Which Transition for Agriculture in Africa?

The role of agriculture in the global transition of the continent

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Reconnecting Issues…

- With the recent food price crisis and confirmation of its implications for poverty reduction (see WDR08), agriculture is clearly back on the agenda.

- Our two first sessions have targeted the specific challenges of African agriculture:
  - *Increasing agriculture productivity and sustainability*
  - *Integrating agriculture into global markets*

- With our third session on managing agricultural transition, it appears that broadening the scope is imperative.
**The African Challenges**

- SSA has to deal simultaneously with:
  - *Its economic transition:* the continent remains at the beginning of the historical transition process from agriculture to industries and services (showing little evolution over the last 40 years);
  - An unachieved **demographic transition** with high population growth rates (2 to 3.2%/year);
  - *In the context of* **globalization**

=> A unique moment in world history
Main Thrusts

Facing these challenges, agriculture’s role is central:

- It has historically been the mainstay of structural transformation
- It is and will remain the main sector of activity and employment in the coming years

Africa’s agriculture transition must be conceived as part and parcel of these overwhelming global challenges

Agricultural policy must:

- Be included in a global development strategy
- Identify value chains able to promote inclusive growth (targeting “the many”)
- Carefully select appropriate intensification means to increase production and develop employment
- Avoid one-size-fits-all solution and adapt measures to local contexts and farm endowment
References

This presentation refers to arguments developed in an on-going study and research program named RuralStruc, funded by the World Bank, France, and IFAD

- A 3-year comparative study (7 countries)
- A focus on integration processes in DCs, specialization and diversification, marginalization and migrations
The Economic Transition

- SSA remains characterized by a low level of economic diversification:
  
  - Agriculture still keeps a central role in GDP, trade and labor force (60% of the EAP and 70 to 80% in Sahelian countries)
  
  - The huge urbanization process is characterized by its “low regime” and the lack of industrialization
  
  - This situation is related to the difficulty of infant industries in the context of an increasing international competition
The Demographic Transition

- SSA faces an immense demographic push (as in South Asia) and has yet to deal with the last world demographic transition

  - The 720 millions SSA Africans will probably be 1.1 billion in 2025 and could be 1.7 billion in 2050

- The demographic pattern is changing rapidly:

  - The activity ratio remained extremely low for several decades: it was a heavy burden on SSA’s growth
  - The growing labor force presents a major opportunity, if growth is strong enough to provide massive increases in productive jobs
  - **BUT** it can be a major burden on the economy, if growth is lagging, with insufficient job creation generating exceptional tensions
Activity Ratio: 1950 - 2050

Year

Activity Ratio (EAP/Total non-EAP)
0.90 1.10 1.30 1.50 1.70 1.90 2.10 2.30 2.50

Countries:
- Eastern Asia
- Europe
- Latin America and the Caribbean
- South-Central Asia
- Sub-Saharan Africa
The Demographic Transition (2)

- Present tensions will increase on the “labor market” with growing yearly cohorts:
  - around 10 million today (and could be near 20 million in the 2030s)
  - Around 200 to 250,000 for a medium size African country today (and could be near 350 to 400,000 in the 2030s)

- In that context, the absorption capacity by the economy of this growing labor force is the core issue
  - Absorption mainly relies today on the informal sector (rural and urban)
  - Formal employment is scarce: tens -- versus hundreds -- of thousands
  - With 60% of the EAP, agriculture remains and will remain the main absorption sector of the growing labor force
Yearly Increase of the Labor Force


EAP Yearly Cohorts (millions)

- Eastern Asia
- Europe
- Latin America and the Caribbean
- South-Central Asia
- Sub-Saharan Africa
The Role of Agriculture in SSA’s Transition and What It Means

- Agriculture’s role goes beyond poverty and food security
  - These 2 objectives are of course indisputable
  - But agriculture must play a central role in the economic transition of the continent
- Consequently, the future of agriculture must be put in perspective with the global economic and social development of every SSA country
  - “Agriculture is not an island” and stand-alone policies cannot be enough
  - Agricultural policies must be connected and sequenced with the development of other sectors, with rural development, and urban growth management...

=> Policy options must be articulated within development strategies
The Major Drivers of Transition

- The historical economic transition from agriculture to other sectors has always relied on a mix of specialization in agriculture on one side, and rural diversification and migrations on the other side.

- This remains the dominant vision (see WDR08).

- However, today, particularly in SSA countries, these three options – specialization, diversification, and migrations – are challenging and disputable.
Specialization in Agriculture

- Specialization is a clear option with increasing opportunities related to new markets.
- But specialization also means growing constraints: integration in new demand-driven markets require specific assets (capital, skills).
- A small share of producers is able to engage in specialization because:
  - Economic and institutional environment is difficult: lack of infrastructures, imperfect or missing markets (inputs, credit, insurance, etc.).
  - The average farm/rural income does not allow accumulation and investment.

=> SSA has to deal with long-standing poverty.
Average Rural Income in the RuralStruc Sample
(per adult equivalent/day in US$ ppp)
Diversification of Rural Income and Activities

- Historically, rural diversification has been a natural trend:
  - It develops first with farm income improvement
  - Which leads to growing investment capacities and rural demand in goods and services

- In SSA, rural diversification today is a common feature but:
  - Low farm incomes are the main constraint
  - Diversification appears often as a way of adaptation/survival: it does not systematically lead to households’ income improvement
  - Diversification processes do not show a common pattern: they vary broadly depending on local opportunities and constraints
Structure of Rural Income (RuralStruc Sample)

- Agricultural production
- Livestock production
- Hunting, Fishing and gathering activities
- Transformation of agricultural products
- Agricultural Labor (agricultural wages)
- Non-agricultural labor (non-agricultural wages)
- Self-employment
- Public transfers
- Private transfers
- Rents
- Other
Migrations

- Migrations are the main exit option out of rural poverty and a strong driver of structural transformation
  - However, their viability relies on existing employment alternatives in cities, other regions, or countries

- At the national level:
  - The existing opportunities in SSA cities are scarce (low industrialization) and prospects remain limited
  - The informal sector absorbs most of the migrants (low paid jobs)

- At the international level:
  - Economic and geopolitical constraints are the core issue
  - There is no possible replication of the age of the “white mass migrations”
  - The average migration rate of the “peripheral countries” (around 10%) is barely reproducible (= 72 M African migrants)

=> The pressure for international migration will grow, but SSA countries will have to cope with their increasing population long into the future
How to Help the Transition?

- Public policies must deal with the “big numbers”:
  
  $=>$ *In order to adapt to an increasing labor force, policy design must target an inclusive and sustainable growth process*

- This core objective shapes the priorities for agriculture in terms of strategic choices regarding:
  - *The type of markets*
  - *The type of modernization processes*
Types of markets

- International market opportunities must be taken whenever possible, particularly high value products and also traditional exports, when competitive advantages exist.
  - However their requirements are often challenging and limit access.

- But, domestic and regional food markets must be a priority:
  - They are the most inclusive because every farm crops food products and they have huge distribution effects.
  - They have the highest growth potential (increasing demand).
  - They release the potential for diversification by counteracting the risks of food access.
  - They can boost local value addition (transformation).
Types of Modernization

- Modernization policies to increase productivity must be carefully formulated
- Many well-known ingredients exist: public goods provision, improvement of imperfect markets, incentives for the development of incomplete or missing markets
- However, careful design is needed in order to deal with farm and agrarian structures and natural resources. Selected techniques must:
  - Prioritize land productivity
  - Avoid any immoderate job destruction (if effective alternatives do not exist)
  - Deal with externalities (inputs) and natural resource management
  - Be adapted to local situations and farm characteristics (differentiated tools)
Policy Design

- In order to deal with these challenges, particularly with the low investment capacities of farm and rural households, strong agricultural and rural development policies must be designed and implemented through structural investments (infrastructures) and targeted support.

- Knowledge remains a core issue: a better understanding of the processes underway is the key for better policy making.

- Designing agricultural policies as a central component of development strategies will help agriculture transition and will also foster its contribution to the economic transition of the continent.
Thank You for Your Attention