

# **Agriculture's contribution to rural development**

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***Discussion Paper Two***

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## SUMMARY

1. Farming is the fabric of rural society and, in many countries of the world, it is the main economic activity. Any sudden and profound changes which impacted on the farm sector could have severe consequences in terms of social and political stability in economically developing countries.
2. Agriculture also plays an important part in rural development, especially due to land use, in countries where the sector is of less economic significance.
3. The main potential contributions of farming to rural development are in terms of supporting employment, ancillary businesses, and environmental services. In peripheral regions, farming may be necessary to support the economic and social infrastructure.
4. Rural development policies should exploit the contribution of farming, both in terms of improving on-farm activities and supporting ancillary services, to secure sustainable development for rural areas.
5. In the context of agricultural reform, WTO rules should contain sufficient flexibility to allow countries to promote rural development, especially to preserve social and political stability.

## 1. INTRODUCTION: IMPORTANCE OF FARMING

6. In rural areas throughout the world, agriculture represents the predominant land use and a major component of the viability of rural areas. Farming and related activities make up the basic fabric of rural life, contributing significantly to the overall state of rural regions in terms of employment and business opportunities, infrastructure and quality of the environment.

7. The degree to which farming represents a share of the rural economy, and hence its relative importance as a sector, determines its potential economic contribution to rural development. In some countries, farming may be the primary economic activity of a region and support the vast majority of the population in employment. In such regions, it is clear that overall social and political stability is inextricably linked with the condition of the agriculture sector.

8. However, in most economically developed countries, farming accounts for a relatively small part of a diversified rural economy, and in addition the significance of agriculture in terms of the proportion of national wealth and employment is, in most regions, in decline. This does not lessen the potential role of farming in rural development in those countries, but the contribution of alternative economic activities, which may offer durable prospects for employment and economic progress, should also be included.

9. Since the contribution of farming to rural development in different countries varies to a great extent, policy responses need to be correspondingly distinguished, with the aim of maximising benefits to society.

## 2. CONTRIBUTIONS TO RURAL DEVELOPMENT

10. Rural development is understood primarily in the economic sense of the process of assuring a progressive improvement in economic security of people in rural areas. Rural areas are usually defined in terms of maximum population density, with figures varying from 150 to 500 inhabitants per square kilometre, depending on the structure of society<sup>1</sup>. While any economic activity in rural areas will have the potential to contribute to rural development, the particular roles farming may play fall into four broad categories:

- **Employment.** In countries whose share of overall employment in agriculture is at high levels, for example where farmers represent over 50% of the workforce, farming is likely to be the key economic activity determining the progress of rural development. With such a substantial proportion of the labour force engaged in agriculture, any policy which led to a swift and artificial reduction in employment could have disastrous consequences for the labour-force and dependants, leading to social and political instability.
- **Related economy.** The farm sector in every country supports a range of ancillary and service industries, generating economic activity in supply and distribution chains as well as processing industries. Where farming is the primary economic activity, the entire rural economy, including services such as health care, education and basic infrastructure, may depend on the profitability of the sector.

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<sup>1</sup> OECD figures; however, within the EU, 100 inhabitants per square kilometre is normally used.

- In *remote and peripheral areas*, where society has identified a legitimate priority to prevent depopulation, farming is likely to be one of a limited range of economic activities possible to maintain the economic viability of the region.
- Throughout rural areas, farming may contribute to rural development by providing *environmental and cultural services* to society.

11. These actions include support for rural development by means both of on-farm and non-farming activities for which the state of agriculture is nevertheless a critical factor.

### 3. ON-FARM ACTIVITIES

12. The **maintenance of appropriate levels of farm employment** is a key concern in countries where the greater part of employment is currently provided in the farming sector. Political and social stability could be especially threatened by changes in economic activity which produce sudden impacts on farming. Small and isolated economies, particularly those whose trade is dependent on a limited range of agricultural products, may be vulnerable to changes in global trading conditions. Even in those economically developing countries in which one agricultural sector is considered efficient in global terms, rural society, which overall depends on many other sectors of activity may be at risk of serious upheaval from rapid change. In these regions, efforts to strengthen the farm sector could include investment and improvements in productivity, while assuring the management of consequent changes to rural employment patterns.

13. The availability of labour can dictate the type of farming practised and in particular the extent of mechanisation. Those employed in farming may have skills which are not easily adaptable to alternative activities, even if the opportunities were available. Many societies have a need to avoid high rates of rural–urban migration and to manage structural change in rural areas without excessive disruption. Thus, even if production of a commodity were to be more efficient in another part of the world, a country should have the means to limit disruptive and potentially catastrophic changes to its rural economy.

14. It is recognised that, in principle, **increasing employment** on farms can be achieved, in the short term, by increasing production: more labour is required to produce more output. However, over the longer term, this trend will be superseded by increases in productivity, resulting in the expectation of an overall and continual decrease in farm employment. While the trend for farm employment may be downwards, especially in developed countries, there are some exceptions illustrating the potential for the farm sector to be a buffer against unemployment in specific cases. In some central European economies undergoing rapid development in the 1990s, there was an apparent rise in the proportion of the population engaged in agriculture. This corresponded to a decline in industrial employment as the economy was adjusted to market forces and people migrated back to rural areas in search of economic security. However, the phenomenon should be seen as a temporary response to extreme circumstances.

15. Some consumers are demanding food products which are produced using labour-intensive techniques. For example, organic farming, which relies on the non-use of synthetic inputs and annual rotation of crops and pasture, has been shown to require an increased level of employment owing to the greater amount of manual labour required. Organic products have

been identified by some consumers as having more attractive characteristics than conventionally produced food and retailers are able to command a price premium.

16. In societies which recognise the cultural importance of ensuring a balanced economic development throughout the territory, including in its **peripheral areas**, particular attention will have to be given to supporting the viability of the farm sector. Efforts to maintain or increase employment in areas suffering from structural disadvantages, such as remoteness and difficulty of terrain, where there may be little alternative activity to agriculture, should inevitably focus on the farm sector. However, in rural areas where a diverse rural economy exists, employment and other rural development initiatives should examine all the alternatives to assess the most appropriate and durable options.

17. Society may demand that farmers should manage their agricultural activities in ways which also provide **environmental services** to the community as a whole, such as minimising the risk of certain natural disasters, or cultural services, such as conservation of rural heritage. These points are discussed further in the European Commission's paper, "*Agriculture's contribution to environmentally and culturally related non-trade concerns*".

18. Policies designed to promote the viability of the farm sector can include encouraging investment, training, applied research and appropriate technology, and policies to manage structural adjustment such as land reform and generational change. Rural development initiatives should bring together all those with a legitimate interest in proposals, including where appropriate partnership between the public and private sectors.

#### **4. ANCILLARY INDUSTRIES AND NON-FARM ACTIVITIES**

19. The farming sector will require ancillary industries to service and support the production activities. These enterprises are also a source for employment and economic development, although many are not located in rural areas.

20. In peripheral areas, the quality of provision of essential services, such as health care and education, will depend on the level of economic activity and size of local population. These factors may be dependent on the relative prosperity of the farm sector, particularly in areas having few alternative sources of employment.

21. Increased economic stability can be provided to the farm-based rural economy by encouraging the development of activities to add value to their production, such as processing of consumer products on-farm or in the rural areas. Farmers can also take greater control of their economic position through co-operative ventures or by selling to consumers directly through farm shops and markets.

22. The farm buildings and land represent assets to farmers which can be used in diverse ways to develop non-farm income. Projects frequently cited in economically developed countries include educational initiatives to provide visitors to the farm with learning experiences and farm tourism.

23. Improvements in infrastructure, notably communications networks, may increase the competitiveness of the farm and other sectors of the rural economy. Infrastructural investments can also facilitate the installation of new enterprises on farm sites, although such developments are not dependent on farming.

## 5. CONCLUSIONS

24. The right of countries to pursue rural development policies in which agriculture plays a key role must be recognised.

25. In regions of the world where farming represents a dominant rural economic activity, countries should have the means at their disposal to avert disruptive and potentially catastrophic social and political upheavals caused by a rapid decline in the economic condition of the farm sector.

26. In other rural areas, where farm employment accounts for a small portion of the workforce, a broader approach to rural development and the role of farming in the process, including policies to diversify income sources, may be needed.

27. In peripheral regions, the continued viability of rural areas depends to a large extent on policies to maintain the farming sector. Rural development policies which affect the agricultural sector should follow the principle of being no more than minimally trade-distorting and allow structural changes to occur.

28. In the context of agricultural reform, WTO rules should contain sufficient flexibility to allow countries to promote rural development and preserve social and political stability.