Employment and Development
What Do We Know and What Can We Do?

International Conference convened by
Institute for the Study of Labor (IZA) and KfW Entwicklungsbank

15 - 16 March 2012 at KfW Berlin
Workshop 3 Summary

“Productivity growth, regional development and the agricultural sector”

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Agriculture provides labour for about 1 billion people, or about 35% of the worldwide workforce, making it the largest employer. Of that figure, more than 95% are found in developing countries, though in individual countries the share can be very different depending on the natural endowment and the economic structure. The workforce is very heterogeneous: self-employed (farmers with very different size production, but mostly smallholders), wage earners, employers, and unpaid family labour. Most are unskilled. Although agriculture provides a basic standard of living for the majority of the global population, does not provide enough income for most of them – smallholders form the bulk of the poor. However, productivity of agriculture is generally underestimated in macro-economic analyses since most people which declare themselves employed in agriculture have considerable off-farm incomes. Particularly critical groups are children, dependent tenants, seasonal migrants, and indigenous populations. Gender differences can be marketed. A particularity of jobs in agriculture is that they are deeply embedded into agrarian societies with strong traditional values. In addition, rural areas are marked by dependence on the vagaries of nature and high transaction costs (transport, communication, remoteness, landscape, language, weak formal institutions overlapping with traditional institutions, weak contract enforcements) which requires costly, tailor-made solutions.

Agriculture and its profitability in developing countries are argued to have suffered in the past from several trends which will not continue into the future. Agricultural prices were depressed by very high productivity gains and moderate increases in area, low energy and oil (and nitrogen fertiliser) prices favouring an external input-intensive production model, low regards for environmental externalities, and a moderate expansion of economic progress and western consumption styles in the global south. Low prices meant low incomes for farmers, low wages in agriculture and widespread rural poverty. At the same time, they favoured rural-urban migration and therefore structural change. Since the prices crisis 2007/08 it is increasingly becoming clear that some of these trends will be changed. Energy and oil prices will increase, raising production costs. Climate change and climate change policies will further reduce use of fossil fuels and energy, and increase production costs. Higher demand for food, feed, bio energy, fibre and other material oil substitutes will increase demand for agricultural products. Higher agricultural prices will favour incomes and wages in agriculture and dampen structural change, without stopping it. Whether this will ultimately reduce rural poverty is, however, still an open question because along with increasing prices, higher requirements for quality, traceability, food safety and other standards will challenge smallholders and encourage larger units and agricultural industrialisation leading to large scale land acquisitions.
Gabriele Köhler (IDS): Public works schemes and employment generation: the South Asia policy contribution

In response to the question of how to foster employment rather than capital intensity, Gabriele Koehler presented findings on South Asian public work schemes as a policy example. The existing situation is that despite the fact that most poor people are working, they are not able to make a decent living from their work.¹

Generic responses at the global level include the decent work agenda, as developed by the ILO, and different approaches to offering social protection, including public work schemes. The global social floors initiative of the UN, to be adopted as an ILO recommendation shortly, is a major policy effort in that direction.²

In South Asia there are specific challenges. The first is the situation of working poverty and the persistent informality and casualisation of work, with 90% of the labour force in India, for example, working in the informal economy. Another is the surge of new labour force entrants, with South Asia needing to generate between 1 and 1.2 million jobs every month if it is to absorb the growing labour force.

South Asia is emerging as a policy innovator³ in the realm of social policy, social protection, and employment policies in particular. One observes a suite of public work schemes in India, Bangladesh, Nepal and, to some degree also in Pakistan, that are guaranteeing 100 days of work, notionally paid at minimum wage levels, and cast as a legal right, since compensation in the form of social transfers is paid if a work scheme can not be arranged in the claiming household's vicinity. Other features include quotas for women's work and a focus on disadvantaged castes. The Indian scheme, the Mahatma Gandhi National Rural Employment Guarantee Act, is the largest, covering 55 million households in 2010 and costing 0.55% of GDP or 11% of the annual fiscal budget at the federal level. It has built-in mechanisms for monitoring and accountability.

A quick look at the schemes shows patchy information on outcomes, but records show that since the schemes' introduction between 15 and 45 days of work on average per household were generated in recent years.

An assessment of this South Asian approach to generate employment reveals mixed findings:

- There is a – much welcomed - focus on employment for low skilled people in rural areas, as a response to hunger/food insecurity; income poverty; and distress migration. There is a built-in rights discourse, and the public works schemes are set in a larger context of related social and economic policies. However, there is however little emphasis on skills building and productivity. This is because the public works schemes are conceptualised as a rapid response to extreme poverty, and are designed to be locally anchored, precluding sophisticated planning and engineering. Moreover, they do not take adequate account of employment opportunities that would be less physically taxing, such as generating remunerative work in the care economy.

- There is also a lack of attention to sustainability, in the sense of creating long-term, up-scale incomes and employment. The public works schemes also do not address power relations in the rural economy. And except for the case of Bangladesh, they lack systematic environmental screening.

Oliver Lenze (DEG): Five hypotheses

1) All investments in agriculture, in particular private...
investments, are needed and most-welcome (if certain environmental and social standards are complied with).

2) Private investors are looking for investment opportunities that include economically sustainable technologies. Economically sustainable technologies are often capital-intensive and not employment intensive.

3) Private investments inject fresh cash into the money flow and provide farmers in rural areas with money as a means of exchange. Cash is an entrance card for taking part in trade at local markets.

4) The role of a Development Finance Institution (DFI) like DEG is (i) to mobilise funding for desired sectors and (ii) to promote high environmental and social standards, not necessarily to promote employment intensive technologies.

5) From a private investor’s / DFI’s perspective (like DEG), out-grower schemes can have advantages, especially a continuous supply at desired quality. Therefore, the risk of side selling must be properly managed. Smallholders are not as helpless as widely believed. If they feel unfairly treated (regarding payment etc.), they find ways to punish their contract partners (e.g. via side selling etc.). In order to avoid problems like side selling and low quality, intensive relationships between the outgrowers and the contractors are needed. Outgrower schemes can provide a big opportunity for smallholders (“the bottom of the pyramid”) to become integrated into the global value chain.

Results of group work

How to improve market access for (small) farmers that contributes to increased incomes and employment?

In order to provide sustainable market access for small-scale farmers and to thus create better income opportunities and generate employment, the following three step approach is suggested. Firstly, the agricultural sector has to be differentiated by value chains, locations and actors (traditional farmers, open markets, and modern integrated markets) and different strategies are likely to be of relevance for different segments. Secondly, a supportive macro-economic framework (constant, possibly slightly devalued exchange rates to address price volatility, free trade arrangements and regional integration, priority setting at the national level, market transparency etc.) is needed. Thirdly, with a focus on traditional and largely small-scale farmers, a market-oriented approach intervening at the meso and micro-levels will be required. Meso-level interventions include the strengthening of support institutions as well as financial and non-financial advisory services (research & development, certification, support of public-private and private-private partnerships) as well as infrastructure development (ICT, roads, electricity, water, etc). At the micro-level, it will be important to support the effective representation of small-scale farmers (through cooperatives, but also enterprise networks, clusters, value chain arrangements), and the development of technical and managerial skills (to facilitate the absorption of financial and non-financial advisory services and to approach farming as a business activity). Further questions are: How to create access to finance? How to achieve knowledge transfer (including in a private-private context, e.g. along value/supply chains or within clusters)? What else is needed: education or finance? How to promote the development of new and intermediary support services and BDS?
How to achieve structural change in rural areas that contributes to more and better jobs?

In order to achieve structural change in rural areas that contributes to more and better jobs the prototype "the three pronged approach" has been developed. First, the agricultural sector should be professionalized and value chains in high potential areas have to be promoted (SME Development in the value chains, skills development according to needs and with involvement of the private sector). Second, public work schemes should be provided for unskilled labour and as compensation for periods of acute unemployment (like building of roads, terraces, and soil protection). Thirdly, transition strategies for low potential areas have to be developed. Further questions are: Which framework conditions are required? Should there be high parcelation or land accumulation? Is employment or capital intensive-production the right approach? How can productivity be increased? And does higher productivity mean higher income and decent work?

Further key insights and key questions

To increase food security in developing countries and to give smallholders a chance to survive, small-scale farmers must be supported. Seen from this perspective, jobs in the agricultural (subsistence) sector are "right" jobs and the existing agricultural structure should be strengthened. But the aim should not be to have as many people as possible working in the agricultural sector. A sustainable, efficient agricultural sector is needed, and for those living in rural areas, better working conditions should be found. Support in the form of both technical and managerial training is needed in order to transform jobs in the agricultural sector to good jobs and to meet increased demand for agricultural raw materials. However, the question “who should be addressed by qualification measures to create multiplier effects?” is difficult to answer. New jobs in rural areas could be created in processing by small and medium-sized enterprises. Through outgrower schemes and other initiatives to support access to relevant supply chains, smallholders are able to generate higher incomes.

Open questions include: How can the “youth” be integrated into the agricultural sector? What is the proportion of the informal and the formal agricultural sector? How big is the contribution of the informal sector to employment and rural incomes? How efficient are the existing resources used? How can productivity be increased? Which development strategies for the agricultural sector exist? How can good jobs really be created? What role does migration out of rural areas play for the agricultural sector? How to plan, coordinate and govern investments in agriculture? How can the effectiveness of private investments in the agricultural sector be measured, controlled and promoted? How to take the right policy decision (especially regarding “food security” - cheap food for the urban population vs increasing prices to investment in rural areas)?. Do cash crops really matter?

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