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## **Foreword**

### **Beyond agriculture?**

### **The promise of the rural economy for growth and poverty reduction**

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In January 2006, the Agricultural and Development Economics Division of FAO gathered experts from around the world to a workshop to discuss major issues of relevance for rural development and rural poverty alleviation in today's rapidly changing and globalizing world. Agricultural markets are changing at unprecedented speed through vertical integration of supply chains and demands for ever more stringent food safety standards. Another significant trend affecting the rural world is the growth in migration and remittances, which can imply an increased availability of private funds to promote rural development but, at the same time, carries the risk of constraining farm output as working hands leave the fields behind. Also, the rural non-farm economy is becoming increasingly important as a source of employment and income in the rural areas, pointing towards possible new development paths for poor rural economies. All of these factors are causing transformations in agricultural systems on a scale and pace perhaps

never seen before. It is in this new context that FAO asked an international group of experts to help re-think rural development policies in a changing rural landscape.

The two overarching questions addressed by the workshop were: firstly, the identification of the most significant changes taking place in the rural economies of the developing world, as well as the driving forces behind them; and, secondly, the implications of these for the design of effective rural development and poverty alleviation policies. The first part of the workshop focused on the transformation of agricultural systems and different rural development paradigms. The workshop then moved on to a discussion of the importance of the non-farm sector in the rural economy and its role as a catalyst for rural development. The third session of the workshop drew attention to the role of migration for rural development and presented an assessment of the magnitude of the phenomenon as well as its implications for the rural economy. The workshop then moved on to an analysis of the role of public expenditures in the promotion of rural development and the importance of the allocation of funds for the provision of public goods. Finally, representatives of international development banks illustrated the characteristics of the rural development strategies currently being promoted by their institutions<sup>1</sup>.

This special edition of *e-JADE* contains a selection of the papers presented during the workshop. In the first essay, “Rural Development and Poverty Reduction: Is Agriculture Still the Key?” Anríquez and Stamoulis present an historical overview of perceptions of the role of agriculture and of agricultural development in the context of overall rural development. The authors illustrate the reasons for the historical neglect of the agricultural sector by development policies and argue that some of the past misgivings were unfounded. The paper then discusses the circumstances under which agricultural development is a precondition for rural development and when multi-sectoral or territorial approaches can be successfully pursued.

Peter Hazell in “Transformations in Agriculture and their Implications for Rural Development” makes a compelling case for not ignoring food staples in an agricultural and rural development strategy. This advice is born from an in-depth analysis of the realities of the rural economies of

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<sup>1</sup> Further information about the workshop is available at [http://www.fao.org/es/esa/en/conf\\_rural.htm](http://www.fao.org/es/esa/en/conf_rural.htm) .

sub-Saharan Africa. The author explains how staples like maize, sorghum and millets are the main agricultural output in the continent. While domestic consumption of food staples still accounts for about 70 percent of output, increasing commercialization and urbanization also offers significant potential for increased market transactions for food staples. The author argues that markets for food staples are inherently different from markets for many high value crops and emphasizes the role of the state in the supply chains of staples in the early stages of agricultural development.

A radically different focus, born from the rural realities of Latin America, is proposed by de Janvry and Sadoulet. In “Toward a territorial approach to rural development” the authors explore the localization of rural poverty in Latin America: a portion of the poor in the region are found in areas of low population density characterized by poor agro-ecological endowments and/or isolated from access to main markets and employment centers; the remaining part of the poor live in favorable areas, defined as such by good access to markets and favorable agro-ecological conditions. In this geo-economic context, the authors suggest a policy of promotion of the areas with favorable conditions as a way of indirectly pulling the whole rural economy in a territorial approach to rural development.

The rest of the papers in this special edition of *e-JADE* deal with more specific topics in the rural development debate. In “Migration and Rural Development” Robert E.B. Lucas presents a brief but comprehensive overview of the known linkages between migration and rural development; and outlines some of the potentially much larger, but as yet unexplored, relations between them. For example, Lucas argues that internal rural-rural migration and South-South international migration may be greater in magnitude and importance than international South-North international migration, but that there is still very little evidence about this type of migratory flows, both in terms of their magnitude and their effects.

In “Fiscal Policies in Highly Unequal Societies: Implications for Agricultural Growth,” Ramón López presents a summary of his recent research on public spending and rural development. The author argues that the diversion of public funds to spending on private goods or subsidies, rather than public goods, directly reduces both the productivity of private investment, due to

complementarity of public and private investments, and public investments in human capital and/or the natural resource base, both of which are usually the only assets of the rural poor. Thus, misallocation of public expenditures in favor of private goods and subsidies has measurable negative effects on rural development and poverty alleviation. He investigates these hypotheses with different cross-country regression analyses from Latin America.

The final paper in this collection presents preliminary results from the Rural Income Generating Activities (RIGA) project run by FAO. Carletto et al. argue that the promotion of the non-farm sector within a rural development strategy requires a clear understanding of the importance of the sector in the rural economy and of its interaction with agriculture. The work presented in “Rural Income Generating Activities in Developing Countries: Re-assessing the Evidence” presents the first results of a large effort to provide internationally comparable numbers on the relative importance of the non-farm economy at the household level. The paper brings to light the fact that, even in economies with a degree of specialization on agricultural production, households still tend to have more diversified income profiles.

With this edition of *e-JADE* the Agricultural and Development Economics Division of FAO wishes further the discussion and understanding of rural development strategies that are adapted to today’s rapidly changing rural realities. The ultimate objective is to contribute to the promotion of rural development in the international policy agenda based on solid analysis and a well-grounded discourse.