

Agricultural and Rural Development for Reducing Poverty and Hunger in Asia

In Pursuit of Inclusive and
Sustainable Growth



INTERNATIONAL FOOD
POLICY RESEARCH INSTITUTE
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The **International Food Policy Research Institute** (IFPRI) was established in 1975. IFPRI is one of 15 agricultural research centers that receives its funding from governments, private foundations, and international and regional organizations, most of which are members of the Consultative Group on International Agricultural Research.

“A 2020 Vision for Food, Agriculture, and the Environment” is an initiative of the International Food Policy Research Institute (IFPRI) to develop a shared vision and a consensus for action on how to meet future world food needs while reducing poverty and protecting the environment. Through the 2020 Vision Initiative, IFPRI is bringing together divergent schools of thought on these issues, generating research, and identifying recommendations.

The **Asian Development Bank** (ADB) aims to improve the welfare of the people in the Asia and Pacific region, particularly the nearly 1.9 billion who live on less than \$2 a day. Despite many success stories, the region remains home to two thirds of the world’s poor. ADB is a multilateral development finance institution owned by 67 members, 48 from the region and 19 from other parts of the globe. ADB’s vision is a region free of poverty. Its mission is to help its developing member countries reduce poverty and improve their quality of life.

ADB’s main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance. ADB’s annual lending volume is typically about \$6 billion, with technical assistance usually totaling about \$180 million a year.

ADB’s headquarters is in Manila. It has 26 offices around the world and more than 2,000 employees from over 50 countries.

Foreword

In the last thirty years Asia has experienced dynamic growth and structural transformation, and has achieved substantial poverty reduction. The incidence of people living in poverty fell from more than 50 percent in the mid-1970s to 18 percent in 2004, and the incidence of hunger fell to 16 percent. However, Asia is still home to more than half of the world's poor, the majority of whom live in rural areas. Agricultural and rural development thus remains a critical component of an inclusive growth strategy for the region.

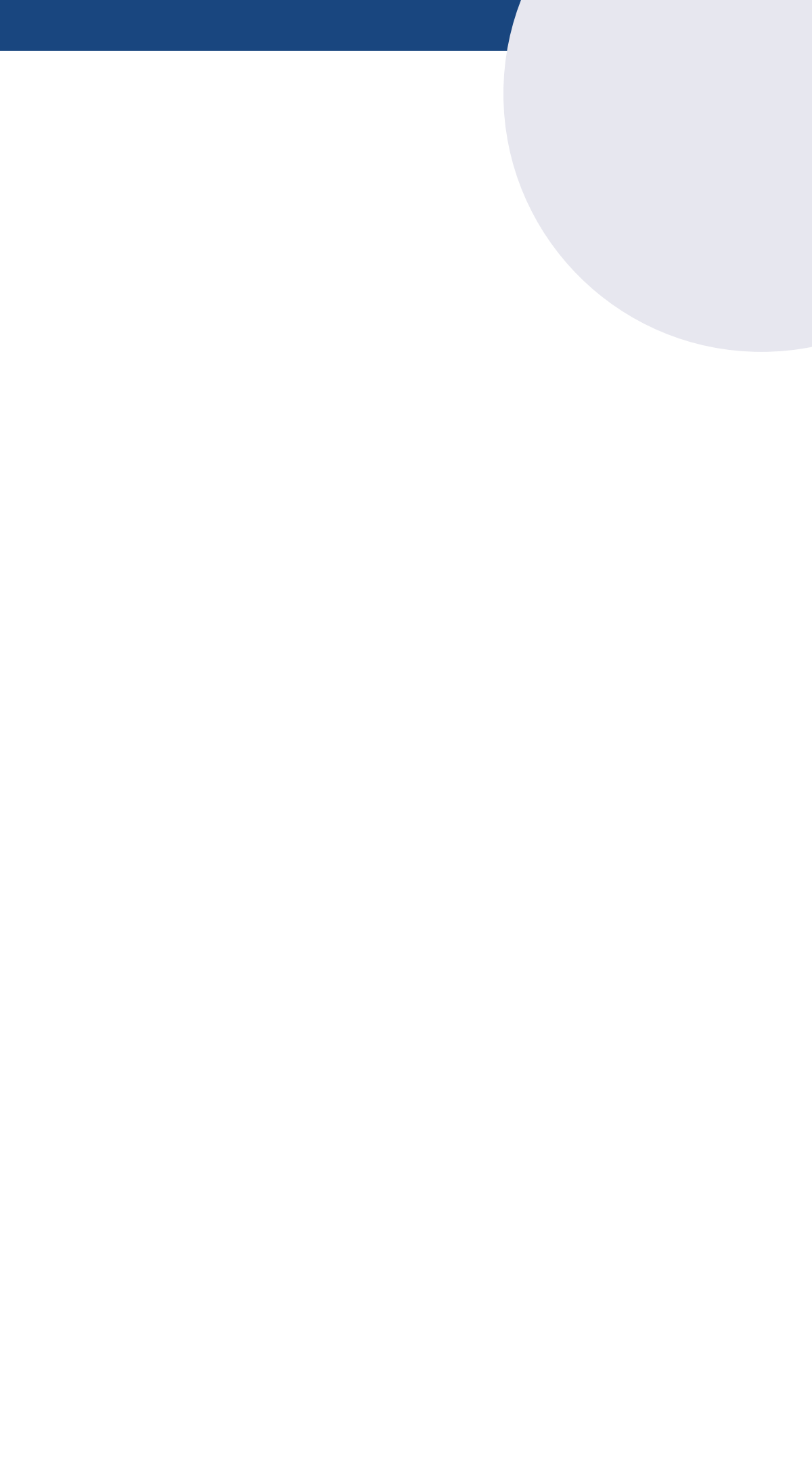
Recognizing that today's Asia faces new challenges and opportunities, the International Food Policy Research Institute (IFPRI) and the Asian Development Bank (ADB) organized a high-level policy forum **"Agricultural and Rural Development for Reducing Poverty and Hunger in Asia: In Pursuit of Inclusive and Sustainable Growth"** in Manila in August 2007.

The forum brought together about 100 leaders and stakeholders from the public and private sectors, academia, and civil society from all over Asia and around the world to examine the role of agricultural and rural development in reducing poverty and hunger in today's Asia. Participants examined the scale and nature of poverty and hunger in rural Asia and explored growth and structural changes in Asian agriculture and rural non-farm activities. Strategies for economy-wide and trade policies to encourage inclusive rural growth were discussed, and key emerging risks such as climate change and instruments for mitigating and managing risks were examined.

We hope that the findings and recommendations for pro-poor policies and investments of the Manila Policy Forum will contribute to a broader consensus on the role of agricultural and rural development in reaching and going beyond the poverty and hunger Millennium Development Goal and in achieving inclusive and sustainable growth in Asia.

Joachim von Braun
Director General, IFPRI

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Reducing Poverty and Hunger in Asia

Recounting the Role of Agriculture and Rural Development

Present Realities: Growth, Poverty, and Agricultural and Rural Development

During the past three decades, Asia has undergone dynamic growth and structural transformation. The incidence of people living in poverty has fallen from more than 50 percent in the 1970s to 18 percent in 2004—representing a decline in the overall number of poor of about 300 million. The incidence of hunger has also exhibited similar dramatic decreases, declining from more than 30 percent to 16 percent over the same period. The continuation of these trends is likely to create a dramatically transformed Asia; it is expected that by 2015, the region will contribute roughly 42 percent of global GDP.

These achievements in reducing poverty and hunger were due in large part to growth in the agricultural and nonfarm rural sectors through the 1980s. One of the keys to East Asia's economic success was increased agricultural productivity resulting from a liberalization of markets and rapid technological change. Agricultural growth impacts rural poverty reduction not only through increased farm incomes, but also through stimulating the nonfarm economic sector in rural areas and small towns. At the same time, nonfarm income—from trading, services, transportation, handicrafts, remittances, and small-scale manufacturing—has become increasingly significant and now makes up 51 percent of income in Asia's rural areas.

However, despite Asia's unprecedented economic growth and poverty reduction during the past three decades, hunger and poverty persist, with more than 600 million people living on less than US\$1 a day. By 2015, Asia will still be home to half of the world's poor, and best projections indicate that three-quarters of these poor will live in rural areas.

This synopsis was prepared by Abdul Bayes, Professor of Economics, Jahangirnagar University, Bangladesh, with contributions from Ruth Vargas Hill and Gwendolyn Stansbury of IFPRI.



The key to further poverty reduction in Asia is inclusive and sustainable growth, which at its core means rural development, sustainable agricultural growth, and effective natural resource management in the region. At present, the progress that Asia has achieved in reducing poverty and hunger has been uneven.



- First, most of the reduction in poverty has taken place in China and, to a lesser extent, in Southeast Asia; South Asia has seen more limited success. Though hunger has declined significantly in East Asia and the Pacific, it remains a critical problem in South Asia. Thus, it is important to remember there is not just one “Asia,” but several, all needing different policy approaches.
- Second, different income groups have benefited differently from the growth process. Across the continent, the rich are getting richer faster than the poor. Among the poor, those just below the dollar-a-day poverty line have benefited from economic growth more than those far below it, implying that recent growth has bypassed the poorest, especially those living in marginal areas such as remote mountainous regions.
- Third, different sectors have benefited differently. East Asia’s growth is now contributing to an expanding income inequality between those living in the cities and those living in the rural areas with inadequate access to technology, infrastructure, markets, credit, insurance, and social capital. This growing gap is not economically or politically sustainable over time.
- Last but not least, certain gender/caste/identity groups remain largely excluded from the growth process. Discrimination of women in South Asia has been shown to be a major deterrent to reducing hunger and child malnutrition in the region. Exclusion and discrimination on the grounds of caste and identity also needs to be addressed in Asia—both on the grounds of fairness and on the grounds that it hampers economic growth as those who would be very productive in the marketplace (often with assets and education) are barred solely on the grounds of their group identity.

In addition to the uneven growth process, increasing pressures on natural resources and environment in Asia are also challenging the sustainability of the economic growth in the region. Most people in Asia remain directly dependent on a productive natural resource base for their livelihoods. Unfortunately, population growth, industrialization and urbanization in Asia’s economic growth have put increasing pressure

on its natural resources and environment. Urban-biased industrial development and nonlocally managed investments in resource extraction within the context of an expanding global trading system are leading to resource depletion. Asia has become an important contributor, as well as a victim, to many environmental problems including global warming, water and air pollution, ecosystem degradation, and biodiversity losses.

Moving Forward: Emerging Trends and Challenges

Asia now finds itself at a crossroads, facing challenges and opportunities which, if properly addressed, can allow the region to continue to make significant reductions in hunger and malnutrition. Some of these challenges and opportunities are identified below:

Food markets and agricultural production

Food markets are changing rapidly in Asia, largely as the result of changes in demand due to population growth and economic growth (such as increased demand for fruit, vegetables, dairy, and meat and reduced demand for cereals) and changes in the structure of the food retail sector (such as the entry of supermarkets). These changes are transforming the way farmers interact with markets and are taking place in the context of declining farm sizes. In addition, the increased





demand for many food products—combined with biofuel demand, resource scarcity, and climate change—has led experts to predict that the real-world food prices of most cereals and meats will rise by 20–40 percent, reversing a long-established downward trend. This will have a serious short-term impact on poor consumers in Asia and elsewhere but may also represent a medium-term opportunity for smallholder farmers who can move up the value chain and enter new markets.

Thus, the solution may involve increasing food production through the adoption of biotechnologies and other innovations, and improving infrastructure, and creating broader and deeper markets that allow for quality differentiation and more value-added products.

Agricultural energy

Though an increasing demand for agricultural energy (biofuel) has been pushing food prices higher, biofuel production also has the potential to create opportunities for Asian farmers by increasing the demand for agricultural products—including biomass products—and by providing some farmers with a way to use crop residues and marginal land. Furthermore, because biofuel production can be labor intensive, it may generate additional employment in rural areas.

Smallholder farmers

Enabling asset-poor farmers to produce for and connect to these new markets is a challenge for both the public and private sectors in the region. In the context of declining farm size, important considerations include ensuring that new crops and new technologies are scale-neutral, training farmers in new crops and markets, improving access to credit for farmers without collateral, and investing in supportive infrastructure such as cold storage facilities and the regulation of transport biofuel markets.

It is also essential to design technologies that the poor need and want, and to that end, investing in rice technologies for rain-fed systems (where the poor are concentrated) is crucial. Investing in technologies for irrigated rice systems is also crucial in providing a source of low-cost staple crops in the region.

Nonfarm activities

The growth of the nonfarm sector in Asia has been fundamental in allowing poverty to decline amid high population pressure and closed land frontiers. It has also led to substantial reduction in poverty in areas with low agricultural potential. Nonetheless, there is a need to better understand the nonfarm sector so as to more

efficiently focus policy initiatives in this area: nonfarm activities are often small, family-owned businesses characterized by low levels of human capital, limited credit, infrastructural constraints, and limited ability to use and enforce contracts. Improved access to credit and policies that provide reliable affordable electricity and telecommunications services would support these businesses. Reforms that encourage the formalization of these businesses are also important in enabling this sector to play the role it needs to in markets that are increasingly quality driven.

Trade liberalization

Asia's agricultural and rural sector has recently been adjusting to the external forces of competition unleashed by agricultural trade liberalization. Globalization offers both a challenge and a chance. For food exporting countries, export trade liberalization will help smallholder farmers increase income and expand production, but a rise in food prices in these countries might hurt poor consumers. The speed of trade liberalization and domestic market reforms should be gradual and subject to close monitoring and short-term adjustments. It is important to develop a strategy to help poor farmers transition to being effective in liberalized economies. Building the assets of poor farmers has to be the first step, creating new market opportunities and improving their competitiveness is the second, and regaining the trust of farmers in the government is an essential third step.

Natural resource management and climate change

Asia's diminishing potential to meet expanding demand for water supplies and quality is a severe challenge that could reach crisis levels in many countries in the next couple of decades. Since much of the future water requirement is to be met from existing supplies, there is a need to change the institutional and legal contexts of water supply and use. Essential components of an agenda for action on water are improved water management through the removal of subsidies and taxes that lead to the misuse of water, the establishment of property rights, greater participation of water users in management, and the development of water markets whenever possible to send correct signals about the real value of this basic resource.



Climate change also exacerbates the stresses on agricultural production, particularly for low- and mid-latitude developing countries—including those of Asia. In these areas, higher temperatures tend to adversely affect rice and wheat growth. Both mitigation and



adaptation are important, requiring international capacity building and significant institutional innovation, such as specialized business services to low-income producers, locally accountable intermediary organizations, and simplified standards that are credible but still meet international standards.

Risk and insurance

Drought and climate change are just some of the risks facing the poor in rural areas. Other risks include pest outbreaks, changes in demand and world markets, illness, and death. Poverty is closely related to vulnerability. Better weather forecasting at the micro-level (district and sub-district) and timelier weather and market information dissemination to farmers could be a cost-effective way to reduce crop risks, especially in monsoon-dependent areas of highly seasonal rainfall. Moreover, Asia has been exploring ways of building innovative insurance markets around the risks that directly and indirectly affect Asia's rural poor, and it is important to develop cost-effective and sustainable insurance instruments. New technologies (such as information and communications technology) and innovations in terms of certifying and developing index-based insurance such as weather insurance may provide a real opportunity to mitigate the risks faced by farmers. More formal insurance mechanisms related to crop futures, including those organized or subsidized by the government, are currently underdeveloped in Asia and require careful assessment.

Institutions and community empowerment

Rural institutions mediate the access of the rural poor to assets, markets, technologies, and services, but institutions tend to be controlled by powerful elites. In order

to empower communities, it is vital to organize poor farmers, workers, and small businesses, and to improve the transparency about and access to information on the functions, policies, and decisions of local government and rural development institutions and agencies. The former groups need to have clear oversight and monitoring functions in order to protect and preserve their own interests against the capture of power by vested interest groups. Organizations of the poor can help expand and strengthen access to credit, supply chains, technology, and other public goods.



Infrastructure

Investing in infrastructure, including road and water transportation and information and communication technologies, can help reduce spatial disparities and foster rural–urban linkages. However, the primary mode of transportation of many of the poorest is walking. Therefore, they will need some other intervention to allow them to benefit directly from investments in roads. In addition, transferring income in the short run from more-favored areas to less-favored regions must be supplemented by medium-term measures to facilitate migration through investment in education and subsidized resettlement.

Prioritization of Actions for Pro-Poor Growth

During the past few decades, the share of national budget allocations to agriculture has significantly decreased in Asian countries. Studies from India, China, and Indonesia suggest this reluctance to invest in agriculture is misguided because in general, agricultural spending has large effects on growth and some impact on poverty

reduction. However, a “one size fits all” policy cannot be effective; instead, regional and country contexts should be taken into account. In Thailand, for example, education in rural areas may be essential to ensure that the rural poor who migrate and send remittances to rural areas have access to higher-skilled jobs; in Laos, however, investment in rural roads may be essential to ensure that the remote poor benefit from price liberalization.

Priority action areas for achieving inclusive agricultural and rural development include the following:

- Increasing technological innovation capacity in new agricultural supply chains
- Investing in infrastructure and communications systems to reduce spatial disparities and foster rural–urban linkages
- Developing ecosystems services through public-private cooperation for meeting the challenges of water scarcity and climate change
- Facilitating the health benefits of agriculture and reducing the risks, especially the transmission of animal diseases
- Encouraging development of finance and insurance interventions for the poorest
- Providing effective safety nets and nutritional improvement in rural areas

Future policy research questions that need attention include:

- What policies and services are needed to provide asset-poor farmers with access to emerging market opportunities, such as high-value agriculture? This work should include attention to new forms of cooperation and contract farming as well as information services regarding prices, quality, and standards.
- What types of nonfarm activities (especially those undertaken by the poorest) comprise the rural nonfarm sector, and what types of policies encourage the growth of these activities? This work should include new ways of strengthening rural–urban linkages as well as rural services and innovative rural financial institutions that embrace remittances and rural small- and medium-sized enterprises.
- What types of opportunities may evolve for biofuels in different settings in Asia, and what policies and regulations are needed for a balanced approach that may include smallholder farmers and small- and large-scale biofuel producers?
- What policies exist for climate change mitigation and adaptation in Asian agriculture? This work would include studies on carbon trading regimes and related programs and policies.
- What new policies are there for making water and irrigation systems in Asia more sustainable and pro-poor? This work would focus on the need for enhanced supply response in irrigated agriculture in different settings in Asia and emphasize water quality in the context of irrigation, which is so critical for the poor.

Conclusion

Agriculture and rural development strategies are a critical component of an inclusive growth strategy for Asia. Lessons can be learned from the region's recent history, but trends cannot simply be projected. The challenge is to determine what these lessons mean for the future. Developing a modern rural development strategy for poverty reduction in Asia in the coming decades requires recognition of institutional and technological changes, as well as of the growing role of a broadly defined and diversified agricultural system as opposed to the declining but relevant role of crop agriculture. Furthermore, the rural poor need to participate in the development and implementation of the relevant policies and programs, which need to ensure gender equity, inclusion of minorities, and participation of the poorest in markets and in the provision of services. All of this requires a fresh initiative for identifying and implementing the appropriate actions for inclusive agricultural and rural development in those regions of Asia that are home to the poorest and hungriest.



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