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**INTERNATIONAL FUND FOR AGRICULTURAL
DEVELOPMENT**

Present

***"POVERTY REDUCTION AS IF RURAL PEOPLE
MATTERED"***

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P R O C E E D I N G S

MR. MacDonald: [In progress] He has served as the dean of the Graduate School for International Relations and Pacific Studies at U.C. San Diego and has held professorships at Harvard, Cornell, and Stanford. In 1992, he received a prestigious award from the Indonesian government for his work in Indonesia on food security, and he recently served as the chief external advisor to USAID in developing their strategy for growth and agriculture in the study called "Foreign Assistance in the National Interest."

Our real guest today and featured speaker is Gary Howe, the chief development strategist of IFAD. He joined IFAD in 1990 following 10 years of teaching and research in economics and the politics of development in universities in Brazil, Mexico, and the United States. At IFAD he has led a shift from their project engagement to policy engagement. During the past year, he has been responsible for charting IFAD's change and partnership strategy to support developing country leadership as an essential element of poverty reduction.

Please join me in welcoming Gary Howe.

[Applause.]

MR. HOWE: I'd like to give you a quite informal presentation today. We have a nominal PowerPoint, but I've been taking inoculations against it, so we can try and minimize that.

I want to talk in a very informal sense about some questions which have been bothering IFAD over the last two to three years. The question revolves around a very simple question: What do we do when we do rural development and poverty reduction? What is it? Or more to the point, what should it be?

Now, that's being done in two contexts. One is we've been trying to rethink IFAD. IFAD started out as a project-oriented institution very much focused on subsistence agriculture and food security 25 years ago. It's changing--partly because the rural economy is changing, partly because the nature of rural poverty is changing. Secondly, we've been thinking particularly about how we want to try and influence what we might call the pursuit of the NDGs. "Pursuit," perhaps, gives a sense of speed and velocity which is greater than is actually the case. But what does chasing the NDGs actually mean today? Just yesterday we had the first meeting of the Economic and Social Council of the U.N. to discuss how we're going to prepare for the summit later this year, where we're going to review the progress against the NDGs and find out what we should be doing better and, indeed, we should be doing a great deal better.

So yesterday, after Jeffrey Sachs spoke, we organized a meeting, NDG 1, which is about halving poverty and hunger by the year 2015. And very, very interestingly, a phenomenon which I'd hardly anticipated, the question of rural development and rural economic transformation came at the very center of the discussion. And that was a very, very important development, because we all know that in the NDGs, which are the organizing center for much of our work today, there is no reference to the rural problematique whatsoever. The rural problematique is emerging, and the question for us is, well, what is the rural problematique today, as opposed to perhaps, let's say, 20 years ago.

Now, I want to talk with you about seven ideas and questions. Some of these ideas and questions are very simple, and some of them are not very simple. But I'm an optimist, and I've divided them four/three--four simple questions and three difficult questions.

So let's start with the very, very simple questions. The first one is where is the core problem of poverty today? The second question is how have we been addressing that problem? Thirdly, what sorts of things should we be doing as we address those problems? And fourthly, with whom should we be doing it? Very simple questions.

Let's start with the core problem of poverty. As we said at the very, very beginning of this exercise, of this presentation, we know where it is. It's in the rural areas. Globally speaking, we're talking about a figure of between 1.1 and 1.2 billion people--not living in poverty; living in extreme poverty. I think it's very, very important that we talk about that, that when we use these figures, we're talking about people under the nominal figure of \$1 a day. Actually, if you talk about the number of people living under \$2 a day, you're already in the 2.5 billion league. There are an awful lot of people, but at the moment we're talking about extreme poverty.

If you look at this PowerPoint, which is very, very elementary, you'll find out that overall 74 percent of the people who live in extreme poverty live in the rural areas. We know where poor people live. And of course, we know that they're principally in Eastern and Southern Asia and in sub Saharan Africa.

Let's look at the numbers. In East Asia, 79.6 percent of people in extreme poverty live in rural areas; in South Asia, 77.2; and in sub Saharan Africa, 73.3. This is where, when talking about reducing global poverty, this is where the action is. It's in the rural areas.

Now, what's been happening in those rural areas in terms of poverty reduction? Well, the answer is not a great deal, I'm afraid. If you look at the numbers here, you will see that, in sub Saharan Africa, the level of extreme poverty has hardly declined in the last 10 years or so, between 1990 and 2001. In Southern Asia it's declined much more, but

it's still at incredibly high levels. If you take all the numbers together, we can concretize the principal question of poverty reduction and say it's in the rural areas of sub Saharan Africa and South Asia.

The question becomes, what are you doing about it? Well, I think the first thing we have to ask ourselves is who are these people, or what is the nature of poverty? Well, of course, poverty in these areas is a very, very simple phenomenon--like most phenomena, they're our biggest problems. It is the poverty of people who are independent producers--small-scale agriculturalists, small-scale artisans, and so on and so forth. They are people who make their own livings. And this, I think, is an extremely important thing to remind ourselves of, that when we talk about poverty in this context, we are talking about the poverty of people who depend upon themselves for their own income and production. They are not poor wage workers. They are not poor people on relief. They are poor people who are dependent upon themselves for mobilizing the capital, the technology, and the market access to solve their problems.

So in fact, we know pretty well today--we know pretty well today where the poverty problem is, concretely speaking. And the question we ask next is, well, what have we been doing about it?

Let me show you something--ODA for agriculture. This is 1985. We're talking about \$6 billion of ODA to agriculture--official development assistance to agriculture per year. By 2002, it was less than \$2 billion. What in effect has happened is, notwithstanding the fact that poor people are principally living in the rural areas, notwithstanding the fact that poor people are principally dependent on agriculture, principally the rich countries have taken their money somewhere else. They've moved out of agriculture. We see a slightly corresponding movement in food aid, but overall we see, if you like, less assistance to people who are poor, where they are poor, doing the things which are the basis of their poverty.

Indeed, what you find over this period is a very interesting counter-movement, that the rich countries invest less and less and less in the agriculture of poor people and invest more and more and more in the agriculture of rich people. And it's very, very interesting to compare the amount of money which is spent by rich countries upon a few hundred thousand farmers in their own countries, often not the larger rural community, but a very limited minority among their own farmers--is to compare that amount of money with the amount of money which is spent on development assistance to poor farmers. And the ratio--excuse my very, very simple mathematics--is approximately 100:1. That is to say, on a year-in, year-out basis, rich countries are subsidizing a few hundred thousand rich-country farmers to the tune of between \$250-300 billion.

They are transferring to several hundreds of millions of poor farmers somewhere in the region of \$2 billion.

Now, this, of course, has a very, very interesting effect. Not only are you in fact reducing your assistance to the small farmer in the developing countries, but you're actually creating a trade situation, through these subsidies, which are extremely, extremely negative relative to the prospects of a small farmer trying to live in a market economy.

So we know where the problem is. But the fact of the matter is we haven't been doing a terribly, terribly good job to respond to this. To the extent that we have been investing in the rural sectors, we've been investing very, very much in social service sectors but relatively little in those things which enable a small farmer, small trader, small artisan to get a better income and better food security. And that, of course, is a very, very interesting and paradoxical movement. So we know where the problem is, but we haven't been doing a very good job about responding to the issues.

Now, then, what are the issues? And here I want to come back to the point I made earlier. Is the--and where else should I speak about this but in the United States? All of these small farmers and traders and herders, they're all small businessmen and women. They're small entrepreneurs in that sense. They bring together the capital, the labor, the markets, et cetera, to produce. They're not dependent as employees. They're self-employed. Therefore, the issues which affect them are the issues which affect every small enterprise everywhere. Indeed, they have the problems of land, they have the problems of capital, they have the problems of markets, and they have the problems of technology.

Well, how have we been doing on this? Well, the answer is, I'm afraid, not very good indeed. The larger land question, which is at the heart of the rural economy, of the small holder, has not been dealt with very, very much. Now, we know, of course, that in the last couple of years there has been a great attention being paid to land. However, that attention which is being paid to land is not necessarily from the perspective of the small farmer. Well, the thing that IFAD has learned over the years is there is no such thing as an agricultural question. There is no such thing as a rural question. There's the question of the small people and there's the question of the rich people. And they're not the same. What we've been seeing is a certain attention to sexual issues, but not attention to the issues of the very, very poor.

So, for example, we will see a response to the question of land which focuses on land rights under a registration regime, even though we know extremely well from many, many empirical cases that that particular form of registration, that particular approach to land, may

be very, very counter-productive from the point of view of a small producer, a poor man and woman.

On the level of capital, well, not very good, actually. Now, Sam's here, so you don't mind me saying this, Sam, that we've been quite good, actually, on microcredit. But what we've done is confuse microcredit with capital for agriculture, and they're not the same things. But if you look at the agricultural requirement of today, it's very, very much of a medium-term capital for the small farmer for the capitalization of increased competitiveness, and we haven't been very good at responding to that.

Our markets? Not very good either. Certainly in the last couple of years we've seen in the discussion of Doha, et cetera, an increased sensitivity to the distortions of international trade regime, but interestingly enough, that sensitivity does not focus on the principal market barriers of small farmers--which are not necessarily overall market distortions, but questions of market access having to do with quality, having to do with specification of product, et cetera, which cannot be solved by a Doha response.

On technology, I shall remain mute because I know nothing about it in any detail. But what I would say is that we know where people are, we know what the problem is, but we haven't been very good at responding to it. On the one level, the overall assistance to small-scale agriculture has been extremely low, partly in response to the structure adjustment approach, of course, which basically says that support to a production sector is not right, it's highly distortive--although many of us, in terms of understanding what actually happened in economic history, understand that distortions are the basis of wealth. But that's another question.

And finally, we're not really focusing upon many of the agricultural and rural issues as experienced by the small farmer. Now, let me bring us to a last question: Who have we been focusing on? And this is a very interesting question. Who are the poor?

Well, as to the first point, let's stop talking about "the poor," because when you talk about "the poor," you're defining somebody in terms of poverty first rather than that he is a human being. Who are poor people? And what we find is that poor people are not an homogenous group at all. They're highly diverse--we have small farms and so on and so forth; then by region--in Latin America we have a very large landless population in the rural areas, much less so in Africa and parts of Asia. But perhaps most critical is the fact that today poor rural people are principally poor rural women, members of ethnic groups and other vulnerable social categories.

Now, this is very, very interesting, because what it says is, is that one of the key issues that you have to deal with in poverty is not economic, it's social. Because these people are poor by virtue of social exclusion mechanisms, which I think is extremely interesting and raises the question to us of how have we been responding to this. And I would argue we have not been responding very well at all. Let me explain why. Recently we've been going through a process of Beijing plus 10, plus 3, plus what have you. And there's been a recognition that the attention paid to gender issues has been rising in the development business. But I would argue that's the wrong question, because what we've been doing is saying there is one agricultural rural poverty trajectory, and the question is how can we make that accessible to women? And I would argue this is actually wrong question. Rather, we should be saying what is the situation of women, and what then is the appropriate form of economic progress which is possible for them, rather than saying let's take the men's trajectory as normal and how do we make men have access to that.

So what I would say is that while we're increasingly sensitive to gender, we're not genderizing our strategies at all. What we're really saying is how can we make men's strategies accessible to women, rather than saying what are the strategies which correspond to a livelihood situation of women.

So overall, I would say that we have a better understanding today about where poor people are, what the issues are, and whom we should be working with. But we've got a very, very mixed scorecard about actually doing it. And I think that one of the key issues for us over the next 10 years, as we talk about achieving the MDGs, is focusing on the rural poverty problematique; is mobilizing resources for it, but making sure that those resources correspond not to the needs of a sector, but to people, human people, in a social definition, which if you like fits them rather than fits an abstraction.

Now, I think those things are quite well understood today, at least I hope they're well understood. But those were the simple issues.

Now, I want to talk a little bit about some of the complicated issues, because I knew you were getting a bit tired about hearing the things you already knew.

And I'd like to put them very, very simply to you, which is the first one is: we talk about the need for the economic transformation of the rural space. We talk about the need for small holders to get much more support, which I think is absolutely correct. The question that I have is development to where? Development for what?

One of the critical dimensions of our understanding of development today is that nobody is going to have a sustainable increase

in income and food security unless they can establish a viable and sustainable position in an international economy.

And my question is to you--I'm not expecting you to answer it right now, but maybe next year you will--is what is this space of the small holder farmer? What is the development future for them that we are planning to achieve?

And here I want to make a couple of observations, which are obviously old hat to most of you, but perhaps not so to others. There's been an extremely great emphasis in--well, first, five years, perhaps even more, upon agricultural development, export-led agricultural development in the developing countries.

Interestingly enough, it seems to us now, on the basis of a number of studies we've doing in Africa in particular, is that export-led agricultural for very small small holders is no future whatsoever. That is to say that the level of capital, the level of technique, the level of market relations required to exploit the export markets are such that small farmers have a smaller space in exports today than they had before.

Now, you would say this somehow counterintuitive, because certainly the small holder has an advantage in terms of cheap labor and should have an advantage in labor intensive exports. That's not true.

If you look at the composition of Kenyan exports over the last 10 years, you will find a very, very interesting phenomenon. The first phenomenon is there's an increased percentage of exports comes from the horticultural exports. The second phenomenon is a decreasing percentage of those exports come from small holder farmers; that rules of origin, quality control, and product specification dealing with export markets are such that it has become extremely difficult for the small farmer to penetrate those international markets. And we have very interesting corroborative information from China, particularly in its exports to Japan, which started with the mobilization of small-scale farmers and has ended up with investment of Japanese capital in medium-to large-scale production, excluding small holders from that export chain.

So what I'm saying is that in a certain sense perhaps we've been barking up the wrong tree; that we've been talking export-led growth as a potential for small holders, but it's not that clear that there is a growth area for them there, which brings me to the second point is that there's one area where I think we've been inadequately addressing the small holder possibility, and that's in the question of national markets; that I think that in most of the developing world, we're seeing an interesting change in the structure of consumption away from rural people producing towards a more urban based system of consumption, a demographic shift into the urban areas; and that one of the major ways forwards is not, in fact--for small holder agricultural--is not for exports,

which is principally the realm of medium-scale and large-scale producers, but is actually production for the domestic market.

Now, as Peter has been doing some work on that, the structure of the domestic market itself is changing, and we need to assist small holder farmers to pursue those options, but certainly this international market as the means of realization of the small holder future seems to be largely out of the question. And today we should be looking much more at the national market.

Now, interestingly enough, there always is interestingly enough, this seems to be corroborated a bit by the growth in China. Now, you would have been seeing some work done by Martin Ravelli [ph] recently over several years on China, and what is coming out of that is some very, very interesting conclusions indeed.

The first point is that the reduction of poverty in China does not come from the market opening for exports--industrial exports. It comes from a period of agricultural development, a changing situation in the countryside which empowers the peasantry to product more, if you like, in a market context. It is that transformation rather than the industrial opening which is the basis of expansion.

And now, of course, one of the interesting things about this situation is that that expansion of peasant production in China was for the domestic market, and indeed a protected domestic market. So here we have a very interesting situation, perhaps the most convincing situation of rural poverty reduction through small holder development, which was not for the international market, but was for the national market, and was not under free exchange, but was actually under a system of price controls.

Now, I'm not going to delve deeply into that, but it really does indicate that perhaps as we move into the rural poverty problematique and say who can benefit from what, we should not abandon notions that we can organize the market development in such a way as to create spaces for small holders, which eventually leads to a free market situation. But we should not renounce on the behalf of the 900 million rural poor today those things which have served the rich of our own countries so well over the last century.

Now, this leads me into a next question because is agricultural development and the development of small holder agriculture, the answer to all poverty in sub Saharan Africa and South Asia?

Now, this is a very complex question. But I think that one, while recognizing the importance of small-scale agricultural, the importance of supporting it, its opportunities for expansion, we should realize that that is not the answer for everyone.

What we're increasingly seeing is that--and there as a very interesting report published by the U.N.--it actually came from the

Manchester University last year--on chronic poverty. It says that about half the rural population of sub Saharan Africa cannot make it in the market. They're household groups with either insufficient assets of capital, land, or labor to actually make a reasonable income in a market economy; that in a certain sense that the whole market-driven approach towards income growth is going to leave half of the rural population behind.

Now, that raises a very interesting question for ours as agricultural economists is that perhaps we must embrace the idea of safety nets. I just want to leave this on the table. It has never ever been a if and position, but our analysis of the reality of the situation is that market-led growth is not going to be market-led for everyone at all. There's going to be a very significant part of the rural population which cannot participate in that directly, and we really have to think about safety nets.

Now, interestingly enough--I find it very interesting, anyway--is that the traditional safety net system of sub Saharan Africa is collapsing in a very, very dangerous way for two reasons. The first is that the effect of HIV/AIDS on rural communities and social networks is such that richer people can no longer sustain the number of poor people in a community. It is just not working anymore. There's not enough money to redistribute in a community to sustain the very, very poor. So you're finding a crisis of vulnerability. This is exacerbated by market development because those of you who have studied anthropology in Africa would realize is whenever somebody has a chance to accumulate and save money themselves, then they repudiate their social responsibilities immediately. I'm sure it's not only an African phenomenon.

And what is happening is that as you see a market penetration, a market reorganization in sub Saharan Africa, as indeed in parts of Asia, you find a repudiation of the social ties of redistribution, the traditional safety nets. So what we're finding is a crisis; that there is a possibility for part of the farming community to move ahead on the basis of market linkage. However, there's a significant part of the rural community which will never ever develop that way, and we have to start seriously thinking about in a context of our commitment to poverty reduction about the social safety net mechanisms which we as economists and agricultural economists rejected for so long.

This leads to me a final question--and I probably have 90 seconds left--is it's clear that responding--you cannot deal with the issue of poverty unless you deal with poor people's issues. Now, that's a playing with words, but it's an important playing of words, because poverty only exists as a phenomenon of the life of people. Unless you address the concrete obstacles and issues they confront, then you are not

going to come up with a solution. And somebody, a colleague of mine, wrote recently something which I thought was so true. He says that, you know, social service provision is so different from agricultural development. And why is that? It's because farmers do agriculture; governments don't. It's true. It's true. So that any agricultural development strategy has to be based upon the perspectives and assets of the farmers, which leads us to an interesting question. How does agricultural policy, how does rural policy develop and where does it come from? Well, of course, historically, it hasn't come from small farmers. If it had come from small farmers, they wouldn't be as poor as they are today. They would be living in very, very different circumstances.

So here we are in an interesting situation, saying that well, probably there are ways to move to reduce this poverty through agricultural development within the more sophisticated frame of reference we've been talking about, but how is that ever going to happen?

And here let me talk a little bit about etiology, not ethology, about the origin of the word policy. Policy does not come from philosophy. It doesn't even come from economics. It comes from politics; that good policy to small farmers develops in a context in which small farmers have a voice in making that policy. Now, you go to a Secretary of Agriculture in the United States and ask him what is the basis of his agricultural philosophy, he will not be saying Aristotle and Plato. He will be telling you a little bit about some of the agro-industrial structure of the United States, and if he was honest--and undoubtedly everybody is these days.

So, when addressing the question of agricultural policy, we have to address the issue of governance. Now, you know, we go around these issues and so on and so forth. We must create a policy framework in which all those questions can be adequately addressed. But the creation of that policy framework is not a question of good consultants. It's not question of good studies. It's a question of creating or helping create the channels through which small people, poor people, can actually articulate their views in the policy realm.

And here's a very, very interesting paradox of the developing world. I mean, it's not a mystery in any sense. It's that the majority of poor people, the majority of the population of Africa, is a small female and male farmer, and their children. This is true. This is true. There's absolutely no doubt about it. Go and talk to any sociologist. Go and talk to any anthropologist. We know that's the case. How is that reality reflected in the politics of Africa? Not at all. It's a very interesting situation and so as we come back to this question of how do we address the poverty question. We've said, yes, we have to focus on the small holder. Yes, we have to focus on national markets. Maybe we shouldn't

abandon the instruments which served us so well in the past. But we also have to address the question of empowerment, not only in economic asset sense, but in a social and political sense.

So it seems to me that as we embark on this last 10 years of the MDGs, which we embrace for the first time the idea that the center of the rural problematique of the poverty problematique is a rural problematique, we also have to embrace the idea that we're dealing with very, very large questions. These are not the solutions of 25 years ago. Let's have a fertilizer subsidy. Let's have a better seed.

We're talking about the basic policy and governance framework of society. We're talking about the basic gender composition and structure of exclusion. And those are things that we have to deal with in a very, very serious way. It's partly a money question, but much more crucially, it's about allowing the small producer, the poor person in the developing country, to create policy themselves rather than for us to make policy for them. Thank you very much.

[Applause.]

MR. TIMMER: I'm just going to sit here and talk. I think I'm wired. I think you can hear me. This really feels like old home week. I think everybody who has any experience with agricultural development in their career in the Washington area is here today. So welcome. Thank you, all, for coming. It's just tremendous fun to see you.

I don't have a PowerPoint. I don't know how to use the technology, but I do have a paper. It's in the back, and there will soon be a CGD working paper that will incorporate lessons from Asia into the version that you see there. So that's coming down the road.

In order to be brief and to stimulate some questions, I'll be as blunt as I usually am.

Ten years ago, we did a conference at Bellagio, Wally Falcon and I organized, to honor the memory of Art Mosher [ph]. Now, there's very few crowds in Washington, where I can give the name Art Mosher and know that most of you are going to get it. In 1966, he wrote a book called Getting Agriculture Moving. He was the President of the Agricultural Development Council. He was one of the great gurus, not one of the great academics, one of the great gurus of agricultural development. And my paper for that conference was called Getting Agriculture Moving: Do Markets Send the Right Signals? Remember this was a decade ago. The answer was no. The answer was no because agriculture is undervalued; historically, has been undervalued by governments and societies not in terms of the commodity prices, but in terms of the services that the agricultural sector provides, in terms of growth multipliers, linkages, contribution to poverty reduction--a whole set of things that markets don't care about. The market price of rice in

Bangkok does not reflect whether or not Cambodian producers are going to be raised out of poverty by a higher price.

And so my conclusion then was, for lots of reasons, and it's a very long and elaborate argument, for lots of reasons markets didn't send the right signals.

If I were doing that volume, that paper, now I think it would be called Getting Agriculture Moving: Can Governments Do the Right Things? Because if we've learned anything in the last decade, it's that there's a real tension between market failures and government failures.

Gary alluded to some of the problems with governance. But you have to look at the countries that have not solved their food problems and ask what is the governance foundations of their development strategy and how does that translate into priorities for investment in the rural areas?

I think the sub theme for today, certainly the sub theme for CGD would be can donors help with this getting government to do the right thing. Are there things that the United States can do? Are there things the World Bank can do? Are there things the NGO community can do to help governments do the right thing?

Now, Gary is right to say that virtually all of the folks who are poor in rural areas are very small-scale, private sector entrepreneurs. It was Earl Butz who said governments don't produce food. Farmers produce food.

But governments can import food aid. They can tax agriculture. They can subsidize fertilizer. They can invest in research. They can invest in roads. They can build schools. The interface between the public and the private sector is more critical for agriculture, despite the fact that all the decision makers in agriculture are private, the interface between what the government is doing and how the private sector responds is more critical for agriculture and the rural economy than it is I think for any other sector of development.

Let me just quickly summarize the conclusions to this paper. I'm not going to walk you through the analytics. You can read the paper. We can argue about it later, if you want.

This is a paper that comes out of something that Chris Jackson [ph] here at the World Bank is working on, a project on operationalizing pro-poor growth. The Bank has been working on this project for close on two years now, and it's a combination of country studies--there were 14 country studies--and sector papers--papers on labor, on gender, on labor markets, on agriculture. I did the Indonesian country paper for that project and was heavily involved in the agriculture sectoral paper. So sort of looked at in depth in one important country. A country, by the way, in 1965, no--Gunnar Myrdal put it I think as bluntly

as you can, no economist holds out any hope for Indonesia. That's in Asian Drama.

You can, in fact, turn the problematique around with the right kinds of governance, with policies, with investments, and with support from outside.

So long-term look at an important country, and then this sort of cross-country look at the role of agriculture. And this paper is an attempt to deal with what I think is the current debate. Gary sort of got it up to the table, but he really didn't outline the current debate. And to put it crudely, the current debate is between the optimists and the pessimists in terms of whether small farmers in the developing world have a future.

He indicated that half of them do not have a future in agriculture. And his sort of concern then was that means we've got to revitalize the safety nets in rural societies.

I'm stunned at how unwilling we are to use the word for the solution here. It's migration. It's getting people out of poor environments in rural areas and getting them into urban jobs. Governments don't like to talk about it. Donors don't like to talk about it. But if we've learned anything from 250 years of structural transformation, it's that migration from rural to urban areas is the long run future.

As Chairman Mao put it, the only hope for agriculture is industry. That's the structural transformation. We need to keep our eye on that ball.

Now, what that means, just to list what I think are the important areas for action by donors and, by default, countries need to be doing it before the donors get there, I've got six points. I guess Gary had seven. So we'll be N minus one.

The first is countries and donors need to focus on the key long-run question, which is economic growth that reaches the poor. In some circumstances, that will mean substantial investment in agriculture and contribution from agriculture and in a surprising number of circumstances it will not. And we just need to understand the country diversity and the regional diversities within countries. We did not solve the problem of West Virginian poverty by having all of those people become higher class farmers with better technology. Most of them moved to Dayton, where I'm from, or Detroit or wherever. So we have to understand what's possible, what isn't, and then figure out how to make that transition process as painless, as productive, as effective as possible.

By the way, I am struck by this new concern that somehow we have to empower the poor in terms of the decision making process. Here I will show my old-fashioned sympathies. I do not think the Chinese success story came because the Communist Party actively consulted with millions of small farmers. They figured out what needed to be done and

got the investments made and got the policy changes made. Policy is inherently a centralized macroeconomic activity, in which asking farmers what they think the exchange rate should be is probably not going to be very useful.

So I just want us to have at least a little perspective on whether we're going to learn a lot from active participation in the decision making process from the grass roots.

Second, I think we have to invest very heavily in health and education in rural areas. And I understand to the extent that we've been investing in agriculture has been in the social sectors, but we have not been investing in health and education for the right reason. The real reason is not to make them more productive in the rural areas. The real reason is to give them a ticket out of the rural areas. So they need training that's going to qualify them for the jobs that we see in industry and services.

Third, rural to urban migration. Make it easier. Get the roads in. Get the buses running. Get the remittance facilities working. Make it easier for people to migrate rather than beating them up when they get to the city. Rather than making them live in slums when they get there. Let's think ahead. This is a 20- to 30- to 50-year process. It takes a lot of urban investment to make that transition work. And if you put it off, it gets more expensive; it gets more difficult. And it's just a harder problem to solve. Thinking ahead buys you I think a lot of efficiency.

Fourth, I totally agree with Gary on global trade reforms for agriculture. The paper says--this one hundred--this is not a fair trade. You take a hundred dollars away and give a dollar back. You know, I don't like those odds, and it's very clear that farmers in the developing world don't like those odds either.

Fifth, we are not investing anything like enough in science and technology. And there's several at which we need to be thinking about this. One is sort of at the global level. I happen to believe that biotechnology is going to be a hugely important transformational technology for agriculture in the long run when we get a lot of the problems solved. So that's not likely to take place in the labs of most Third World countries. It's going to take place in China, in India. But I don't see it happening in Indonesia.

But that's basic science. That's the bio labs in--at Michigan State or at Cornell or at Davis. It's the CORPORATE GOVERNANCE system working on this.

I think the tougher nut is how do you do agricultural science and technology, the research at the national level where the budgets have just been shot to hell over the last 10 or 15 years, partly because of the decline in funding that we saw. And then in these large complex

geographically diverse countries, how do you get stuff all the way down to the regional level. I mean, Indonesia has just gone through a major decentralization program, and they're trying to figure out how do you do agriculture research at the provincial level, when they only have three dozen trained agricultural scientists. I mean, how are you going to do that? We don't know the answer. I think solving that problem is really going to be tricky.

And part of that, my final point, I think was have, as part of this broader decentralization of political and financial that we're seeing sweep right across the developing world, I think we have to figure out how to help local entities plan their financing, improve their planning mechanisms, how to raise resources for local infrastructure investments. This is not all going to come out of the center, and it's certainly not all going to come from the donors. We're going to have to figure out how to do that regionally.

Let me stop there because I know there's going to be a demand for some question time, and I think we all want to hear what Peter has to say as well.

[Applause.]

MR. : Peter and Gary, I want to thank you both, and I want to welcome Peter McPherson, and take just a moment to introduce you Peter and welcome you.

Peter McPherson is the founding co-chair of the Partnership to Cut Hunger and Poverty in Africa, which works to promote and private investment and to improve the effectiveness for foreign assistance, especially U.S. assistance. He's also the President Emeritus of Michigan State University. He's held senior positions in both the public and private sector, including Bank of America. He was Deputy Secretary of the U.S. Treasury and the Administrator of U.S. AID and Chairman of the Board of the U.S. Overseas Private Investment Corporation.

I'm also delighted to say that he gives generously of his time and wisdom to serve on the Board of the Center for Global Development. We're really very pleased you can join us here today. You have a very tall task to draw together the common threads of these presentations, and I suspect you'll want to raise some interesting questions. If you'd like to take maybe five, at the outside 10, minutes 'cause I think we have a lot of expertise in the room as well. Thank you.

MR. MCPHERSON: Thank you. Well, it's not--there are obviously some common threads here: the clear agreement that a large portion of the poor people, as defined, live in rural areas, and that you can't deal with poverty without dealing with some of the other--with the situation of those poor people.

I'm struck by--there's a lot of nuance here--but I'm struck by the pessimism, Peter particular you, but both of you of what you might do in rural areas.

The first thing I'd say is that sub Saharan Africa doesn't have Ohio and Michigan and other places to migrate to from West Virginia.

[Laughter.]

MR. MCPHERSON: I mean, I think it's--if you--so I'm not sure that--

MR. TIMMER: Or even more pessimistic.

MR. MCPHERSON: No. I'm going to work at where it is. I think there isn't that option that the South had during and after World War II to move North. And it is also, more broadly, is true that you don't have--

[TAPE FLIP.]

MR. MCPHERSON: And much of sub Saharan Africa, some parts of South Africa, of course, and some other specific locations, but basically you don't have the jobs to go to, and I don't think we've figured out how to do that. In fact, I would argue that the donors of the last 20 years have spent a lot more time on that, when frankly they should have been worried more about the rural areas. And I think part of the reason they haven't worried about rural areas was the political structure wasn't such that they were forced to do so.

If the reality is when the World Bank and others go in to countries, one it's always the capital you go to, and Offices of the Finance Minister. Now, I'm a Finance Minister type, as well as an AID guy. So I sort of see both Treasury and AID, but there isn't--at the U.S. Treasury Department, there isn't the same view about the country as there is in some other parts.

So I really--I'm being a little unfair to both of you, but I really don't--I think the lack of consultation, the lack of democratic processes, the lack of power in poor people--and let's face it, this isn't just being nice and asking people what they think, the question is whether they got power. And so when they tell you what they think, they have some capacity to insist you listen. So I worry about that.

Now, I think that what I really believe is that for a generation or more--well, a little short of a generation--we haven't done work in rural areas, and particular in agricultural production. When our government, AID, began to fall off, our work there in the last '80s, where it really took off, AID particularly then and even still now tends to be the bellwether or where other bilateral donors go. We have the missions in the field and so forth, and if we don't do it, other people don't follow.

Now, the relationship between the Bank and AID has changed some. But when you look at the Bank, the Bank fell off in their work in

Africa, for example, between about '77 and a couple of years ago, and the numbers continue to go down--a couple years ago, 75 percent. Seventy-five percent reduction in AID's number a comparable period was about 65 percent. I mean, shoot, we haven't tried this rural strategy in many ways you could argue.

We haven't tried it. We said we believed in it, but all the other good things we believe in--child health, population, environment, those have squeezed out this set of issues because they had a sex appeal that as important as they were, we didn't have a balanced portfolio.

Now, I think that--a set of other points, and then let me stop, because I think this--your really interesting comments will generate some excitement here.

I think that this question of how you have--how you create--how the domestic market fits the international market is an interesting one.

Now, I'm basically a free trader, and every now and then I have to--I struggle when I recognize that one of my heros, Alexander Hamilton, was a strong tariff guys in those early years. And you an argue that there's a difference; that what you might have in Africa is different than what you ought to have here. That's why we've had differential treatment through these multiple rounds of trade.

I think this is one of the more intricate problems with this next round. And I don't think it--I don't think it's simply--it's a whole area of a separate discussion. I understand it's not simple.

On the other hand, you worry that, for example, when Brazil decided in the '80s they were going to shut off essentially foreign computers, because they were going to build their own computer industry. And what it meant for people doing in business in Brazil, they were steadily less competitive to deal on a global environment because they didn't information technology that was international. So there's the cost of burdens to free flow is enormous.

And now let me give a last set of comments. We've--the Millennium Goals--development goals--are clearly ones that I suspect everybody here would say we agree. And I certainly do. But we got to be careful that what is inherently a short-term bias in those goals doesn't push out growth efforts. When you are for educating K-12, you want numbers--incidentally, it tends to be numbers, not quality of outcome, which is always the issue--health care, these other things, these are--and if you hear Jeff Sachs talk about it, it's all about money. If we can only get the money in there and deliver all these things, we'll get it done. It seems to me Jeff's thinking is much more sophisticated than this, but sometimes when I hear him talk I think it's Walt Rostow [ph] sort of warmed over.

[Laughter.]

MR. MCPHERSON: And he's much more sophisticated than that, and he's written and talked and his report is much deeper than that. But we got to be sure we don't get into this game that if only we had enough money, we'll do this, 'cause that will lead the people that give money and support us--if we end up thinking that, it's going to be another sort of donor train wreck when it doesn't work out. So we've got to be careful about that, and we tend to be focused right now on the short-term goals.

So I think the community here and others around us, like the world, around the world that understand that new technology--that roads--jeez, if you could anything for Africa, if you could get those roads worked out, it would be--it would just be a godsend, stable government, sound economic policies--all these things--those are different. Those we got to stick to them and they aren't in the--they aren't in the Millennium Development Goals. They somehow or the other assumed they're going to happen, but they aren't there and measured in the same way. We can't shove that out. I guess that's what I think about all this. But it strikes me, and I'll bet you these guys if we push them to it won't really stick for your guns; that these guys are little too pessimistic because, in fact, we don't really have an option in sub Saharan Africa but to deal with poor people there, and we do know that so many of them aren't eating enough anyway. People like John Miller's [ph], which I think is so excellent and some of his colleagues that show the multiplier effect, which--when you produce more.

And let me just end by this last point. What I don't hear anybody really dealing with on a senior level in the global discussion right now about achieving global development goals and so forth is the following: you year it now, but no one really seems to grapple with it, not that people don't want to--but the last 20 years, where's the poverty reduction been? It's China and it's India, and some other parts of Asia.

Now, it's a little awkward, but we haven't given much aid, foreign aid to China and India, have we?

[Laughter.]

MR. MCPHERSON: I mean, seriously. On a per capita basis, almost nothing. But the outside community hasn't given much. Now, they had--you can argue they had a big enough country so to mobilize resources. But basically, they had an export-led strategy. They had stability. In the case of India particularly, human resources--a number of things. But when we talk about this Millennium Goals, we're going to get this done, but for 20 years where the progress was someplace else, and by the way, in the last--because remember 1960 per capita in Asia was half that of Africa. Think about that. And in the last 20, 25

years, we haven't had much growth in Latin America. Pretty good growth in the '60s and '70s, but the last 25 years not much.

Now, it seems to me that as we go off and ask for a lot more money, which I am for, by the way--I probably might spend a little differently--some might want roads and the like, a bunch of stuff--technology--but if we go asking--off and ask for this money, frankly we got to be honest and deal with the fact that most of the reduction in poverty in the last 20 years has been by countries having the toughness and the willingness or whatever else they did in Asia. Those are my thoughts.

[Applause.]

MR. : Now, Peter, thank you so much and thank you to both of our presenters. We have about 25 minutes left. There are two microphones. One is here, and one is there. I see there's a gentleman there already. If you would please identify yourself and your organization and speak out because we are preparing a transcript which we will be posting on the CGD web site.

MR. SMITH: Hi. My name is Merrill Smith. I'm with the U.S. Committee for Refugees and Immigrants. I appreciate your comments about the exclusion of women and ethnic minorities, and how people are excluded, and, of course, I will, as you might expect, speak up for my excluded group, that is to say refugees.

Of the 12 million refugees in the world, more than seven million have, in effect, been warehoused; that is to say confined to camps, segregated settlements or otherwise deprived of the right to work or to own property, to run businesses.

What can be done--what is the best strategy to get the host countries and the international community to take up its responsibility to see that they get their rights to freedom of movement, possibly to migrate to the urban areas? That may be the solution. That may not be the solution, but right now they have no choice. They are deprived of those rights.

Now, that's easier said. The problem is how do we do it? Is it a matter of making aid conditional upon countries granting refugees their rights? Is it by additive principles, by, you know, increasing development assistance when refugees do get their rights or making them inclusive in those projects? Or neither? Is it just a matter of pushing policy reform? I'm open to suggestions. Thank you.

MR. : While our panel is thinking about that, why don't we get one or two other questions and then you can sort among yourselves in terms of who will take which ones. Please.

MR. : I did a piece of work some years ago on--

MR. : Could you identify yourself, please?

MR. HOPCRAFT: Peter Hopcraft [ph]. And I did a piece of work some years ago on the returns--I was looking for the returns to education on the farm. That was my exercise. My--the actual work showed that most people who got any education wanted to get out of the farm and weren't interested in the farming at all and were interested in what Peter' talking about, which is the migration option. And that's been a pattern all across Africa, certainly in the countries in which I've worked.

The only problem is when you migrate to the urban areas, what jobs are there? And there's been absolutely zero growth in--and I looked at the--I've worked quite a bit on the export marketing, export expansion, trying to say okay can we start getting some growth in the manufacturing sector, and, for the most part, there's been zero growth in the manufacturing sector, and sometimes negative growth in the manufacturing sector because they came in with a bunch of protectionist mechanisms which generated totally inefficient industries and they had to come down and dismantle the protection and so they lost those industries. They went under in a more open situation.

I think the problem is it's very hard for some small African country or even a big African country to compete with the Chinese in the manufacturing sector, which led to things such as AGOA, where you give specific trade preferences to low-income African countries, with an aim to create markets for them.

I think the problem with--just on the issue of the tariff which was raised. Should they have some tariffs, and I think the pattern is that that creates even more of an anti-export bias. The trade problem in most of these countries is a domestic trade policy problem. That's my own opinion about it.

MR. : Thanks very much. Maybe we'll take one more and then turn back to our panel.

MR. RIVKIN: Yes. My name is Malcolm Rivkin [ph]. I am an urban planner. And I am surprised that two ideas, very simple ideas, that are linked didn't arise in the discussion. By way of background, when Mr. McPherson was AID head, I did a paper on possible urban initiatives of AID. And I've written two books on secondary cities in developing countries, which leads me to my question.

Why did no comment be made about the network of secondary cities that now exist in many of these rural poverty countries and these are both a market for the agricultural goods and also emissaries of modernization. That's my first concern.

The second concern is why didn't anyone talk about the extension agent possibility. This was a possibility that used in the United States to a very great degree, and my thought is that the secondary cities

in the developing world could be the seat of extension agents that go and work with the rural poor; and I think conceivably an emphasis would be on training such extension agents to be located in the secondary cities and produce technological and market information. Thank you very much.

MR. : Thanks very much. Gentlemen, we've got refugees. Where are jobs in the cities and what about the links between secondary cities and agricultural extension. Who wants to take what?

MR. MCPHERSON: Well, let me jump in. I will try to be brief. On the--the discussion didn't allow anywhere near the full coverage of issues we're interested in obviously--extension, a bunch of separate issues, research, et cetera.

I would say that even though the focus here was on the rural area, and clearly I think my colleagues all think it's very important, cities do play a role. And people like your old friend, Peter Kim, who was doing the Housing Guarantee Program, very imaginatively I must say, those kinds of activities continue to be very important.

Cities are the markets for some of the surplus production and the multiplier impact that's envisioned.

MR. TIMMER: About 20 years ago, I was part of a little tiny wavelet of activity on drawing lessons from Asia for Africa. And I remember at that time, there was significant pessimism about the potential for agricultural development in Africa, and somebody at a conference said, you know, agricultural development just doesn't work in Africa. And my response was how would you know? You haven't tried it. And I think that's Peter McPherson's point as well. In some sense, we have not made anything like the investments in agriculture in Africa that we made in Asia.

A tiny example. The agricultural development council that Art Mosher directed for several years trained many of the key decision makers in the agricultural social sciences in Asia. In the early 1980s, it became obvious to everybody that the future of that activity was going to be in Africa, no longer in Asia. Asia was self sufficient and going ahead on its own steam, but we really needed to transfer that kind of human investment at the top end to Africa. We couldn't find a single donor agency foundation that thought that investing in high-quality university educated Africans was a good idea.

MR. : Gary.

MR. HOWE: Yeah. I think that one of the interesting dimensions of today is that perhaps we have new instruments. But I think there's a consensus that we didn't try certain things. As you said, I mean, agricultural development in Africa. Why didn't we try it? One of the reasons, Peter, as you very well know is that economists told us we couldn't. And I think in a certain sense that we're freer than that today.

Ravi Canberg [ph] goes around saying that actually economists don't know very much at all. We know about--we know extreme conditions of what might happen, but in the middle--well, who knows? And then just last year, we had the World Bank, a long-time champion of orthodoxy coming up with a policy-based lending document, which says, hey, maybe a blueprint approach is not the right thing. There are different ways of solving these issues. And that gives us a lot of freedom.

And here I'd like to take dispute, Peter, with you very quickly that the case of agriculture in Africa and using more flexible instruments is not like the computer industry in Brazil. The computer industry in Brazil is a want to be industry. It's an infant industry. When we're talking about agriculture in Africa, we're not talking about a want to be sector. We're talking about a sector--

MR. MCPHERSON: I give in. I give in.

[Laughter.]

MR. MCPHERSON: It was too flip.

MR. HOWE: Right. Right. And I just want to finish with an anecdote. I worked for many years in Africa where anecdotes are very, very important. And it reminds me of a film, "Remains of the Day." And there's a wonderful scene in which a rich man is patronizing a butler. He says, what would you do about the foreign policy situation today? And the butler couldn't respond. And the rich man, of course, had a very, very elaborate answer. And the answer was to lead England into association with fascism. So I think that the small guy's perspective is not necessarily the wrong perspective. But if there's a question of choice between right or wrong, I am morally convinced that a small guy has just the same capacity to choose wrong as anybody else.

So I think that we really shouldn't throw democracy out of the window when it comes to economic decision making.

MS. MCPHERSON: Go ahead, Peter.

MR. TIMMER: You know the idea that there's a whole that today as opposed to 20 years ago, let's say, there's a bunch of instruments which we have now--we didn't have then. I mean, mass media is much more prevalent. I mean, this was an incremental thing; wasn't it? But this story about Uganda using the--using computers and information out in the school districts to tell them how much money they were supposed to get from the central government as a way of forcing--sort of the people power to say where's our money. There's a lot of tools out there that are very interesting. We got some more people.

MR. : We got three people waiting patiently in line. I noticed nobody came back on the question of refugees, and I just want to note that, and then ask our questioner here.

MR. TIMMER: Let them migrate. Let them migrate.

MR. : Let them migrate. There's your answer: let them migrate. Please.

MR. SHIRK: Yes. Thank you. I'm Don Shirk [ph]. I was with the African Development Bank, but now I'm with PACT. It's a question for Gary and for Peter Timmer. If you--have you calculated the impact on your results or your hypotheses that the burgeoning population of orphans in sub Saharan Africa has? Are the orphans equally divided, rural-urban? Is it basically an urban phenomenon or does it affect your overall thrust of your conclusions? Thank you.

MR. : Sure. Thank you. Good. Yes, please?

MR. SHIRLEY: Alexander Shirley [ph], Development Alternatives, Incorporated. I just want to pick up on a point that you all mentioned, but I think, Mr. Howe, you introduced and that was the idea of developing the domestic market for the purposes of relieving rural poverty. And I was hoping that you could collectively address specifically what kind of aid in dollars and or technical assistance you would recommend that would have the highest impact on rural poverty and whether that would piggyback off of or develop from the C.K. Prahalad idea of the base of the pyramid or from the public side or from the AID side what we could do? Thank you.

MR. : I think if we could take one more, 'cause I know you've been waiting a long time, and, ma'am, I'll ask you to do the next round if you will. And if you want to sit, I'll remember that you're next in line.

MR. SEWELL: Just a quick point. I'm John Sewell [ph] from the Wilson Center. Peter, first of all, thanks for your remarks on the MDGs. I think we're facing a very difficult problem. You have to be supportive of the MDGs, but very few, if any of them, are going to be met, particularly universally, by 2015, and the development business that runs a great risk 10 years from now of having people say we tried it and we threw money at it, and it didn't work, to the discredit of the whole enterprise. It's a political problem we ought to be aware of, particularly when you go to the U.N. Session in the fall.

I want to talk about another issue, which all of you raised, however, is politics, because politics was mentioned. But politics is not governance. It's not a question of good governance that we pay the farm subsidies in the United States. It's a matter of politics, as Peter knows from a Middle Western state better than I do. And that's the reason it's going to be very hard to change, even in the Doha Negotiations. So the politics within countries and what the outsider does about it, it seems to me to be an issue that needs much more and clearer discussion than just talking about governance.

If you read Martin Reveillon's [ph] very excellent piece in Finance and Development on China, the big bang on poverty reduction came from two things, one of which was the end of the Cultural Revolution, which meant that all of the members of the collective who started out as farmers, before they got collectivized, could then farm again; and secondly, you solved the land reform problem because it was all in the hands of the collectives. That's not necessarily a model I would think the rest of the world would want to follow on rural development.

So the politics are very tough within countries. But so are the politics within donor countries, because none of you have talked about the sins of the donor community, which is a little bit like your alcoholic uncle that we don't like to admit--both about lack of coordination and coherence in what the donors do and about country allocation.

If you pick up the CGD study by Bill Klein [ph] on trade and poverty, Bill's got a very useful little section on the geography of poverty. And, as he points out, 90 percent of the poverty is in 31 countries; and, therefore, a good manager would say, well, let's spend our resources on those 31 countries; two of them, of course, are India and China. And what you do, as Peter pointed out, with aid in China is one question. What you do now in 2005 with aid to India is a totally different policy question. But other policy instances are much more important.

Secondly, in Bill's paper, there's a very interesting chart on the percentage of people living in the rural area in a selection of the countries he has, one of whom is Pakistan, which jumps out with 72 percent of the people--of the poor--living in rural areas. And I did a calculation the other day, between 1950 or whenever Pakistan became independent fully and the time we cut off aid in 1992 because of nuclear proliferation, Pakistan got nearly 12 billion bucks of American aid, and now has one of the higher rates of illiteracy in the world. And if you look at the allocation of everybody's aid, it's just not the U.S. It's heavily driven by one or another political dimensions. It would be true of the Scandinavians in East Africa and so on and so forth.

So it seems to me unless you address the politics of change within countries, particularly for the unempowered rural poor, and the politics within the rich countries, you're not going to have a handle on these issues.

MR. : Thanks very much. We had sort of a specific question about the distribution of orphans and the impact on rural issues and then two questions really about the role of donors; one specifically on developing domestic markets and then more broadly about the sins of donors and the politics of change, both in developing countries and rich countries. Gentlemen?

MR. TIMMER: Do orphans.

MR. HOWE: You do orphans.

MR. TIMMER: I'll do domestic markets. Okay.

MR. HOWE: Okay. It's a very interesting point because we know very well the situation in Uganda, and the orphan burden is principally a rural question. It's very much linked to the AIDS situation. Now, you have equivalent rates of AIDS in urban and rural areas. Because there are many more people in the rural areas, most of the orphans are actually in the rural areas.

Now, this brings me to a very quick point is why I emphasize the safety net issue. The problem at the moment is that we have a large number of rural households principally because of HIV/AIDS, which is a huge issue in sub Saharan Africa. We do not have the basis of participation in a market economy and access to those growth mechanisms. Pragmatically and empirically, what do you do about that?

We can talk here as economists. Our--economists solutions are not going to answer those questions. So our question becomes well what do you do about that situation? Thank you.

MR. TIMMER: I gave a seminar at the World Bank about two years ago, when we were in the early stages of the supermarket supply chain research that Tom Riordan [ph] and I have been engaged in. And the first response from the trade economists at the Bank was why are you interested in domestic markets. All of the future is export markets. The domestic markets aren't going to grow. They're all screwed up. There's too much intervention. The only hope for these countries is to export their way to economic growth.

And, you know, at one level, you look at the Asian story and well, clearly labor intensive manufactured exports was a late engine of growth, but it was not the early engine of growth.

The early engine of growth was import substitution in the agricultural economy, especially in rice and wheat. And I think there's a real tension growing now--it's very clear that even on things like fresh fruits and vegetables, most countries now have European style standards for those products, even for their domestic markets, as the supermarket revolution rolls forward. That's, as Gary said, that's a terrible challenge for small holders to get into that system, to stay competitively into that system. Whether it's export or not, it's increasingly--it's the same standards. I think that's just a--that's a really tough challenge.

I would like to suggest, however, that we not write off small holder agricultural exports. Maybe it isn't going to be green beans and cut flowers from small holders, but I don't see any reason in the world why small holder coffee producers or cocoa producers or oil palm producers can't produce as efficiently as large estates and generate not the food security directly but the cash income for food security indirectly. So

I'm not as pessimistic on the commodities sides of that as I am actually on some of the value added side.

MR. MCPHERSON: A quick set of comments. I concur with that last comment. I--around the world, including the U.S. in an earlier time, we found cooperatives were very important in terms of providing training for quality and other things for members. Everybody would agree with that.

But as to the safety net, we do have historically at least in modern history, historically unique situation with AIDS destroying families. And I don't see any option but to continue major safety net programs. You do see steadily more food going into Africa, for example. I agree with that.

The politics--John it's an interesting one. You and I have talked about this so many times. I mean, it's--it's Israel, but, of course, it's Armenia. It's a lot of places. It's Pakistan because of the situation. I've been through this so many years. I don't think that donors will--that politics will cease to be a major part of the decision to allocate money. It's not just on us. It's every other country. In fact, you take the Scandinavians their foreign policy is to certain countries that they get enamored with. Why did they put all that money into Tanzania back in the '70s? It made no real sense, and all kinds of bad things were happening. But they got all geared in. It was a foreign policy issue in a sense.

So I don't think we're going to be able to do it. What I hope is that at the end of the Cold War, it means that we can be much tougher in terms of expectations--democracy, corruption, and other things--than we were during the Cold War. I think maybe that's happening.

MR. : Can I--and you're right, Peter. But when you and I were discussing this, there wasn't a national security strategy statement by the Bush Administration that said that the problems were in the national interest.

MS. MCPHERSON: We can't hear you, John.

MR. SEWELL: I'm sorry. When you and I were discussing this, there wasn't an explicit statement of an Administration in its national security strategy statement that ending poverty was a matter of [inaudible]--of American national interests. If we're going to do that, you'd better follow what poor people could propose.

MR. : Peter and then I promise this lady here she'd get to ask a question. I see one more person at the mike. That will be our last two questions, and then we're done, and so if we'll keep those brief, please. Peter, very briefly.

MR. TIMMER: Very quick comment on the politics. Do we need the voice of the poor in the rural areas? Look. Asia invested in

rural areas because if they didn't, there was going to be a revolution. All of the revolutions, the political revolutions in Asia came out of rural areas. Governments, whether they were democratic or not, understood that they needed to invest in their rural economies for their own food security, for their own political longevity. Eventually, that success turned into democratic consultation, but it wasn't the basis of the success.

MR. MCPHERSON: That's a good point.

MS. MANANTOKO: I'm Etta Manatoko [ph]. I'm from the African Executive Director's Office in the Bank. I just have three comments. One really relates to the demographics in Africa as opposed, for example, to the developed world right now. The combination of demographic trends and the HIV/AIDS scourge is creating a situation where you have a young population, a predominantly--well, a great proportion of young who are bringing themselves up because the middle generation are the ones who are most affected by HIV/AIDS. So you have old people who have retired and are not earning an income. You have a middle block who are affected by HIV/AIDS. And then you have a lot of young people, orphans, coming into the market. So there's a real challenge. The dependency ratio is worsening.

So in the context of the rural agricultural--I mean I believe agriculture is key. And dealing with rural poverty is key. Young people are trying to move out of the rural areas 'cause they don't see a future there. They're hoping to get education and find another way out. So the--in terms of the question of who do you engage. Well, maybe it's not as extreme as this now, but in countries which have high HIV/AIDS rates, you find that people who live on a permanent basis in rural areas are largely the older generation who even if we work with them and train them, they are not going to sustain the trend, so the dynamics which are a bit challenging then I thought maybe a comment on how to deal with that would be helpful.

In terms of the rural--

MR. : And the other two points quickly if we could please.

MS. MANATOKO: Yes. Sorry. The rural voice. I felt I needed to say something here because in my experience, we have actually found that the rural voice is important because rural people have--it's not written knowledge, but it's knowledge on how the environment works on what systems work, especially people who are dire poverty. They've tried out all sorts of different things, so they know some of the solutions and some of the answers, but often as policy makers go there and we don't ask them the right questions. We don't ask them open questions, seeing what works and what are the solutions, 'cause they often do have very

interesting, innovative what to as innovative solutions. So sometimes I think that's an avenue.

I can't really speak on China because I'm not from there. But I do have a colleague whom I asked about the Chinese model. Her comment basically was that in terms of a cultural expansion there and the success, they said--she said that part of the solution she felt was because the--they are graduating out of a social model or they had a social model where communities worked together--are used to working together to achieve a common goal.

So she was saying in that sort of environment, you find that new initiatives or methods or ways of doing things are diffused and embraced very quickly. So the productivity--[inaudible] productivity tends to be higher than, say, in less organized structures.

MR. : Thank you so much.

MS. ULMER: Hi. My name is Vanessa Ulmer [ph], and I'm from the German Marshal Fund. And I have two very quick questions.

The first is in regard to commodities. Do you see a need to, particularly in terms of using commodities to drive poverty reduction, do you see a need to help stabilize the global prices for commodities like coffee? And the second is how can small producers gain a larger share of the value chains that we're talking about with these types of commodities, both domestically and internationally, and are there any mechanisms for finance, for storing those commodities, for selling them at the right time that you can point to for those producers?

MR. TIMMER: Let me take that one quickly and leave the tough questions for my colleagues.

First of all, I would love to say we should stabilize coffee prices or stabilize cocoa prices, but we can't do it. We just don't know how. We don't have the financial resources. It's not a good idea to try to stabilize at the global level. I spent 25 years of my career stabilizing rice prices in Asia as a domestic activity, and certainly learned that you don't want to try to do that as an international activity. Whether there are stabilizing mechanisms through some buffer things at the local level, whether the cooperatives might be a mechanism for sharing some of the risks of price movements, these are very much on the agenda now of the development community because I think we're all concerned that small holders have much less capacity to cope with those kinds of risks than larger organizations. And if we want small holders to participate, then we're going to have to figure out what the constraints are facing them.

Now, that sounds very much like we need to consult with local people about the realities of their lives. That's exactly right. I don't--I don't want to say ignore local reality. I do think that it's very difficult to go back to the point--I think it's very difficult to have open

consultative processes with very high transactions costs on things that are not locally the constraint as opposed to the macro constraints.

If you got your exchange rate wrong, you can't do anything for small farmers. I'm sorry. You just can't do it.

MR. MCPHERSON: Right. The first speaker, and the speaker is well, there's a lot of questions here, and I know we're pretty much out of time, so I'm sure will be incomplete.

I'd make a comment. We tend to think of opening borders, to developed countries, but this is very much also an issue of opening borders within Africa. And it's a serious issue.

As to how you--how local farmers can put together--can participate in global or even regional markets, I do think that it's not the full answer, but there's some great cooperative answers. I do think there's things like roads, technology. And I think there's finance. Finance is--microfinancers were said is not an answer only at a certain level. And frankly, the development community was burnt by all these development banks that turned into monstrosities. I think there's some interesting models to go away from that that I've done some work on. But one of the problems with a smart group of people like all of you there's so many things it would be fun to talk about, isn't it? Go ahead.

MR. : Gary, you spoke first. We'll give you the final word.

MR. HOWE: Very quickly. I think that we have to look at the positive side of this equation. And I'd like to respond to the observation on the demographics of Africa, because you see it's not actually the case that it's just old people and children. What is happening is much more complicated is that middle and people in the middle section are not spending all their time in the countryside. They're circulating. They're moving from the farm to a plantation area to an urban sector. And, Peter, in a certain sense this migration that you're suggesting is actually taking place within the limits that are there. People are moving around. They are in the secondary cities. There is an active exploitation of small farmers of all sorts of alternatives. And I think then that the basic message that we have to give here is that there are all sorts of problems, but first there are other alternatives yet.

And secondly, there's an enormous way to go. These people have not had assistance for 25 years. It's a fact. The extension systems of Africa no longer exist. Go to Uganda. There isn't one. I mean, there's a sham which we're putting up with the World Bank today, but it's not an extension system.

The research systems don't work. There's no rural finance. None. None. None anywhere in terms of real rural finance for small people. The marketing systems are ghastly. It's true that at the end of the

day 50 years from now, we'll be saying listen. The small holder farm is not the future of Africa. And it certainly isn't. But there's a huge gap there which we can exploit immediately using these people, working with these people who are circulating back to the cities. They're earning money in the cities. They're taking money back to the countryside. They're investing in wells in Senegal. It's a much more active situation. The potential is huge. As economists, we can say there are limits to that potential in the future. But we're very far from reaching those limits today.

MR. : I don't think we'll get better closing remarks than that. Thank you so much. Thank you to all three of our speakers. And thank you in the audience for arriving.

[Applause.]

MR. : The full transcript of today's event will be on the CGD web site in about a week. And thank you, again, for coming today.

[END OF PRESENTATION.]

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