The 16th Session of the UN Commission on Sustainable Development (CSD-16)

Thematic Session:
Agriculture and Rural Development
“Non-farm Activities, Including Agribusiness”
New York, 07 May 2008

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Structure of the Presentation

I. Economic Growth & Rural Development
   – Importance of Non-farm/Agribusiness Activities

II. Trends in Agro-industrial Development

III. Policy Recommendations

Reducing poverty through sustainable industrial growth
"...there are several models to describe GDP Growth but, in essence, the variables involved are similar..."

**Harrod-Domar**
(filling the financing gap)

**R. Solow**
(capital + labour + technological changes)
“total factor productivity (TFP) growth”

**Rebelo**
(endogenous growth models)

**Mankiw-Romer-Weil**
(“exogenous” growth models)

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**1. CAPITAL & 2. TECH. CHANGES**

**Diff. Variables**
(fundamental determinants)
“Incentives”

**Speed of Growth**
(if sustainable):
→ Development

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...and the ‘engine’ of most developing economies shall be the secondary & the tertiary industries, with expressive shifts of labour within sectors...

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**Composition of GDP**

<table>
<thead>
<tr>
<th></th>
<th>Av. GDP High-income Countries (%)</th>
<th>Av. GDP Low &amp; Middle-income Countries (%)</th>
</tr>
</thead>
</table>
| PRIMARY
Agriculture   | 2                                | 11                                       |
| SECONDARY
Industry (+ Construction) | 27                             | 35                                       |
| TERTIARY
Services     | 71                               | 54                                       |

Industry and Development

Martin Wolf in the Financial Times*: 

“...the priority in development is rapid and sustained growth. Only industrialisation can deliver such growth, because industry is the only sector in which rapid and sustained rises in productivity are feasible.”


Reducing poverty through sustainable industrial growth

...the correlation between HDI & the agribusiness to agriculture ratio shows relevance of agro-industries in development...

Source: Jaffee et al (2003) and Human Development Statistics (UN)
...although the share of MVA of developing countries has increased in the last 25 years it still responds to a limited amount of the world MVA...

Distribution of World MVA (%) (2005)

Source: UNIDO, 2006; MVA – Manufactured Value Added

...& Latin America, West Asia/Europe & Africa have even experienced a decrease, respectively from 47 to 20%, 12 to 05% & from 06 to 03%...

Dist. of MVA by Developing Country Groups (%) 2005

Source: UNIDO, 2006
…the *non-farm* activities, including *agribusiness*, absorb an expressive portion of the *workforce*, particularly *women*…

<table>
<thead>
<tr>
<th>World Region</th>
<th>Non-farm Share of Rural Workforce</th>
<th>Women’s Share of Rural Non-farm Employt</th>
<th>Manufacturing</th>
<th>Trade &amp; Transport</th>
<th>Financial &amp; Personal Services</th>
<th>Const., Utilities, Mining &amp; Others</th>
<th>Total Rural Non-farm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>11</td>
<td>25</td>
<td>23</td>
<td>22</td>
<td>25</td>
<td>30</td>
<td>100</td>
</tr>
<tr>
<td>Asia</td>
<td>25</td>
<td>20</td>
<td>28</td>
<td>26</td>
<td>32</td>
<td>14</td>
<td>100</td>
</tr>
<tr>
<td>Latin America</td>
<td>36</td>
<td>27</td>
<td>20</td>
<td>20</td>
<td>27</td>
<td>33</td>
<td>100</td>
</tr>
<tr>
<td>West Asia &amp; N.Africa</td>
<td>22</td>
<td>11</td>
<td>23</td>
<td>22</td>
<td>32</td>
<td>23</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source:* 31 population censuses as summarized by Hazell, Haggblade & Reardon, *2005*

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...the production/trade of most agricultural products today requires special skills & complex knowledge of technology...

…there are clear facts & trends in EMPLOYMENT & INCOME in agro-industries that help to establish linkages w/ development strategies...

(i) Agro-industries in developing countries can represent as much as 50% of the manufacturing sector: 61% (agriculture-based); 42% (transition) & 37% (urbanized);

(ii) Key role in employment generation even in developed economies: 13% at the EU (1st); 9% in USA (3rd);

(iii) In developing countries (75% of poor in rural areas) non-farm earnings ➞ 30-45% of household income;

(iv) Increasing levels of female participation (50 – >80% in non–traditional food processing sectors);

(v) Informality levels within the food & beverages sector in developing economies estimated at an average of 60%

Source: Wilkinson and Rocha, 2007 for UNIDO
...the same with **TRADE & FDI**, there are clear **facts & trends** that allow policy makers to design development strategies...

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**(i)** Share of **agro-ind. products** in **global agricultural trade** increased from **26%** (1980/81) to **38%** in 2000/01;

***(ii)*** Developing countries maintained, within the last **20** years, the **same global agri-market** share (**36%**) but **trade composition** has **changed** dramatically;

***(iii)*** The **non-traditional food exports** (vegetables, fruits, fish & other products of the animal protein complex) to **HIC** & large **UMIC** represent today the bulk of exports;

***(iv)*** However, **small** share of **traded processed products** in **total food sales** (**10%**) points to **importance of FDI** that grew much faster than **trade in last two decades**;

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Source: Wilkinson and Rocha, 2007 for UNIDO

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... as shown in this chart with data from **2002**, only a **small percentage** of the **global processed food** is **traded**, which confirms the importance of **FDIs** in this industry...

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Source: Trade data from UN COMTRADE, 2002 & Euromonitor; Gehlhar and Regmi, 2005
(v) But only few developing countries are dominating food South-South trade (Argentina, Brazil, Chile, Indonesia, Malaysia, Thailand & Turkey);

(vi) 80% of global food & beverage sales are processed products – 60% of which are consumed in high-income countries (HIC);

(vii) However, growth in processed food consumption fastest in developing countries: 2-3% for HICs but 7% in UMICs, 28% in LMICs & 13% in LICs annually between 1996-2002;

(viii) Urbanization led domestic markets of developing countries (& South-South trade) into the principal source of expansion of the global agri-food system.

Source: Wilkinson and Rocha, 2007 for UNIDO

...before recommending any policy one should look into productivity growth as shown in the shift of the “World Technology Frontier” over time...

Source: UNIDO – Isaksson, 2005
...the potential for advancing technologically & also for continuously increasing productivity is defined by investments in three areas of an economy: (i) R&D; (ii) education; & (iii) infrastructure, which are sources of public goods...

...but it is not enough: the actual degree of utilization of this potential is defined by the ability of the public sector to create a pro-productivity business environment...

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Reducing poverty through sustainable industrial growth
1. **Stabilization policies** to minimize macroeconomic shocks

2. **Allocation policies** to set the right structure of expenditures on *R&D, education & infrastructure*

3. **Re-distribution policies** to support the demand for education & development of the required human resources for this specific industry

4. **Micro-policies** to suppress market distortions, lack of information & to stimulate production of the chain

5. And occasionally, **demand policies** to consolidate the consumption of the “targeted” commodities

...& this is carried out with the *establishment*, by the *public sector*, of the proper *policies*, which can be summarized in *five* groups...

...under those *five* groups it is possible to identify major *policy issues*, which would need to be taken into account in development strategies...

<table>
<thead>
<tr>
<th>Groups of Policies</th>
<th>Recommended Policy Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. <strong>Allocation policies</strong> for right structure of exp. on <em>R&amp;D</em>, <em>education &amp; infrastructure</em></td>
<td>(i) infrastructure <em>non-farm</em> areas; (ii) Guided <em>R&amp;D</em>; (iii) <em>Productive &amp; trade</em> capacity</td>
</tr>
<tr>
<td>2. <strong>Re-distribution policies</strong> to support the development of the required human resources</td>
<td>(i) Guided (technically) <em>HRD</em>; (ii) Focus <em>female</em> labour force; (iii) <em>Knowledge of markets</em></td>
</tr>
<tr>
<td>3. <strong>Micro-policies</strong> to suppress distortions &amp; promote production within chain</td>
<td>(i) Promotion of <em>FDIs</em>; (ii) <em>South-South</em> trade; (iii) Formalization <em>informal</em> sector</td>
</tr>
<tr>
<td>4. <strong>Demand policies</strong> to consolidate the consumption of “targeted” commodities</td>
<td>(i) <em>Non-traditional</em> food exports; (ii) Stimulate <em>domestic market</em>; (iii) Linkages w/ <em>global markets</em></td>
</tr>
</tbody>
</table>
Thank you

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Reducing poverty through sustainable industrial growth