resultant changes in technologies adopted, and the multiplier effects of remittance spending, all help to raise living standards even for those who do not migrate out. Whether the relatively poor or the relatively well off gain more from the migration-remittance option is mixed: this should not be surprising. However, there is fairly uniform agreement that both internal and international migrations contribute to absolute poverty reduction. Migration may also enhance inter-generational socioeconomic mobility, though this remains to be explored. In contexts where migrations have occurred on more major scales, the resultant poverty reduction has often proved substantial. Indeed, it is often communities that are isolated from the migration process, perhaps as a result of geographic separation, that remain amongst the poorest.

Study 1: Migration and the Level and Composition of Rural Incomes: Evidence from Mexico

J. Edward Taylor, Professor of Agricultural and Resources 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. One goal of this paper is to discuss the potential influences, both direct and indirect, that migration may have on the level and composition of rural incomes. A second objective is to explore whether participation in international and/or internal migration may have affected per-capita total and activity-specific incomes, using data from the 2003 Mexico National Rural Household Survey.

In an agricultural household model with perfect markets, as in the basic model presented in Singh, Squire and Strauss (1986), the allocation of family time to migration activities and the receipt of income transfers from migrants do not affect production. Under the assumption of perfect labor markets, households may hire substitutes for family members who migrate, at a wage that is exogenous to the household. Remittances from migrants represent an income transfer, which shifts the household budget constraint outward. This affects consumption but not production in a separable model; if leisure is a normal good, the existence of a local labor market makes it possible for households to increase leisure demand without decreasing labor in production. Even if remittances are not sufficient to compensate for a higher wage bill, per-capita income may increase (because of a smaller household size due to emigration).

In the past decade, as the emphasis of development economics has shifted towards the study of market imperfections, new perspectives have emerged stressing the complexity of migration as an economic institution, interrelationships between migration's determinants and impacts, and the household's role in migration decision making (Stark, 1991; Taylor and Martin, 2001). Stark hypothesized that migrants play the role of financial intermediaries, enabling rural households to overcome credit and risk constraints on their ability to achieve the transition from familial to commercial production. This argument generally implies a nonseparable household model. (Examples of nonseparable models include Benjamin, 1992; de Janvry, et al., 1991; Jacobi, ; and Skoufias, 1994.) In short, the influences of migration and remittances on rural incomes and production are complex and cannot be signed a-priori. An econometric approach is needed. Because the relative influences of migration on liquidity, risk and labor constraints are unknown, the overall impact of migration on total household income is ambiguous and in short, the influences of migration and remittances on rural incomes and production are complex and cannot be signed a-priori. An econometric approach is needed and presented in the paper.

The empirical analysis is based on a unique and new data set from the Mexico National Rural Household Survey (Encuesta Nacional a Hogares Rurales de Mexico, or ENHRUM). The survey provides detailed data on assets, socio-demographic characteristics, production, income sources, and migration from a nationally representative sample of rural households surveyed in January and February 2003. The result is a sample that is representative of more than 80 percent of the population that the Mexican government considers as rural. Complete migration histories were assembled from 1980 through 2002 for (a) the household head, (b) the spouse of the head, (c) all individuals who lived in the household 3 months or more in 2002, and (d) a random sample of all sons and daughters of either the head or his/her spouse who lived outside the household longer than 3 months in 2002. These retrospective data were used to construct international and internal migration variables.

It might be possible to imagine a "thought experiment" in which some households are randomly chosen to have migrants at some point in time, say, $t-1$, and others not. These households could subsequently be revisited after a sufficient amount of time has elapsed for the impacts of migration to play out. At this stage a survey could be undertaken that allows to compare the level and composition of income between the two household groups. Impacts of migration on per-capita total income in household i at time t , Y_t^i , and activity income, y_{kt}^i for activities $k=1, \dots, K$, might be estimated using a regression model. It is well known that under the classical assumptions, OLS estimates of the parameters would be unbiased and efficient.

However, such an experiment obviously is not feasible. Households are not randomly assigned to migration regimes initially; migration is the result of an endogenous decision.

The best that can be done is to observe a household's migration status at one point in time and income and its composition at a later point. The ideal empirical strategy would be to conduct a detailed, longitudinal survey on migration, remittances and household income activities. Longitudinal data of this sort will not be available for rural Mexico until the second round of the ENHRUM is implemented in 2008.

In the mean time, this analysis uses cross-section data on incomes, together with retrospective information on migration, to explore the possible influences of migration on household incomes and on the returns to household assets in rural Mexico. That is, we set up a comparison between per-capita total and activity incomes in households that had family members at international and internal migrant destinations in an earlier year with those that did not. The starting year for this analysis is arbitrary; 1990, 12 years prior to the survey, is chosen on the theory that it provides a sufficiently long time horizon for the diverse influences of migration described above to play out. The basic questions to be asked are, other things being similar, is 2002 total per-capita income higher or lower for households that began the decade of the 1990s with access to internal and/or international migrant destinations? Does having access to migration opportunities in 1990 appear to have altered the composition of income across agricultural and nonagricultural activities in 2002? The returns to household assets, particularly land and human capital?

Econometric concerns (of which there are several) are discussed. The most important potential problems are those of unobserved variables and of endogeneity of the migration "treatment." To control for the endogeneity of the "migration treatment" in 1990, we first estimated a probit regression of the dichotomous international migration variable on the vector Z_i^i plus three village-level instruments for migration. The first, $bracerocom_i$, is a dummy variable equal to 1 if household i 's village participated in the Bracero program prior to 1964 and zero otherwise. Participation in the Bracero program was driven by labor recruiters and likely to be largely random. The second and third, $duscom_i$ and $dmexcom_i$, are dummy variables equal to 1 if other households in the village had migrants in abroad or at internal destinations, respectively, in 1990, and zero otherwise. Results suggest that the community bracero and U.S. migration variables are good instruments for households' participation in international migration in 1990.

The estimated probit regression was used to obtain an inverse-Mills ratio to control for migration selectivity in the 2002 income regressions for each of the two "treatment" groups. These equations were estimated jointly with the probit, following Lee.

Results suggest that households with at least one international migrant in 1990 had significantly higher marginal returns to both land and farmer human capital in 2002 than households that did not participate in migration. Other things being equal, an additional hectare of land was associated with an increase in total income of 1,231.8 pesos (about US\$123) in households that had migrants in 1990 compared with only 122.5 pesos (US\$12) in those that did not receive the "migration treatment." An additional year of farmer schooling was associated with an increase in total income of 1,848.9 pesos in the migration treatment group compared with 778.6 in the non-treatment group.

Higher productivity of land and farmer schooling is also apparent when one excludes migrant remittances from total income. When one considers only agricultural and livestock income, the premium on farmer schooling vanishes but that for land persists. The same holds true when one considers only agricultural (excluding livestock) income. Total income,

nonremittance income, and agricultural income are also significantly higher in households that began the 1990s with migrants in the U.S.

There is also evidence that market-access risk negatively affects incomes. Other things being equal, households in villages that lose access to markets periodically due to weather shocks have per-capita income that is 3,838 pesos lower than households in villages with more secure access. Some region fixed effects are significant in some of the activity income equations, suggesting that there are regional variations in rural income compositions.

Migration may reshape rural economies in myriad ways, particularly in an imperfect-markets setting. The findings offer some tentative support for the hypothesis that access to U.S. migrant labor markets in 1990 was positively associated with per-capita total incomes in rural Mexico 12 years later. They also suggest that migration may have reshaped the composition of these incomes in favor of nonagricultural production and international migrant remittances.

Analysis of migration impacts is complex and challenging, particularly when one uses cross-sectional data, and further econometric investigation is warranted. A high priority for future research is to seek out other possible instruments to control for the non-randomness of the process that allocates households across migration regimes and to “unpack” migration’s effects via its interactions with other household and community context variables. Other potentially useful extensions of this analysis might include: exploring ways in which gender—both of migrants and of the remaining rural household members—may influence the impacts of migration in rural incomes; direct and indirect influences of migration on rural poverty; and alternative choices of time horizons over which to test for migration’s impacts.

Study 2: Migration and resource allocation in Albanian agriculture

Nancy McCarthy, IFPRI/FAO

In this paper 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 is presented. The country of application is Albania.

Over the past 15 years, Albania has experienced a turbulent transition from a centrally-planned economy, characterized, among other things, by a rapid privatization of landholdings which ignited a radical transformation of the agricultural sector. Despite change, Albania continues to be one of the poorest countries in Europe, second only to Moldova, and witnessing even higher levels of poverty in the remote rural areas. While the importance of agriculture has consistently declined since the transition began, the sector remains a key component of the economic and food security strategies of Albanians, particularly in rural and more marginal areas. Nevertheless, agriculture in Albania remains primarily subsistence oriented, characterized by obsolete technologies, low modern input usage and investment. In addition, estimates from the 2002 Albanian Living Standards Measurement Survey (LSMS) bring to light very high levels of underemployment in rural areas.

In addition, the country has been at the centre of a migration phenomenon of immense proportion, with well over one half of Albanian households having being exposed to international migration in only few years. Thus, although migration is seen by most Albanians as the only avenue out of poverty, particularly in those impoverished rural areas in the northern mountain region, it remains debatable whether it can provide a sustainable solution to agricultural and rural development, as much depends on how remittances are

ultimately used. Solid empirical evidence on the impact of migration on the agricultural sector and the rural economy remains scant. This paper is an attempt to contribute to a better understanding of the role migration has played in the re-allocation of resources in agriculture among migrants' families in Albania.

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 is used. Two competing hypotheses regarding the impact of migration on rural household in the communities of origin are tested. 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

A theoretical model is set up, based on the new economics of migration literature, in which expected utility is maximized subject to a cash constraint, a labor constraint and a land constraints.

The characterization of diverse migration flows by current and former household members to domestic destination or abroad reveals differential effects on the allocation of resources to different agricultural activities on the basis of their capital and labor requirements. In connection with permanent migration of former household members, such type of movements clearly favor livestock production; and, despite the extensive nature of that type of activity – with reliance on natural pasture and forests as opposed to cereal residues and forage – its expansion appears to foster higher agricultural and total household incomes. The presence of adult children outside of the households but still living in Albania is also associated with higher livestock production, although also to a higher reliance on higher-value forage crops; this too leads to higher agricultural and total incomes. On the contrary, more time spent abroad by the current household head in the form of temporary/seasonal migration reduces livestock holdings but increases land in fruit cultivation. While the former relation is more intuitive, because of potentially taxing supervision costs associated with animal production, the latter is more difficult to explain. Perhaps the experience acquired by these seasonal workers in the destination countries – being often engaged in the production and harvesting of fruits and vegetables – contributes to this effect, as employment in small-scale livestock holdings would apparently be less available to short-term migrants. Thus, skills learned in migration may influence production decisions for return migrants; though, as yet, there is no evidence that favoring fruit production increases agricultural or total incomes.

Permanent migration also exerts a strong downward pressure on agricultural labor, both total and per capita. This is consistent with the reduced total labor, and expansion of leisure hours by remaining members, as a result of permanent migration abroad by household members. However, our evidence is consistent with other studies (Stark, 1991; Taylor et al., 1996; Taylor & Wyatt, 1996) that show that the loss in labor is compensated by increased access to capital. On the other hand, adult children living in Albania actually increases total agriculture labor supplied as well as the per capita effort into the farm by current household members. This, too, leads to higher agricultural and total incomes. These findings seem in line with a potentially higher moral hazard related to international and permanent migration vis-à-vis other types of migration.

Despite the declines in aggregate ruminant livestock holdings at the national level, ruminant livestock production appears to be a profitable activity. Fruits (including vineyards), however, do not yet emerge as equally profitable. Vegetables are particularly reliant on irrigation, but as noted by Paziienza (2003) and the Albanian Ministry of Agriculture and Food (2003), much of the irrigation infrastructure suffered from under-investment and lack of maintenance after de-collectivization, and so vegetables do not appear to play an important role in agricultural incomes at this time. Cereals, on the other hand, do appear to be relatively profitable but also labor intensive, thus preventing greater involvement by migrants' households.

Generally the findings are in line with the initial hypotheses and are robust to different model specifications; however, a number of disclaimers are in order. First, it must be noted that it remains difficult with the available cross-sectional data to properly account for household fixed effects and latent variables. Although the data used come from three waves of a panel survey, the information available in each year are not the same, thus for most variables we only had information for one of the three years. In addition, with the data at hand, we were unable to identify proper instruments to differentiate alternative destinations of international migration. As reported by Carletto et al. (2004), differential flows to Italy and Greece have been shown to have contrasting make-ups – both in terms of demographics and human capital – thus commanding different opportunities and returns in the destination countries, with clear implications on the investment options at home. Furthermore, the estimated coefficient on the number of plots is counterintuitive and difficult to explain unless systematically linked to the land reform process; higher land fragmentation appears to be linked to more remunerative crop portfolios and higher incomes. This relation deserves further investigation. Finally, no mention is made in the paper on the likely re-distribution of agricultural labor amongst household members as a result of migration. The hypothesis of a possible feminization of Albanian agriculture, in particular, warrants further analysis.

Discussion including Discussant's Comments

Discussant: Riccardo Faini, Professor of Economics, Università di Roma Tor Vergata)

- Comments by Professor Faini

Professor Faini acknowledged the background paper presented by Professor Lucas as comprehensive and addressing main issues pertaining migration. One element that might require some further investigation and that was not raised by any of the papers presented is related to circular migration and particularly to the reasons that lead people to return home.

The case of Mexico presented in the paper by Edward Taylor, represents a perfect case to study of migration associated with high income and the investigation reported provided valuable findings.

The analysis presented by Dr. McCarthy raises many interesting issues although it is sometimes a difficult paper to read, particularly with reference to the results section. It is interesting to observe that the impacts of migration on fruits since they surprisingly contradict what one would expect. The attempt to distinguish different types of migration is particularly interesting as well as the methodology used to deal with the separation theorem.

- Items of that would require further investigation

- The role played by the domestic rate of migration
- The 10% share of farmers reported to hire external labour particularly if one takes into account that hiring external labour should presuppose a lower budget constraint.
- Provided that per-capita income and family wealth can go towards different directions, some issues still open to debate are the following:

- 1) Should we be concerned why remittances are not used for investments?
- 2) Can we really identify the impact of migration considering that:
 - a) some supposedly exogenous variables may have been affected by migration and some may affect the migration decision;
 - b) some variables may be endogeneous;
 - c) migration may be correlated with the error term in the equation.

- *Questions and discussion*

Professor Lucas' paper reported that the internal migration impacts on the low skill poor. However, it must be stressed that the impact of international migration is not to be neglected. When migrants are exposed to new ideas, technologies, know how, etc., they acquire new skills that in turn can have a positive impact on their home countries.

Similarly Prof. Meyers objected that migration produces a significant impact on human capital, in terms of people being exposed to new hints, that shouldn't be neglected but that is difficult to measure.

Mr. Loh Yee disagreed with the statement that migration has a negative impact on agriculture as many times migration can actually boost agriculture, for example when it causes technology transfers..

There's perhaps too much emphasis on total remittances which yesterday were 10-15% of total income but how about today and their dynamics? Does the analysis presented by Taylor , as well as the overall debate on migration, tend to suggest that remittances are very important for Mexico and Mediterranean countries but not for Sub-Saharan Africa development strategies? At the end of the day many poverty assessments reports found that remittances really do not help the poor but rather those that are in the upper layer of poverty. Perhaps a good idea would be to look at the dynamics of these issues rather than at their picture.

It is also very important to look at the active population in developing countries, rather than at the total population, as the former is relatively lower in developing countries as compared to developed countries.

The influence of possible geographic patterns: certain regions may be more influenced by migration than the overall country. This is an element which should be looked at.

Migration contributes, particularly in Africa, the spreading of AIDS, in addition to possible negative effects it could have on health levels.

According to Ramon Lopez migration has both positive and negative externalities to be taken into account. Moreover it is often connected to criminality. Another aspect to consider is also the cost of adjustment to a new country, a new culture, a new language and new habits. In

certain cases the cost of adjustment can be low and the integration process is relatively smooth. In other cases these costs are very high and may lead to the increase of criminality.

In running the analysis of impacts of migration on development, agriculture and poverty certain aspects, which might have been neglected in the papers presented, must be considered, namely:

- account for the level of infrastructure present in the community;
- the impact of remittances on local financial institutions which become capitalized and which can, thus, benefit the poor;
- in certain areas, due to migration and the widespread effects of AIDS, only children and elderly people may be left as residents. This strongly limits hopes for a better future;
- the impact of migration on the environment may not always be negative. Migration at times may allow the exploited country to “re-green”.

- *Responses*

Robert Lucas:

- Both migration and remittances are important factors to be considered and should not be separated. Analyses based on the impacts of migration alone, or of remittances alone, may well misrepresent the true effects;
- Agreed on the possible importance and effects of transfers of technology, however not much more than descriptive stories are available. We lack serious statistical analysis of how much transfer actually takes place and whether this is effective in raising productivity and growth;
- Rates of return of highly skilled labour from overseas appear to be very low. However, the data on return migration are particularly weak;
- It is not easy to determine whether the skills individuals acquire abroad are useful upon return to the home country/village. Even if those who have returned are observed earning more, we cannot be sure whether this reflects their additional experience or simply the selection of better workers to leave in the first place;
- With regard to remittances not being important in poverty reduction strategy papers for Sub-Saharan Africa, some caution must be expressed since the IMF remittance data for Africa are well known to be severely under-reported. Certainly there are several studies, based on household survey data, indicating substantial poverty reduction from remittances in Africa;
- Agreed on the difficulty of separating out the effects of remittances on poverty. Even where remittances may relieve poverty, whether those left at home would have been better off if the migrant had not left at all is unclear;
- Agreed that the effects on health can be very bad;
- The measures of emigration to the OECD countries are at least based on the stock of working age adults in the home country though measures relative to active population do not appear to be available yet;
- The effects of available infrastructure upon migration remain poorly understood. In part this is because of a difficulty in distinguishing directions of causality;
- Agreed that separation from the family of origin can have very negative effects;
- The effects of migration on the education of children are very important, though whether education is increased or harmed seems to vary from context to context.

Edward Taylor :

- Agreed that migration can be correlated with the error and reinforced that cross section data need very good instruments to control for this problem;
- Clarified that the analysis did not mean to show that migration is always negative for agriculture and apologised if he gave that impression. Indeed when remittances go back to Agriculture the impact is positive;
- One thing worth of notice is that in rural Mexico household's migration is always very stable as the parents always stay at home and the children migrate.

Nancy McCarthy

- Agreed with Peter Hazell on having omitted some relevant issues such as looking at possible thresholds in rural areas;
- Agreed on the possible positive effects of migration on the environment and stated that it was planned to look at these effects;
- Effects of criminality: a negative effect of criminality on livestock as it is strongly positively correlated to household income and also because the livestock resources are very easy to steal.

ADDRESSING THE BALANCE OF GOVERNMENT SPENDING

This session looks at the impact of government spending in public goods *vis-à-vis* the productive sectors for Rural Development. What are some of the issues related to government spending during the “agricultural transformation”?

Background paper: “Fiscal Policies in Highly Unequal Societies: Implications for Agricultural Growth”

Ramón López, Professor of Agricultural Economics U. of Maryland

Raising tax is a particular problem in developing countries, in particular income tax, partly due to frequent tax evasion. One should distinguish between public investments and subsidies, as these have different effects. Furthermore, the use of government expenditures is sometimes regressive, i.e. after-tax income distribution is more unequal than pre-tax income. Referring to a set of stylised facts, it was noted that government often under spend on public goods and overspend on subsidies to the rich, that public revenues in this type of economies depend largely on indirect taxes and that tax evasion is often allowed. As a consequence, economic growth is slower, environment is degraded and inequality increasing. Causing this can be a historic wealth concentration, resulting in the accumulation of political power in the hands of the rich few, preferring the above fiscal pattern, and thus fiscal policies becomes both a cause and an effect of economic inequality. Breaking this cycle requires institutional change, democratisation and support from external actors.

Presenting new econometric analysis based on annual data sets from 15 Latin American countries from 1985-2001, results show 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) A high share of subsidies in public expenditures (and concomitantly a low share of public goods) reduces agricultural growth in rural areas; iii) The quality or composition of public expenditures are more important than the level in promoting growth, equity and the rural environment; iv) Increased subsidy share make rural growth more land intensive and cause deforestation; v) The per capita income of the poorest 40% of the rural population is negatively affected by subsidy share; vi) Wealth inequalities induces an increasing subsidy share; vii) Variables such as political competition, freedom of press and nature of political regime greatly condition the effect of the historical wealth inequality on structure and level of public expenditures. Finally the idea that the medium voter will support more social protection did not hold.

Study 1: Governance and Rural Public Expenditures in Latin America. The impact on Rural Development.

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.

The composition of public spending matters for development: while the benefits of spending in private goods (i.e. subsidies) are mostly captured by a few, the benefits of public goods are broadly distributed. In addition, spending in private goods crowds out other forms of public and private investments. In general, corruption is defined as ‘abuse of public office

for private gain'. It is argued that there is a need for a 'political economy definition', as sometimes the means are not public (i.e. collusion with private corporations) or the gains not necessarily private (i.e. beneficiaries may be institutions like political parties). Optimal policies can be skewed for the benefit of interested lobby groups. Poor rural inhabitants hardly meet the conditions for a successful lobby, so if there is corruption, spending will be skewed towards more private goods spending than optimal.

A model is introduced for the allocation of rural funds, based on the assumption that government expenditure decisions are made in two steps. First, the government decides on the allocation between rural and urban, which is a political economy decision. Then, given the rural funds, how are they allocated between public goods and subsidies (private goods). Based on the model a number of predictions with development implications followed: i) As corruption increases, the share of public investments fall; ii) The larger the share of larger farms, the lower the level of public investment; iii) The larger the rural labour force, the larger the level of public investment; iv) For high levels of corruption, trade liberalisation increases the level of public investment; v) When the share of public goods investment out of public expenditures goes up, a larger share of public investments goes to the rural sector; vi) A higher implicit tax rate reduces the share of public expenditures in the rural sector; vii) Higher non-agricultural output (tax base) increases the share of public expenditures in the rural sector; viii) Higher levels of corruption reduce the share of public expenditures in the rural sector; ix) The amount of public expenditures allocated to the rural world will, in general, be higher when the share of those expenditures invested in public goods is higher, unless the output elasticity of the urban sector is too high, or the labour demand elasticity of the large sector is too low; and x) Trade openness, for sufficiently high levels of corruption, reduces the share of total public expenditures in the rural world.

Regression analysis showed that corruption has had observable effects in the allocation of public funds in Latin America; showing that higher corruption is related to lower funds being allocated to the rural world. Also, it was found that countries that invest a greater share of their rural funds in public goods, and at the same time reduce private subsidies, have higher rural income as proxied by agricultural output. If corruption were lower public expenditures would be more effective in achieving rural income growth and development.

Study 2: Rural and Urban Dynamics and Poverty: Evidence from China and India.

Shenggen Fan, Director, Development Strategy and Governance Division, IFPRI, in collaboration with Connie Chan-Kang and Anit Mukherjee

Poverty has been reduced dramatically in Asia, including in China and India, but the share of the agricultural sector still remains high. At the same time rural non-farm employment is increasing and becoming the main rural income source. 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.

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 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.

The 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. Government expenditures and poverty reduction is linked through two channels: direct allocations and secondary spending outcomes. The composition of public expenditures in rural areas varies over time, with the most important types being rural education, irrigation and infrastructure. Using data for China in 2001 on returns to different public rural investments, returns was highest for education and R&D, whilst lowest for irrigation. In terms of the question of subsidies versus investments, it was noted that while subsidies in India in the beginning were beneficial, these have now become costly. Also, China has moved away from the tax on agriculture and now actively subsidises agriculture. The question is how effective subsidies are on increasing growth and reducing poverty. In terms of India, it was concluded that this has changed and whilst investments in roads, education, R&D on agriculture still has a large effect, subsidies have lost their effectiveness.

In conclusion, the speaker noted that agriculture and the rural non-farm sector relationship is dynamic and changing. Rapid growth in agriculture is a pre-condition for economic take off, but even if a country is economically advanced, the agricultural sector still plays an important role. Thus, urban biases in public expenditures need to be corrected to ensure growth and poverty reduction.

Discussant's Comments

Alexander Sarris, Director, Commodities and Trade Division, FAO

- There is ambiguity in what constitutes a public and private investment. Investment in education is generally biased towards the elite, whereas in rural areas now assumed to be biased towards the poor, please explain.
- The regressions explain the level of public expenditure, why not the growth rate? Why are standard variables such as labour not included?
- If all taxes come from the non-agricultural sector, why would one expect on political economy grounds that investments be made in the rural sector? In most stages of development the agricultural sector is taxed.
- It seems peculiar that public investment is assumed to hurt larger farmers. Is there a way to compare rural-urban to an optimum level of investment either from a growth- or social welfare perspective?
- What is the origin of increased subsidies in India and China?

Other questions and comments:

- On the origin of the subsidies: In India they were initially for small farmers to adapt new farm technologies and correct for market failures. The question is how do you remove them once technology is adapted. In the case of China, there was an increased rural-urban gap, the government thought providing subsidy would provide the solution.

- Subsidies overall may be bad, but still there are subsidies that are good, to facilitate transition, correct for market failure etc. One needs to disaggregate the subsidies.
- A lot of education and medical services are actually private services, rather than public ones. In trying to understand the dynamics we need to understand more of these private services as an important source of consumptions spending and productivity links.
- What can be learned from the India and China examples for Sub Saharan Africa?
- Typical of Latin America is the concentration of wealth, including land. The design of subsidies is more determined and absorbed by the elite. The rationale is to mitigate financial constraints due to failures in capital markets, as productive investment is still constrained by financial availability. This as opposed to India where the subsidies have had some effect. Not the inefficiency of subsidies is the main problem, but the fact that it has an opportunity cost in terms of public investment. Studies in the industrial sector show how investment is being affected by subsidies.
- The clear policy message on the issue of subsidies is that more should be invested in public investment rather than giving subsidies.

INSTITUTIONS AND RURAL DEVELOPMENT: ISSUES AND EXPERIENCES

This session looks 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?

Study 1. Institutional Aspects of Rural Development Programmes and Strategies Implementation in Ghana.

Alberto Zezza, Economist, ESAE, FAO, on behalf of Abena Oduro, CEPA, Ghana.

The rural economy in Ghana is undergoing structural transformation, illustrated by a declining share of the rural population (to 56.2% in 2000) and an increasing proportion of households engaged in non-farm activities. Nevertheless, agriculture remains the main, though declining, source of employment and income for rural households (from 65% in 1991/92 to 56% in 1998/99). The incidence of poverty is higher amongst the rural population, despite progress being made in improving access to basic services and infrastructure in rural communities in the last decade. In general, progress has been made in rural development, but when disaggregating by ecological zones and administrative regions it shows that this progress has been uneven.

In both the Ghana Vision 2020 for the period 1996-2000 and the Ghana Poverty Reduction Strategy Paper (GPRS) 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 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 assesses 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.

The GPRS proposes a two-pronged strategy: i) emphasis on the small-scale farmer and the need for improvements in farming practices leading to improved productivity and profitability; and ii) Agro-processing that is directly dependent on the growth and transformation of agriculture. It recognises that rural development is a cross-cutting issue for which an “integrated, inter-disciplinary and cross-sectoral approach is required”. Coordination amongst Ministries, Departments and Agencies (DMAs) is complicated though, which can undermine the sustainability of the output of the various projects that are undertaken. In the absence of a clearly articulated rural development policy the various DMAs have tended to adopt varying approaches. Ghana requires a coherent rural development policy that highlights the heterogeneity of rural communities. The focus of the GPRS is more on the modernisation of agriculture and less on the development of non-farm activities. This may be considered a weakness since there is evidence that suggests that non-farm activities have been important in keeping households above the poverty line.

Discussant's Comments

Pasquale Scandizzo, Professor of Economics, Universita di Roma Tor Vergata Rome

- The focus of the description is still largely following the traditional understanding of rural development. There is scarce reference to problems of capability vs. results-oriented approach of programmes. To some extent neglect of core idea of strategic planning in modern thinking. No mention of an attempt in the programmes to involve local communities as stakeholders and protagonists.

Study 2. Bounded Rationality Along the Policy Chain in Vietnam.

Leigh Anderson, University of Washington, Seattle, in collaboration with Alison Cullen (University of Washington) and Kostas Stamoulis (FAO)

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.

The author's 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, a theory of decision making is tested based on effort and association. The first question relates to what extent the nature and prevalence of decision heuristics from experiments in U.S. or European laboratory settings differ from responses in the field. The second question is whether there are systematic differences in decision making procedures between those who are regularly involved in allocating public resources, and those who are more frequently the intended recipients of these policy and program decisions. The hypothesis is 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).

Initial results suggest some significant differences in views of fairness, cognitive effort, and decision heuristics that may affect resource allocation decisions. A deeper understanding of these decision heuristics may help to explain the often unexpected outcomes of development policy interventions aimed at poverty reduction. Experiments suggest that in some circumstances, policy based on the traditional economic model may fail to achieve its objectives because it is predicated on the wrong behavioral model.

Discussant's Comments

Pasquale Scandizzo, Professor of Economics, Universita di Roma Tor Vergata Rome

- Questions whether asking questions rather than engaging the people in real-life situations that part of the answer may be manufactured, or the exercise may be seen as a game.
- There is not necessarily a contrast between maximization and bounded rationality. Essentially it cannot be decided on the basis of observations. The question is how do people maximize, by trial and error or computation, may be both.
- Many of the consistency axioms have to be seen as assumptions that are justified within a theoretical framework, not necessarily based on observations.

- The experiment seems to be a bizarre one: on the one hand testing bounded rationality, on the other hand contrasting two groups. Is this difference meaningful? What is the proposition being tested and based on what theory?
- On significance to correlations when there is no control: even 87 observations should have some systematic heterogeneity that requires a control group.

Points underlined in question and answer session:

- On methodology it was questioned whether the order of attributes was always similar or mixed? (Answer: cardinality changed, not the ordinality)
- Policy makers and farmers have different propositions to internalise externalities. One discussant would have preferred to exhaust the existing arsenal of tools available before embarking on new ones. To this it was replied that it is an alternative approach to understanding policy failure.

RURAL DEVELOPMENT STRATEGIES OF THE MULTILATERAL DEVELOPMENT BANKS

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

Agro-Fundamentalism Without Apology: The World Bank's Support for Rural Development in Africa circa 2006

Karen Brooks. Sector Manager, Environmentally and Socially Sustainable Development, Eastern Africa, The World Bank.

Within the World Bank there is a commitment to an agenda in Africa in which agriculture is central and embedded in broader support for widely shared growth. This is articulated in the 2002 Strategy Paper (*From Action to Impact: The Africa Region's Rural Strategy*). The Bank is seeking to enhance agriculture's performance and strengthen linkages to the rural, peri-urban, and urban economies. The Bank keeps making the case for agriculture, believing that a national growth process that excludes agriculture will be of limited scope and duration, pulled back by the increased relative and absolute poverty of the majority rural population. Agriculture constitutes at once a drag on aggregate growth and a correspondingly significant opportunity to reap gains from the evident disequilibria in sectoral returns to capital and labour. The Johnston-Mellor linkages on how agriculture contributes to economic development are still valid. Within this framework, the East Africa Division Agricultural Sector adopts a pragmatic approach: "Anything that works, go for it".

The new pessimists question the relevance of a number of elements of the linkages model under present circumstances. The tenets of agro-pessimism need to be dealt with, we need to understand which arguments are empirically justified, and which ones can be discarded. Their propositions hold that globalization weakens traditional rural linkages and income multipliers, smallholders cannot compete, terms of trade decline faster than productivity in Africa can rise, degradation of natural resources is irreversible, and rural factor markets will not respond adequately to change. So far, however, the empirical evidence supports a continued emphasis on agricultural performance where poverty remains widespread and concentrated in rural areas. The difference between the pessimists and the fundamentalists is in the view of rural non-farm activities as an alternative or a complement to agricultural growth. We need to move beyond agriculture without leaving it behind; i.e., to define the appropriate domain of intervention to address agriculture more broadly and somewhat differently than in the past. There is a need to 'Dodge the silver bullets': several proposed panaceas are currently in circulation, and could serve to distract attention from the needed longer term agenda to support growth. These panacea include

- 'the ten percent solution' - African Heads of State met in Maputo in July 2003 and agreed to allocate 10% of national budgetary resources to support agricultural growth. There is a risk that in the absence of a rigorous framework to guide incremental public investments in agriculture and related rural infrastructure and services, election-year pressures in a number of countries are pushing additional spending through traditional channels of patronage.
- replication of the 'model villages', which stand for all that is pleasing to they eye, but lacking in substance or sustainability.

- fertilizer subsidies. Their past failures are well documented, and superior instruments to accomplish the same goals are readily available and embraceable by the international community.

The confluence of the ten percent solution and the fertilizer subsidy redux could result in vast sums dropped into the sector with little if any return. The Bank concentrates on the following focus areas, mainly supported by matching grants:

1. Agricultural productivity. A key change in the agricultural research and extension system is to move resources from traditional centralized public extension services to pluralistic advisory services.
2. Empowerment of rural people. Poverty Reduction Strategies are replete with language about empowerment of the poor, and the rhetoric is increasingly actionable through support for decentralization and community driven development.
3. Managing risk and vulnerability. The bank has sought to move beyond the abstract discussion and to develop new approaches to managing risk and addressing vulnerability. These include, amongst many others, safety nets; rainfall insurance; hedging tools to address price risk.
4. Stewardship of land and water. Degradation of land and deterioration of watersheds are recognized to contribute to poverty and conflict, but effective actions to address the problems in a comprehensive way are not yet being taken on a sufficient scale.
5. Expanding irrigation. Only 18% of the potential irrigable land in SSA has been equipped for irrigation. Significant expansion of area irrigated is critical to success of a strategy based on agricultural growth, but can only be undertaken with perspectives quite different from those underpinning earlier efforts. Profitability will be the key to productivity and sustainability. The current economic, social, and environmental criteria required for investment include an ERR of 15% or better, targeted broadly to the poor, providing access to women, and addressing environmental externalities, such as malaria.
6. Building links to markets. Africa's response to changes in global food markets has lagged. Efforts to enhance and strengthen Africa's presence in non-traditional and high value food markets are supported through investments in productivity and innovation, through increased emphasis on basic infrastructure, and through targeted attempts to strengthen linkages within marketing and value chains.

The Bank welcomes greater partnership and coordination among partners on the following tasks: assessment and management of public expenditure; improved statistics and shared effort on monitoring and evaluation; co-financing for identification and preparation of investments; technical assistance for implementation; professional debate on the main tenets of agro-pessimism; and evaluation of market opportunities for African agriculture, including through reforms in agricultural subsidies of developed countries.

Rural Development Strategy of the IDB

César Falconi, Inter-American Development Bank

The general objective of the Inter-American Development bank is to contribute to the economic development and the well-being of rural communities. The specific objectives are the productive, institutional and social transformation of the rural areas of Latin America and the Caribbean. The bank sets its action within the conceptual framework of territorial rural development, which is a simultaneous process of productive, institutional, and social transformation. Regarding the productive context, the primary sector continues to be one of the fundamental motors of economic growth. A significant increase in non-traditional exports can be seen, but a decline in competitiveness of traditional agriculture explains in part the

persistence or even rise in rural poverty. This was accompanied by policy reforms which reduced public intervention and presence. Small- and medium-sized farmers still experience problems with access to credit, insurance and savings. Ongoing agricultural trade liberalization negotiations make rural development a high priority, with greater trade openness representing both opportunities and challenges. Weak institutional architecture however is an obstacle to achieving productive transformation and consequently rural development. Service providers are weak or absent, and the decentralization process is weak. Local entities should express demands and participate in decision-making, but public organizations lack capacities to handle the multisectorial aspects of Territorial Development. Regarding the social context, rural poverty is still problematic even though public spending has increased. Changes in the structure of employment and income generating strategies are significant, whilst environmental degradation affects the poor and the vulnerable.

Lessons learned from the past include the following:

- The productive transformation of rural areas involves more than the agricultural sector;
- Economic growth is a necessary condition but it is not sufficient to reduce poverty;
- The heterogeneity of the rural sector requires the use of differentiated policies and programs;
- Emphasis is on participation and social cohesion;
- Socio-environmental aspects are crucial in rural projects; and
- Territorial projects are complex and if well administered promise to generate significant impacts.

Therefore, the new focus of the Bank is on Territorial Development: a new rural development strategy that is territorial, multisectoral, and participative in focus. The action areas include consolidation of policy reforms; more investment in rural infrastructure; modernization of productive support services; creation of public-private alliances; strengthening of administrative capabilities of national, regional and local institutions; investment in social services; and design of systems of social protection to reduce vulnerability. For the implementation of these action areas, instruments exist such as dialogue, traditional and flexible financing, and non-financial products. Required follow-up steps are improvement of internal coordination and setting up a monitoring and evaluation system. Progress made so far is consensus being reached on rural development strategies. Governments have elaborated or are preparing strategies for rural development, in Peru, Ecuador, Bolivia, Costa Rica, Honduras and Nicaragua. Some governments have translated their strategies in national policies for rural development, such as Mexico, Brazil and Chile.

Operational complexity for rural development arises due to its multidimensional nature, but there are new ways for coordinating public agencies with the rural territories and the local actors. Institutional strengthening and the improvement of local capacities are key for success, and exchanging knowledge and experiences with other regions is essential.

Rural Development in Asia and the Pacific: Lessons Learned, Priorities, and Development Options

John. Y.L. Yee, Principal Sector Economist, East and Central Asia Department, Asian Development Bank

Rural Asia has experienced a dramatic transformation in the last half of the 20th century, although the welfare benefits have been unevenly distributed. Accompanying the transformation of rural Asia, was a rapid exploitation of natural resources threatening the sustainability of the rural growth process and adversely affecting the quality of life. Notwithstanding the success many countries in Asia and the Pacific have achieved in

reducing poverty, improving food security, and overall welfare of the people, the region remains home to the majority of the world's poor and hungry. Empirical evidence has been strong for the linkage between economic growth and reduction in poverty but less so for the non income dimensions of poverty. Performance in reducing non-income dimensions of poverty has been less pronounced for the Asia and the Pacific region. Progress in infant mortality, health, education, and other social indicators has been slow and it is critical that these sectors speed up progress to meet the target of the MDGs.

Rural development policies have evolved considerably over the past half-century. The approaches adopted to foster rural development can be characterized as farm modernization in the 1960s, state interventions in the 1970s, market liberalization in the 1980s, and participation and empowerment in the 1990s. Today, the prevailing framework for fostering rural development is based on encouraging sustainable livelihoods and mainstreaming rural development in poverty reduction strategy programs. The strategies that the Asian Development Bank (ADB) adopted, can be set in the context of these prevailing paradigms. The start of ADB's operations coincided with the beginning of the Green Revolution. Its rural development priority was on rapidly expanding food production by modernizing agriculture. A new strategy formulated in 1979 advocated the need for land reform and the need to create rural off-farm employment opportunities. From 1988 onward, policies placed greater attention on the linkage between institutional factors and poverty alleviation, and the need for decentralized approaches to improve grassroots capacity. ADB's more recent assistance approaches incorporate lessons learned over the last 39 years and involve a far greater mixture of popular participation; institution building to enable markets to function efficiently; decentralized responses to the multiple needs of the rural poor and partnership building between government, the private sector, and NGOs. Priorities and options for fostering rural development currently rely on 4 pillars: i) develop a coherent, strategic approach to priority setting and program development; ii) build on supply-side interventions that worked well in the past; iii) scale up new demand-side approaches that deliver results; and iv) multiply the benefits of rural development through regional initiatives, which includes technology transformation, natural resource management, expanding fair trade, adopt a regional approach to fostering food security, and exchange knowledge to foster sustainable livelihoods and deliver rural services.

Discussant's Comments

Michael Wales, Principal Adviser, Investment Centre, FAO

Processes rather than blue prints are crucial. We should make efforts towards a joint donor-rural development. Up to now we came up with 5 pillars-questions:

- 1) Do we really care about the rural development strategy of the World Bank?
- 2) Where do you/we stand on the RD strategy and pattern? This is the kind of questions asked to the poor countries. We are going up with many more losers than winners in the game of MDGs!
- 3) How important are public expenditures?
- 4) And the benefits of climate change?
- 5) There were good project in 99-00 in response to a severe drought. And now? Can we apply them to the bottom of the pile?

Points underlined in the question and answer session

- Peter Hazell: 2 institutions present strategies and solutions. The World Bank presents also figures allocated to each objective. Do the other 2 Banks (IDB, ADB) have something like this?

ADB (John Yee): the operational policies are not yet approved. The action plan will be drafted after the approval of the operational policy. Agriculture will play a dominant role in the new territorial approach.

- Michael Wales: Maybe we are undervaluing agriculture potential. What are you preparing as an alternative to agriculture development?

Karen Brooks: There is not one agricultural policy and solution for smallholders. There are still better things to do than what we are doing now.

We need to move on projects on staple crops. Staple crops are easy, but we have to push something different, such as non-agricultural activities.

ADB (John Yee): it's not true that we stopped investing in agriculture. There are trust funds at the ADB to incentive project to be financed, also research projects. We have to prepare guidelines to drive the decision on which projects to implement.

- Gary Howe: We had a great menu of policies in the past. Now the issue is to adapt them to the countries. This needs consultations. What do people think FAO, IFAD should do? The way to do business is quite important, more than the choice of the policy A, B or C. Cooperation among donor institutions is crucial, we are still in the process of debate.
- Paul Siegel: Why do people end up with what they have and what they are? What drives asset distribution? What is the recipe of these people? It is not a problem of land productivity, but rather of asset redistribution. What are the critical assets that make poor people compete? Migration? Moving out of rural areas? Let's focus on social safety nets.

ROUND TABLE DISCUSSION

The aim of the roundtable discussion was to summarize findings deriving from the workshop sessions and discussions. The roundtable was opened and led by Kostas Stamoulis (KS), Willie Meyers (WM), Alain de Janvry (ADJ) and Peter Hazell (PH). As an opening of the roundtable, all WM, ADJ and PH provided an overview of the discussion of the workshop and possible pointers for future work and directions. Following the opening wrapping-up speeches, the floor was opened to all concluding discussions. The discussion was chaired by Kostas Stamoulis (KS). This section reports on overviews, comments and questions presented during this concluding session.

The section includes a summary by bullet points of the issues raised during the roundtable discussion. Following this, the interventions by the single discussant are

Summary of issues addressed

- The need to set up typologies to effectively implement rural development.
- Problem of labour exit out of agriculture and how to relocate labour.
- Importance of entrepreneurship and rural leadership.
- Should make more use of EU funds allocated to assist RD.
- Need to be more pragmatic about what has proven to work.
- How to go about rural development in the current world scenario involving new and different players?
- How to make Agriculture more pro-poor?
- Learn more from different approaches to Rural Development and which have been the winning strategies.
- Who is to implement and orchestrate the rural development strategy?
- How to modernise resources to support RD and agricultural development?
- How to fund RD?
- How to link to stronger players to ensure the success of RD?
- Link typologies to spatial, dynamic, asset ownership and institutional levels of RD.
- What would the environment dimension and sustainability of RD be?
- Measure to be able to assess how migration is reducing poverty and impact on RD.
- Partner with other institutions to influence the spending process.
- Ensure that players that can make RD happen are involved.
- Ensure work progress and knowledge improvement is widely acknowledged.
- Need to look at institutions from a political economy/power perspective.
- Work more at the local level and increase negotiating capacity of farmer associations.
- Strengthen research capabilities within countries.
- Gathering data is a key issue and the lack of involvement of countries in research is a problem: Data collection and research work can be joined with the capacity building work.
- Environmental service payments as an RD strategy.
- Need to be more systematic in the collection of data, benchmarks etc. for sound monitoring and evaluation.

Kostas Stamoulis

The question mark in the conference title addresses the concerns of both the ‘agricultural pessimists’ and the ‘agricultural fundamentalists’. One challenge is to ensure that FAO returns to play a leading role in the agricultural and food policy debate. A challenge for the ESA division is how to assist countries in making the most effective policy decisions.

Generally, the aim of this session will be to clarify how to fill the knowledge gaps highlighted throughout the debate of the workshop. What can be done to catalyze policy at the country level? How can FAO contribute to the international dialogue?

Willy Meyers

- Importance of entrepreneurship and rural leadership.
- Should make more use of EU funds allocated to assist RD.
- Need to be more pragmatic about what has proven to work.

It has been good to have seen wide participation from inside FAO and a good mix of academics and practitioners.

An element the discussion lacked was the issue of entrepreneurship and rural leadership. This topic was touched upon by ADJ in the discussion on CDD issues. But this is a scarce resource in rural areas and a constraint in stimulating rural growth. My team recently undertook a study in Latvia using EU funds. The study showed the larger sums of money went to the wealthiest areas since in these areas the human capital necessary to prepare the best projects is highest. This is typical.

EU funds also exist to assist rural leadership development programmes but these are seldomly exploited. This is an issue that needs special attention.

Furthermore it would be important to shift the focus away from planning and more toward processes. Need to exploit knowledge gained so far and concentrate on programmes known to work.

Entry points. Is FAO to be engaged only in Food and Agriculture (F&A) activities? Does it need to dismiss Rural Development (RD) if the entry point is not in F&A?

Government role. Subsidies vs investment. There are two views. One view that has been presented at this conference is that allocating money to subsidies reduces the availability of funds for investments. This calls for an understanding of how the budget process works. Build the constituencies that would support the allocation of funds to RD.

Who do we work with? Agricultural Ministries? But often these are not receptive and they think of RD as agricultural. How do we advise the governments on these issues?

In particular there is some good public work in data gathering where FAO’s work can be important, strengthening collaboration with the WB, IFAD etc.

There is no one-size fit all view of RD, Country and locality conditions are paramount to understanding what can work. In that sense processes can be more important than visions.

Peter Hazell

- Labour exit out of Agriculture: how to relocate workforce.
- Consistent set of typologies to address rural development most effectively.
- How to go about rural development in the current world scenario involving new and different players?
- Who is to implement and orchestrate the rural development strategy?

Rate of exit out of agriculture: full time and part time exit. Many countries now developed have been struggling with labour exit out of agriculture for decades, as the case of France for example. In developing countries the same transformation is going to happen a lot faster, they will need growth in other sectors to absorb the labour force. The example of China cannot create complacency. This may be a special case. We need to look 10-20 years down the road and try and understand how many people are going to leave agriculture. I don't see anybody doing serious projections on that. FAO could do it.

There is a need to come up with country and regional typologies as different 'types' will require very different approaches to RD. Country examples may be: (1) Ethiopia, Haiti: very poor with very poor land and no market access; (2) China: importance of town and village enterprises (TVE's); (3) Mexico: where migration is important. We shouldn't look at what is fashionable. There is no single fashion. We need a good typology in order to be able to distinguish amongst regions in which migration may be key versus other regions in which another staple may be the answer. Some typologies already exist. Therefore there is the need to consolidate existing and new analysis into a set of typologies that can usefully guide the RD work.

In many cases after government withdrawal markets did not emerge. What should they do about this? The private sector is not doing the job: an example is staple markets in Ethiopia.

How do you do RD these days? Rural economy much more dynamic, there is higher uncertainty and instability. How do you create RD processes that enable people to adjust to change and manage this process of change?

The number of players has changed. It is no longer only governments and donors. Now, there are various levels of governments, the Private sector, NGO's and CSO's. How do you form coalitions? How do you manage multidisciplinary and multi-sector processes? Most developing countries don't have effective local governments that can organize RD. This goes well beyond agricultural and agricultural economics. We need a lot more work on organizational issues. FAO has a comparative advantage in that. Need to do it more systematically. Need to focus more on evaluation of programmes and learn from experience.

Alain de Janvry

- How to make Agriculture more pro-poor?
- Learn more from different approaches to Rural Development.

Need to build a critical mass. Need to establish priorities. To get recognition need to push research to review and get recognition from the profession. This is how you get back in the textbooks.

For FAO the issue is poverty reduction and how to use agricultural for poverty reduction. Go back to the basics.

One issue is the changes in food systems, high value added, supermarkets etc. Huge challenges. FAO can help understand how to promote better understanding of how to promote integration of smallholders.

Need to better understand how to make Agriculture more pro-poor whereby the emphasis should be more and more on pro-poor activities. Which are the avenues through which agricultural can be more pro-poor? Which are the linkages? Which are the price effects? Need to look at both the direct and indirect effects. It is important also to better understand the vulnerability dimension of smallholders. How can the vulnerability to shocks be reduced?

The work on agriculture should be directed explicitly at addressing poverty and vulnerability. FAO's multidisciplinary should be exploited further and perhaps ESA needs to link better to the rest of the house.

Learn more from different approaches to RD. The three banks yesterday gave us a view of a commonality of processes but with the use of different instruments, which reflects the typology issue that PH mentioned.

We don't know enough on how the various approaches to RD programmes work (e.g. territorial approach). Pilot programmes need to be designed for evaluation, not only of impact but also to include an evaluation of the process and of the participation to the design and delivery of RD programmes.

TCI gives you unique access to the field and to projects. Need to establish better ways to learn from the work FAO is doing in the field. FAO has many entry points in the field that it should use better.

In addition to this, there is also an experimentation dimension that can be added. For instance, there is the need to learn more about how to apply the territorial approach.

Agricultural centred vs. a territorial approach: I think it is not really a contraposition but that really we are talking about different typologies. The opportunities are larger in Latin America. The institutions are also different. Within a multi-sector framework, different institutions are needed according to the scale that is being considered.

Kostas Stamoulis

Typologies are an issue that continuously arises in discussions, time and time again. Institutions were mentioned by all the discussants. The issue of the RD institutional vacuum is well known. Who will play the coordinating role? Some other issues are no longer considered attractive, e.g market for staples, but touch the lives of millions.

The issue of exit form agricultural is also very important. Not much work is being done on this so far.

Entrepreneurship is a new issue for us and not much work is currently being done in the context of learning by doing and evaluation. This is also the case for IFAD.

Mafa Chipeta

The work carried out by TCA is in close direct connection with the countries. Therefore from the perspective of TCA it would be important to better understand how to implement this kind of work at the country level.

There should be more participation of experts from the developing world in conferences of this type.

The focus should be on what can be realistically achieved and should therefore be recommended when accounting for the real scarcity of resources and capacity available.

Need to separate/clarify the changes that are needed at framework level in order to draw attention to rural development, as opposed to the actions that are recommended at local level.

It is not possible to find a strategy that is applicable to all cases.

Amde GebreMichael

Thought the discussion on labour exit out of agriculture was very relevant. Typologies are also an important issue. On the issue of exit we should differentiate between exit because of forward linkages from agriculture and exit linked to a decline/lack of growth in agriculture. Fashion is also a problem: FDI, for instance in cut-flower markets is proposed without due attention to how much it really contributes to development and poverty reduction. Does it have any linkages?

Sheggen Fan

Knowledge gaps:

- How to modernize resources to support RD and agriculture is one area that has been missed.
- Where can the funds come from? The Banks claim that the necessary funds are not there. Resources are not being allocated to agriculture and RD. We need to pay attention to that.
- Africa has undergone good overall economic growth in the last couple of years. But that is mainly due to the growth in Asia. Trade, investment, technology transfers are a tremendous opportunity for Africa.
- Which strategies and projects have worked, which have not? What are the lessons to be learnt, going beyond project evaluation to strategy level?
- How can we go beyond agriculture and rural areas to support RD? MoA is usually the weakest player in a country. How can we work with the civil society and the ministry of finance to promote RD?

Comparative advantage of ESAE.

- One comparative advantage of FAO is its experience, another is the multi-disciplinarity, the data available and the strong direct links with the developing country. But on the negative side: FAO is demand driven and not very flexible. Therefore how can FAO find a niche in the policy supply chain? What alternative suppliers can be used to maximise your impact?

Steve Haggblade

Proposed three items that would allow to put FAO back on the agenda:

1. Refine a typology: Start from Prabhu's stages (columns) and on the rows the opportunities (location; asset distribution; etc.)
2. Spatially refine rural regions and link this information to the typologies. Work on regions not defined by national boundaries but on economic regions, market-sheds. Start from agro-ecological zones (AEZ), and then move to market-shed. Plough these cohesive regions into the typology
3. Look at the dynamics within these regions: Household trajectories; market trajectories etc.

Parviz Koohafkan

One dimension that has been missing has been environment and sustainability.

Generally, investment policy is biased towards industry. To make investment more pro-poor it would be necessary to go beyond the simple rates of return.

Paul Siegel

Need to get a better understanding of what RNF really consists of, what is linked to agriculture and what not. The work of the RIGA project should achieve this. In the structural change taking place many of the non farm sectors are linked to agriculture. This calls for better understanding how these linkages can be used to achieve poverty reduction.

Set up an aggregate measure to assess the impact of migration on poverty reduction.

Need to relate asset ownership and other aspect of the typology analysis to risks and the institutional capacity. The institutional aspects are perhaps the most difficult to grasp.

Karen Brooks.

Need to look at the processes through which policies and programmes are developed and resources are allocated. Need to undertake research that has an impact on these processes. Need to identify the key issues that emerge from the typology analysis and how to then influence the expenditure priorities. However, in the end the decision will be taken through the political economy mechanisms of the country (and unfortunately we cannot throw away the maps as countries are taking decisions). We need better information to base decisions on.

Need to partner with other institutions to influence the spending process.

Kostas Stamoulis

There is the need to recognize that the decline of ODA to agricultural development is not only due to supply-side factors (donor priorities) but also to lack of demand from recipient countries for agricultural spending.

Paul Siegel

But often even the Ministries of Agriculture are not keen on smallholders, while the focus often lies on the expansion of the commercial sector.

Gero Carletto

While not denying the role of institutions, so far there have not been meaningful achievements in improvements of practical policy guidance. Need to assess how to go beyond the standard analysis to realistically learn about what can be done, both methodologically and analytically.

Data on vulnerability and exit from agriculture is not generally available. Therefore, the data need to be generated and collected in order to analyse these issues.

Looking at institutions beyond political borders seems practically unfeasible.

Jenny Dey

Need to internally collaborate more to achieve partnerships on areas such as institutions; and need to increase visibility also through the publications of results. In this respect SDA is running a project in which it is assisting the restructuring of ministries and cooperatives in ex-socialist economies. Work is done on strengthening local institutions including risk management, developing indicators for participation, participatory processes and supporting the Livelihoods' approach. Possibly in the future some work will be done on agricultural labour.

Kostas Stamoulis

FAO doesn't have a RD strategy – should we have one? Who would lead the work?

Ramon Lopez

There has been discussion on the exit from agriculture and agricultural transition. Chile is a country with excellent institutions. Mining companies were given water rights for free and this led the communities in the north to migrate because water became too scarce. This is an example of the need to account for power relations. Institutions need to be looked at institutions from a political economy/power perspective as well and also assess how important they are.

Typologies can prove a very strong analytical tool but the number of criteria used cannot be too large, otherwise they become unmanageable. One criterion suggested the level of dynamicity or stagnation of an economy and how agriculture fares in this context.

Achilles Costales

How can ESA make its own work more valuable to people outside of ESA. Need to make your work relevant to people working in various sub-sectors. Once the typology work is done, the focus should be on entry points, it can no longer be at sector level.

How can stakeholders and government agencies be identified and partnerships be created to move ahead with RD?

Materne Maetz

In this conference we did see a lot of research but not much in terms of assistance to countries. We saw a lot of external ideas, but little on what FAO is doing. I agree with the idea that we should learn more from our work.

The farming system work FAO did a few years ago with the World Bank was a first step in the typology work and to “bring boundaries down”.

Institutions: The way we are working on this is not satisfactory. We need a process, we need more local involvement. Negotiating capacity is one area where we should work, e.g. increasing negotiating capacity of farmer associations.

One challenge for FAO is to work beyond MoA's: Working within agriculture can be a constraint, but going beyond that requires that first you demonstrate you're able to work in agriculture.

Involving the politicians is also a key to influencing country policy.

Ed Taylor

Research capabilities within countries. Gathering data is a key issue and the lack of involvement of countries in research is a problem. Collaboration in Mexico was a good example: the data collection and research work was joined with the capacity building work. Thus it is important to stress the need to link research activities to capacity building and involvement of local teams.

Christian Lovendal.

It is true that there are data issues. But policy is forward looking, and we in a sense need to go beyond the current picture that data can provide.

Lorenzo Bellú

Agricultural development, RD and food security, all part of FAO's agenda, require different approaches. Which synergies and trade-offs exist amongst approaches? A holistic approach is needed. Furthermore, for example in Burkina the MoA is not asking FAO to help with investment but asking for assistance in working with the Ministry of Finance in understanding the role of the agriculture sector within the economy.

Tomas Lindeman

More opportunities for RD than highlighted in the workshop exist. The role of institutions has been addressed, but the institutional innovations that are happening and how to fund the new institutions has not been discussed enough. Payment for environmental services (PES) can be one way. An example can be the case of the highland area between Peru, Bolivia and Ecuador. People need to be paid to remain in that location and continue to provide the environmental services they are currently providing.

Peter Hazell

We all agreed we need typologies.

The farming systems work was excellent and has been used a lot, but FAO didn't follow up on it. What has been done to introduce that work into practical work? That is a way to achieve real impact.

Not easy to learn from fieldwork. It is not enough to talk to the people in operations. The hard information is not there. Need to be more systematic in the collection of data, benchmarks etc. for sound monitoring and evaluation.

Willie Meyers

Continue the dialogue within and outside the house will be key to follow up on this.

Power is indeed important to influence change. Empowerment is also important.

Set up ESI (Economic and Social Investment Centre): The intellectual centre as TCI is the investment centre.

Kostas Stamoulis

Overwhelming amount of information and suggestions. As overwhelming is the lack of information we have, including what is happening within the house.

Follow up:

1. Completing the paper and reviewing them for publication
2. Need to assess resources and opportunities for partnership.
3. Institutionalise this type of workshop, to monitor our work (or a FAO session in WB rural week).

Will need to reflect on these issues and how to best follow up.

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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, Development Strategy and Governance 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