

7. Making trade work for the poor: the twin track approach to hunger and poverty reduction

Dismantling trade restrictions is expected to provide long-term benefits for most countries at the national level. Over time, most people are able to take advantage of these emerging opportunities, but the adjustments and transition process takes time and the costs for many households may be heavy, particularly in the short run. Moreover, the impact of agricultural trade policy reform affects households very differently, depending on their location, ownership of assets, and how they earn their livelihoods.

Trade reforms must be accompanied by government policies to enhance the capacity of the poor to share the gains from trade and to compensate those who lose from the process, perhaps through social safety net programmes. The overall domestic policy environment is just as important as trade policies and must be conducive to private investment and private activity.

The importance of well-functioning markets is critical for reaping the benefits from trade liberalization and easing the adjustment. The price signals that reallocate resources are transmitted through markets. If key markets are missing or not functioning properly, these signals cannot be transmitted. A lack of good infrastructure – particularly roads, ports, telecommunications and marketing infrastructure – can constrain a country's ability to participate in and benefit from international trade.

Previous chapters reviewed evidence on the channels and pathways through which trade liberalization permeates down to households, ultimately affecting household food security. In summary, effective access to the trade-related opportunities is influenced in large part by the degree of price transmission, which, in turn, depends on the location of the poor, their access to infrastructure and transportation costs. The flexibility of households and enterprises in adjusting to trade-related opportunities

is also highly dependent on factors such as their access to capital assets and to credit.

The work presented here suggests that effective labour markets are critical for determining how trade liberalization benefits can be spread beyond the immediate beneficiaries. Through its impact on general economic growth, liberalization can have significant, sustained long-run effects on levels of poverty and food security.

The main policy challenges for making trade liberalization work for the poor include:

- ensuring participation of all in the benefits of trade openness;
- facilitating the adjustment to a new set of relative prices;
- assisting people who are affected negatively.

Addressing these policy challenges requires a two-pronged approach. One line of action aims to ensure broad participation in the benefits and to facilitate the adjustment. A second line of action requires the establishment of direct assistance to provide food security to the groups who are affected negatively by the immediate impact of reforms. FAO's twin-track approach to poverty and hunger reduction provides an appropriate framework. Following an initial suggestion presented jointly by FAO, the International Fund for Agricultural Development (IFAD) and the World Food Programme (WFP) at the International Conference on Financing for Development in Monterrey, in March 2002, FAO first presented the twin track approach in more detail in its Anti-Hunger Programme (Box 11). In this framework, maximizing the contribution of trade, and agricultural trade in particular, to economic development is seen as but one, albeit indispensable, component of an overall development strategy for eliminating poverty and food insecurity. All measures proposed in this

BOX 11

Breaking the cycle of hunger and poverty: a twin-track strategy to reduce hunger and poverty

The extent to which the poor are able to take advantage of the opportunities provided by development depends critically on whether they are well nourished, in good health and literate. In particular, improvements in nutrition are a prerequisite for the poor to benefit fully from development opportunities. Hungry adults cannot efficiently perform physical and mental work, they fall sick more often and are likely to die young. Hunger perpetuates itself when undernourished mothers give birth to smaller babies who start life with a disadvantage. A vicious circle of hunger and poverty is created.

A twin-track approach is required for rapid success in reducing hunger and poverty:

- (a) create opportunities for the hungry to improve their livelihoods by promoting development, particularly agricultural and rural development, through policy reform and investments;
- (b) ensure direct and immediate action against hunger through programmes to enhance immediate access to food by the hungry, thereby increasing their productive potential.

FAO's "Anti-Hunger Programme", which was first released in draft form during the World Food Summit: *five years later*, held in Rome in June 2002, and in its final version during the FAO Conference in 2003,¹ sets out broad investment requirements and policy measures needed to implement the twin-track approach at the global level. It also proposes how the estimated extra public investment of \$19 billion per year to enhance agricultural growth and productivity could be financed jointly by donors and recipient countries. Costs would be divided equally between the governments of countries where hunger is a problem and international donors. This would represent a doubling of concessional funding for agriculture from developed countries and an average increase of around 20 percent in total expenditures for agriculture by developed countries.

¹ FAO. 2003c. *Anti-Hunger Programme: a twin-track approach to hunger reduction: priorities for national and international action*. Rome (also available at <ftp://ftp.fao.org/docrep/fao/006/j0563e/j0563e00.pdf>).

strategy are fully compatible with the WTO Agreements.

Track one: creating opportunities

A domestic policy environment for poverty and hunger reduction

Stable and predictable macroeconomic policies are important for encouraging savings and investment, discouraging capital flight and promoting efficiency. Although many developing countries have moved towards macroeconomic stability, budget allocations for agriculture often remain painfully low. Substantial increases in budget allocations are particularly critical where hunger and poverty

are prevalent and where the performance of agriculture, as the backbone of the economy, is well below potential.

Policy formulation and implementation should encourage participation by the poor and involve civil society organizations (CSOs) and the private sector. Administrative and fiscal decentralization makes it more likely that the poor will have a say in the decisions that affect them. It is important to enhance the functioning of markets through appropriate laws and regulations that ensure fair competition and safeguard market access by the poor.

Because agriculture is subject to a high degree of risk, it is also necessary to promote and improve instruments that address the

need for risk management, especially with regard to the most vulnerable. This includes measures to ensure that markets for financial services allow rural populations to save, lend and borrow more efficiently.

Also, policies geared towards the rural economy must take account of the growing importance of non-farm rural activities, which offer the poor an escape route from poverty and constitute an integral part of their risk management and coping strategies. Policies and institutions are needed to develop rural infrastructure, build entrepreneurial capacity and ensure competitive and fair markets for small-scale rural enterprises.

Improve agricultural productivity in poor rural communities

Improving the performance of small farms in poor rural and peri-urban communities offers one of the best and most sustainable avenues for reducing poverty and hunger and providing a foundation for equitable economic growth. In addition to increasing and diversifying food supplies in local markets, it may also create a base for expanding and diversifying farm output into tradeable products and open employment opportunities.

Success in on-farm development depends on the creation of a policy environment conducive to agricultural growth, supported by research and extension institutions that are responsive to locally articulated needs. In many cases success also depends on developments beyond the farm boundary, such as improvements in road infrastructure or in the supply of irrigation water.

This process requires the emergence of self-reliant community institutions that can take the lead in ensuring the food security of all their members, plough gains back into new investments and develop linkages with other communities through the sharing of knowledge and experience. Associations of smallholders and rural community organizations, in coalition with CSOs, can play an important role in redressing some of the most serious disadvantages faced by their members and non-members. These include insufficient access to natural, financial and human capital; lack of access to appropriate technologies and income-earning opportunities; high transaction costs

and insufficient access to markets; and lack of access to information, communications services and other public goods such as health and sanitation services.

Collective and coordinated action ensures greater responsiveness of the political process to the specific needs of communities and their members, prevents the abuse of pricing power for agricultural products and inputs by large buyers and sellers, allows producers to capture the considerable economies of scale existing in the procurement of inputs and marketing of outputs and facilitates the exchange of information and access to credit. The role of such partnerships and coalitions is particularly important in the face of government withdrawal from the provision of marketing services and credit.

Expand rural infrastructure and broaden market access

The rural areas of most developing countries still face inadequate levels of services and often a deteriorating stock of rural infrastructure. This infrastructural deficiency has resulted, *inter alia*, in reduced competitiveness of the agriculture of developing countries in domestic and international markets, and it has increased the costs of supplying growing urban markets from national farm production. Reversing the decline in the share of developing countries in world agricultural exports will require increased efforts by many developing countries to alleviate their domestic supply-side constraints. The highest priority must go to the upgrading and development of rural roads and to ensuring their maintenance, and to basic infrastructure to stimulate private-sector investment in food marketing, storage and processing.

Ensuring food safety and quality is an important factor in food security, as contaminated food is a major cause of illness and mortality. It is also important for broadening access to export markets. All developing countries are faced with an urgent need to invest in creating a stronger institutional capacity to ensure higher standards of food safety and quality and enable them to comply with international standards throughout the food chain. In an increasingly globalized market, it is also essential to take measures to prevent

the spread of livestock and crop pests and diseases across national boundaries.

Post-production operations account for more than 55 percent of the economic value of the agriculture sector in developing countries and up to 80 percent in developed countries. However, relatively little public-sector and developmental support is targeted at this sector in developing countries. Action is urgently needed to develop food-handling, processing, distribution and marketing enterprises by promoting the emergence of small-scale farmers' input supply, processing and marketing cooperatives and associations.

A critical policy problem in the provision of infrastructure is how to address the relative neglect of poor rural communities. While involvement of the private sector in infrastructure construction and servicing may increase efficiency and respond better to overall needs, it may also mean that poor farming regions continue to be underserved. The public sector should maintain an active role in infrastructure provision that benefits the poor: decentralization and community participation in infrastructure investment planning, implementation, maintenance and financing should be encouraged to ensure demand-driven, sustainable service delivery and various forms of public-private partnerships should be considered.

Strengthen capacity for knowledge generation and dissemination

Rapid improvements in livelihoods and food security through on-farm investments depend on small-scale farmers having good access to relevant knowledge. Such access requires effective knowledge-generation and dissemination systems, aimed at strengthening links among farmers, agricultural educators, researchers, extension workers and communicators. Agricultural research and technology development are likely to be dominated by the private sector. There remain, however, many areas of basic research and, especially, extension where those who have not paid for the research cannot be prevented from enjoying its benefits. Private companies would be unwilling to conduct research in such areas, yet they may be vital for agricultural development and the sustainable management of natural resources. They include, in the case of research, most forms

of pro-poor technology development and most approaches to farm development that do not depend on the increased use of purchased inputs – such as integrated pest management, measures to raise the organic matter content of soils or to improve fertilizer-use efficiency (e.g. through biological nitrogen fixation), or to conserve genetic resources. The responsibility for conducting research in these areas must, therefore, rest with the public sector.

National agricultural research and extension systems, many of which have deteriorated in their effectiveness, also need to increase their capacity to respond to the technology needs of small-scale farmers, particularly taking into account the acute labour shortage resulting from the HIV/AIDS epidemic in many African rural communities.

Policy action should aim at ensuring that the poor share the benefits of technological progress (in agriculture, information, energy and communications). This is particularly so for areas with poor agro-ecological potential, which are usually side-stepped by private commercial research. Public funding is required for the development and/or adaptation of technological options for those areas.

The emerging consensus is for a participatory approach to technology design and generation. Farmers' organizations, women's associations and groups and other CSOs can promote the necessary partnerships between farmers and scientists so that technological options are demand-driven and relevant. National policies should facilitate the establishment of functional linkages among research, extension education and communications.

Develop and conserve natural resources

With few exceptions, the scope for bringing additional natural resources into agricultural production (notably land and water resources) is limited. The only viable option is sustainable intensification, i.e. increasing the productivity of land, water and genetic resources in ways that do not compromise unacceptably the quality and future productive capacity of those resources. The policy environment must ensure that intensification is indeed sustainable and beneficial to the populations involved.

With regard to water, the key policy issue

is the growing competition between water requirements for agriculture and other water uses (domestic, industrial and ecosystem). As agriculture is by far the largest water user, the efficient use of water for agriculture should be the starting-point for expanding water availability for other uses. Policies affecting agricultural water use must provide incentives for efficiency gains and ensure that water scarcity is appropriately signalled to users. Transparent, stable and transferable rights to water use for individual users or groups of users are powerful instruments for promoting efficiency and distribution equity.

Concerning land for agricultural use, the most important policy issues are access and tenure (individual or community ownership, rental or longer-term user rights), improved land management practices and investments in soil fertility with a long-time horizon. Ensuring access to land contributes significantly to its sustainable use. In this context, strengthening women's rights to own and inherit land is particularly important. Policies should recognize the complexity of existing land tenure systems and of formal and informal arrangements regarding land-use rights. They should take into account the impact of increased mortality of the productive generation in rural areas as a result of HIV/AIDS and its potential impact on land-use patterns and inheritance arrangements.

Ensuring present and future access to a sufficient diversity of genetic resources for food and agriculture requires policy action at both the international and national levels.

For fisheries, the critical policy issue relates to limiting access to natural fish stocks where their capture, particularly marine, has reached or surpassed sustainable limits. Respecting limits on access to fish stocks requires that governments and fishing communities share authority and responsibility for making decisions about the use of fisheries resources.

In forestry, policies and institutions are needed to ensure full accounting of the value of the resource and benefits that accrue to the various members of society. These need to be incorporated into decision-making on utilization and conservation. Policies should encourage and promote the participation of key stakeholders in forest planning and management.

Track two: ensuring access

Beneficial trade liberalization hinges on getting food and income support to those who need it most. The principal objective of any food safety-net policy is the effective delivery of assistance to those in need.

It has been argued that trade barriers and price controls should remain on staple foods whose prices would rise following trade liberalization. However, this assumes that there would not be other foods that would be cheaper when opening to trade. Furthermore, there is no guarantee that those who are in most in need of food security support would actually benefit from import protection and price controls. Since the costs and benefits are opaque, such policy is likely to be captured by protectionist interests. Price controls and trade barriers are blunt – and often counterproductive – instruments in attempting to provide a food safety net for the poor.

A preferable policy for providing food safety nets for people who may lose from trade reform (in addition to those who are already hungry) is to provide direct food assistance. The advantage of direct assistance is that the costs (and benefits) of identifying the needy and distributing the food can be transparently assessed. The need to ensure direct access to food for the poor arises not only from humanitarian considerations and from the right to food, but also from the fact that it is a productive investment that can contribute greatly to fighting poverty.

Possible options for establishing food safety nets include:

- *Targeted direct feeding programmes.* These include school meals, the feeding of expectant and nursing mothers as well as children under five through primary health centres, soup kitchens and special canteens. Such schemes contribute to human resource development by encouraging children to attend school and improving the health and nutritional status of mothers and infants. They minimize nutrition-related illnesses and mortality among children, raise life expectancy and contribute to a fall in birth rates. Recent World

Health Organization estimates show that approximately 30 percent of children under five (approximately 200 million children) are more vulnerable to sickness and more likely to die early because of undernourishment.

- *Food-for-work programmes.* In many developing countries, a significant number of rural people are subsistence or below-subsistence farmers, producing only enough food to feed their families for part of the year. Food-for-work programmes provide support to such households while developing useful infrastructure such as small-scale irrigation, rural roads, buildings for rural health centres and schools.
- *Income-transfer programmes.* These can be in cash or in kind, including food stamps, subsidized rations and other targeted measures for poor households, and are also good means of increasing food-purchasing power and improving dietary intake.

Policies in this area should, *inter alia*, be derived from a human rights-based approach. A key policy prerequisite is the existence of information that identifies accurately who the hungry are and where they are located.

Programmes to provide direct assistance to the hungry can only succeed when national governments establish effective capacity for the delivery of such assistance. This requires a supportive national policy environment for the development of social safety nets, which can be provided in cooperation with CSOs.

Social safety-net policies specifically targeted at hunger reduction should give recognition to the special vulnerability of women and children to malnutrition at critical times in their lives and should support the creation and implementation of programmes such as mother–child feeding, related health and nutrition education and school feeding. A national commitment and relevant policies towards gender equality and women’s rights is essential to enhancing access to food. At the household level, an improved status of women has been shown to be the most important single variable in reducing malnutrition.

Are we on the right path?

This report argues that trade and further trade reform can stimulate growth and have a powerful influence on reducing poverty and food insecurity, but that a strong domestic policy environment is necessary to ensure positive outcomes. This chapter has laid out an investment strategy aimed at securing the long-term benefits of trade reform in agriculture while protecting the weakest members of society from harm. So, are developing countries and the international community of aid agencies and donors on the right path?

The recent commitment of an increasing number of agencies and donors to assisting the developing countries in reaching the MDGs is encouraging. For example, as a part of their Africa aid strategy, G8 members preliminarily agreed in June 2005 to forgive \$40 billion in debt owed by 18 of the world’s poorest countries – 14 of them in Africa. Several donors have pledged to raise their development assistance to 0.7 percent of GDP. In May 2005, the EU detailed how it plans to reach this goal, announcing specific targets for the 15 older members of the EU as well as lower targets for the 10 newer members. Yet these commitments still have to be translated into concrete action targeting the poor and hungry.

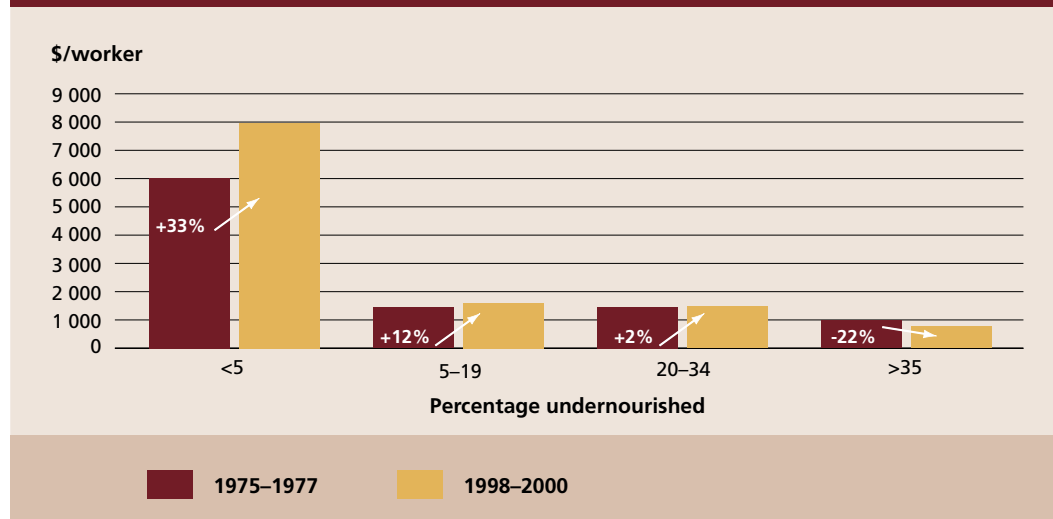
The following section outlines briefly where we are in terms of investing in the long-term development of the agriculture sector in developing countries and promoting the sector’s capacity for alleviating poverty and hunger.

Investment in agriculture lags where hunger is most prevalent

An overview of the data on private investment, public expenditures and external assistance to agriculture (EAA) in developing countries shows that the sector receives less investment and support in the very countries where hunger and poverty are widespread.

Most of the investment required to stimulate growth in the agriculture sector comes from private sources, mainly farmers themselves. A look at capital stock per agricultural worker in the primary agriculture of developing countries shows that it is extremely low and stagnant in countries

FIGURE 33
Agricultural capital stock per agricultural worker in developing countries
by prevalence of undernourishment in 2000–2002
 (At constant 1995 prices)



Source: FAO.

where prevalence of undernourishment is high, compared with those that have managed to reduce hunger.¹⁹

Moreover, this investment gap is growing. Countries with the lowest current levels of undernourishment (less than 5 percent of the population) have experienced strong growth in capital stock in agriculture since 1975. In all other categories, investment has increased little, if at all. And in the group of countries where more than one-third of the people are undernourished, the value of capital stock in primary agriculture has declined in real terms over the past quarter of a century (Figure 33).

Public investment fails to reflect the importance of agriculture

Public investment in infrastructure, agricultural research, education and extension is essential for stimulating private investment, agricultural production and resource conservation. The importance a government

gives to agriculture compared with the importance of the sector in the economy can be illustrated by creating an “agricultural orientation index”. This is found by dividing agriculture’s share of public expenditure by its share of GDP. Figure 34 shows that countries with lower levels of undernourishment provide the strongest agricultural orientation in their public expenditure. In comparison, in countries with high levels of undernourishment, the index is very low. This clearly suggests the need for strengthening public expenditure on the agriculture sector in order to exploit fully its potential contribution to employment creation, poverty alleviation and reduction of food insecurity.

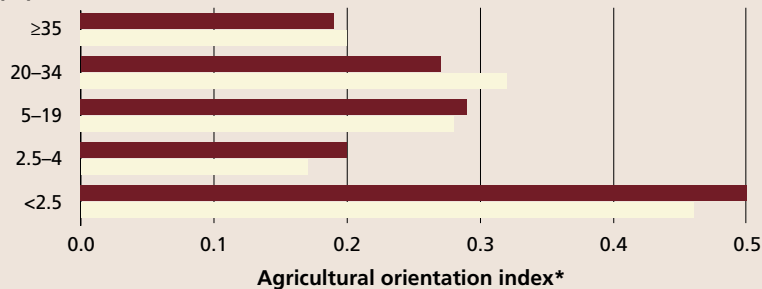
External assistance to agriculture does not target the neediest countries

External assistance is critical for very poor countries with limited ability to mobilize domestic private and public savings for investment. It is particularly critical for agriculture, which is largely bypassed by foreign private investors. Yet EAA declined at an alarming rate in real terms throughout the 1980s and stagnated in the 1990s. Despite pledges to increase aid, the most recent available data show no upward trend (Figure 35).

¹⁹ Capital stock in agriculture refers to replacement value in monetary terms (at the end of the year) of tangible fixed assets produced or acquired (such as machinery, structures, livestock and land improvements) for repeated use in agricultural production processes.

FIGURE 34
Agricultural orientation of public investment

Percentage of population undernourished



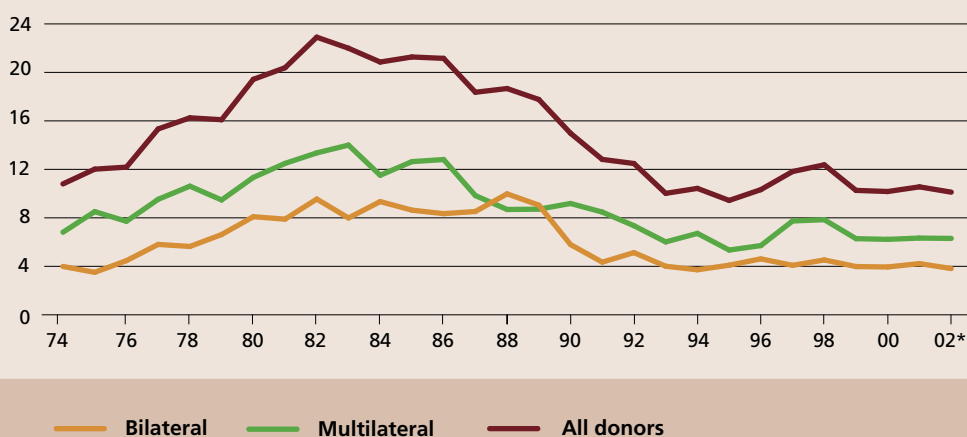
1990-92 average (light yellow bar) 1996-98 average** (dark red bar)

* Share of agriculture in total public expenditures / Share of agriculture in GDP.
** Or most recent period for which data are available.

Source: FAO.

FIGURE 35
Long-term trend in external assistance to agriculture, 1974-2002
(At constant 2000 prices)

Billion \$



* Provisional data.

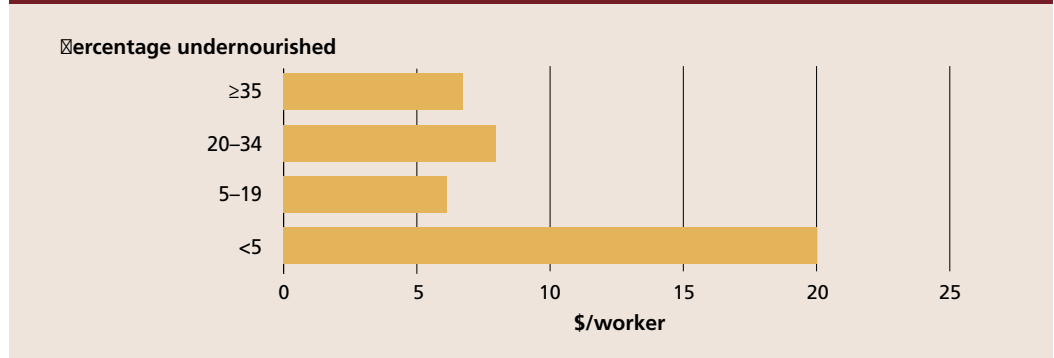
Source: FAO.

It also appears that EAA is not related to need. Data for 1998-2000 indicate that countries where less than 5 percent of the population were undernourished received three times as much assistance per agricultural worker as countries where more than 35 percent of the population were undernourished (Figure 36).

Summary

The common lessons, findings and insights, as well as the resolved and unresolved policy issues presented in this issue of *The State of Food and Agriculture*, reveal how trade-poverty linkages can be best used to

FIGURE 36
External assistance to agriculture per agricultural worker
by prevalence of undernourishment, 1998–2000
(At constant 2000 prices)



Source: FAO.

enhance food security, address inequality and improve overall economic growth. The trade–poverty linkages are so complex, however, and national experiences with reform so different, that concluding with a set of unambiguous messages and stepwise policy guidance is an impossible task.

Exactly how trade affects poverty and food security depends upon each country's specific circumstances, including the situation and location of the poor and food-insecure and the specific reforms undertaken. Understanding and managing these relationships requires country-specific research and country-specific policies. One size does not fit all.

FAO's ongoing studies and analyses, to date, provide encouraging lessons and broad, strategic development guidance. For example, among the many important lessons is the need for policy-makers to consider more carefully than they have in the past how trade policies can be used positively to promote pro-poor growth. This involves actively implementing policies and making investments that complement trade reforms to enable the poor to take advantage of trade-related opportunities, while establishing safety nets to protect vulnerable members of society.

The analysis presented here concludes that multilateral trade liberalization offers opportunities for the poor and food-insecure by acting as a catalyst for change and by promoting conditions in which

the food-insecure are able to raise their incomes and live longer, healthier and more productive lives. Trade liberalization also has adverse effects for some countries and households, especially in the short run as productive sectors and labour markets adjust. Opening national agricultural markets to international competition before basic market institutions and infrastructure are in place can undermine the agriculture sector with long-term negative consequences for poverty and food security.

To help minimize the adverse effects and to take better advantage of emerging opportunities, governments need to:

- clarify how trade policy fits into the national strategy to promote *poverty reduction and food security*;
- understand how the trade reform process and the broader set of economy-wide and sector-specific policies affect relative prices at the border;
- develop and use analytical tools to anticipate how trade policies may affect employment, local markets and distribution networks, and which economic and social sectors, which parts of the country, and which types of skills are affected.

To take advantage of the opportunities trade offers for pro-poor outcomes, consistent and sustained policy interventions are needed. Investments are required in

rural infrastructure, human capital and other public goods, with priority being given to the expenditures and investments that are most essential to the poor and to the long-run viability of their livelihoods.

Safety nets are needed both to protect vulnerable groups from trade-related shocks and to allow the poor to take advantage of economic opportunities arising from trade. Of course, trade and trade reforms are not the only source of shocks faced by the poor and food-insecure. A host of other shocks –

natural, human-induced and market-related – can spell disaster in the absence of effective safety nets.

Safety nets are not a substitute for addressing weak institutions, inadequate infrastructure and distorted factor markets, or for making essential investments in health, sanitation and education for rural people. As articulated by FAO's twin-track approach to hunger reduction, safety nets are an essential complement to these fundamental actions in preparation for more open markets.