



Transforming rural areas in Asia and the Pacific

ASIA AND THE PACIFIC: A TRANSFORMING REGION

Among the world's developing regions, Asia and the Pacific region has witnessed the deepest and fastest structural transformation. The Green Revolution that began in the 1960s spurred the rapid spread of improved varieties of cereal crops, accompanied by public investments in and policy support to the agricultural sector. As a result, productivity of wheat and rice increased dramatically, stimulating economic growth and reducing rural poverty. In the following decades, and especially since 2000, the structural transformation further accelerated, leading to a declined share of the sector in both output and GDP and, to a lesser extent, in the total employment. Facilitated by a conducive institutional and policy environment, the process brought about a more diversified, market-oriented and high-value agricultural production; the expansion of food processing, agribusiness, food retailing and exports; and increased domestic and international competitiveness of agriculture – albeit with country and subregional differences.

Nevertheless, poverty, deprivation and hunger remain widespread. Two thirds of the world's poor and hungry people live in the region, mostly in rural environments. Income inequality has been rising fast in a number of countries, especially between urban and rural areas, with adverse effects on poverty reduction and increased risk of social conflict and political instability. Moreover, the countries and subregions are at different stages of the structural transformation process. In most developing economies,

labour productivity in agriculture is still low and the shift of the agricultural workforce to other sectors is yet to take place. Therefore, agriculture remains a critical livelihood option and the largest employer sector for most rural people.

As part of the post-2015 development agenda, IFAD will continue to invest in smallholder producers and family farmers, so that they become catalysts of an inclusive and equitable rural transformation that could support sustainable urbanization. Through its loan and grant programmes, policy engagement, and pro-poor partnerships at all levels – from grass-roots to national governments, from the donor community to the private sector – IFAD will focus on: linking smallholders with markets and value chains; creating a conducive institutional environment; promoting sustainable agriculture and natural resource management; enhancing post-harvest practices and non-farm activities; empowering women, rural youth and indigenous people; and promoting community-led participatory processes.

TRANSFORMATION OF AGRICULTURE AND RURAL ECONOMIES: OPPORTUNITIES AND CHALLENGES

Agricultural markets and rural economies in the region have undergone significant changes in the past few decades. This is due to a number of factors, primarily urbanization, economic growth, and increasingly globalized markets, combined with reduced state intervention and import barriers by industrialized countries, market deregulation and foreign investments. These transformations provide meaningful opportunities for smallholder producers and family farmers. They could also offer attractive prospects to young people, who have been leaving rural areas, as they do not see farming as an economically rewarding employment option and business proposition. Still, smallholders are confronted with high entry barriers, transaction costs, and risk of exclusion. This is exacerbated by old and new challenges they typically face, such as small and declining farm landholdings; degradation of and precarious rights over land and natural resources; climate change; increased competition over land uses; profound gender inequality; poor governance; and rising and volatile food prices that worsen farmers' market risks and uncertainties.

Growing demand for high-value commodities

Over the past decade, the Asia-Pacific region has been experiencing an unprecedented **urbanization** process that is projected to continue in the next decades. **Migration**, mostly of young and working-age rural men in search of better employment opportunities and living conditions, is the main driver of the process. The growing demand from urban consumers, in the context of overall income growth, is largely behind the significant **changes in diet and food systems**, which are shifting away from starchy staples and rice towards fruits and vegetables, livestock and dairy products, fish, sugar, and oils. The reduction in import barriers in developed countries also favours the international trade of these commodities. Moreover, the growing demand for **livestock products** and the rising costs of fossil fuels, combined with concerns about the environment and energy self-sufficiency, have spurred the production of crops for animal feed and **biofuels**.

The production of high-value commodities is overall more labour-intensive, thus providing greater employment prospects both on farm and in the processing sector. Furthermore, according to FAO, the price of some of these commodities (meat, dairy products and oil) has dramatically increased from 2006 to 2013, respectively by 31, 59 and 47 per cent. All this makes these value chains a suitable and attractive opportunity for smallholders.

However, some concerns about **food security** remain. While increases in food prices can benefit producers (provided they can enhance production through greater access to credit and services), they adversely affect poor consumers, especially net buyers of food. Furthermore, shifts in farmland use favouring the production of high-value crops, including for non-food purposes and seemingly also through large-scale private investments, may put at risk domestic food security. In particular, the displacement of cereals from better lands by more profitable crops is among the factors behind the **declining productivity growth** for staple food crops (i.e. rice and wheat) in the region. Other factors include deteriorating soil and water quality, pest and disease resistance, and inappropriate application of irrigation and chemical fertilizers. When domestic food production is at risk, countries resort to grain imports to maintain food

BOX 1 - Securing rights over natural resources in Bangladesh

The IFAD-supported *Char Development and Settlement Project* (CDSP) IV is facilitating a land titling process for poor people living on newly accreted coastal islands or “chars”. Despite the slow implementation progress, land certificates have so far been issued to 2,246 households, significantly securing their livelihoods. The land titling process has also increased women’s status in their families and communities. The names of both husband and wife are included in the certificates, with the woman’s name indicated first.

IFAD has also been assisting the Ministry of Land in transferring the rights over public fishing water bodies or “beels” to community fishing groups. The process was initiated during the *Sunamganj Community-Based Resource Management Project* (SCBRM) and subsequently scaled up by the *Haor Infrastructure and Livelihood Improvement Project* (HILIP). Better management of the *beels* has contributed to increased fish production and diversity of fish species.

security. However, since staple crops still constitute the largest agricultural subsector in a number of countries in the region, and given the size of the latter relative to world markets, a substantial portion of staple food commodities would still need to be produced domestically. Given the limited potential for farmland expansion in the region, yield growth for staple crops remains critical for food security, together with reduction in the still high **post-harvest losses**.

The emergence of supermarkets

In response to the increased demand for high value and processed food, there has been a rapid emergence of better-integrated agricultural supply chains and supermarkets. In order to meet volume and quality requirements, **agri-food supply chains** are shifting from involving a number of vertical linkages to fewer intermediaries over longer distances and closer horizontal connections. An important driver of this “supermarket revolution” is the growing number of women entering the urban workforce.

Supermarkets potentially offer higher prices and more secure and larger markets to smallholder producers, sometimes with credit and technical assistance. However, smallholders



have limited ability to respond to the growing demand for consistent and regular supply, given their increasingly small landholdings which are typically scattered across remote rural areas with poor infrastructure. Due to limited access to inputs, technologies, marketing facilities and credit, it is also extremely challenging for them to adhere to stringent quality and safety standards. They can be adversely affected by the fact that high-value commodities are highly perishable and hence more subject to price volatility. Furthermore, lack of entrepreneurial skills, and business and negotiating experience may expose such farmers to unequal contractual arrangements with agribusiness investors. The latter, in turn, may be unwilling to bear high transaction costs, uncertainties and risks associated with dealing with resource-poor smallholder farmers.

All these challenges should also be seen in the context of decades of poor farming, land and water management practices that, under the impact of **climate change**, have been gradually eroding farmers' natural capital. **Land degradation**, declining soil quality, **water scarcity** and pollution are the most severe effects, exacerbated by the rapid increase in intensive livestock production. Precarious **land and natural resource user rights** worsen the situation, as farmers have limited incentives to invest in their farmland and adopt sustainable management practices if they are vulnerable to land acquisitions and displacements. In the context of limited land availability and potential for expansion, all of these key factors should be taken into consideration in the efforts to increase production and productivity, and thus respond to growing market demands.

Increasing rural wages

While male outmigration has adverse impacts on rural areas - such as the exodus of working-age labour force, population ageing, "feminization" of agriculture and disruption of social ties - there is also evidence of a positive impact. **Remittances** from migrant workers are an important contributor to livelihood improvements in rural areas. Additionally, as rural working population declines and agricultural labour productivity from other non-agricultural sectors increases, rural wages rise. Still, in absolute terms, wages remain low, especially for women, while in some countries the exit of agricultural labour force remains sluggish. These trends contribute to the increasing income inequality between rural and urban areas, and between farmers and non-farmers.



BOX 2 - “Courage brigades” address gender issues in India

In Madhya Pradesh, IFAD is supporting *Shaurya Dal* or “Courage Brigades” - groups of women and men addressing women’s issues, including discrimination, violence and gender disparities. Courage Brigades raise awareness about laws that protect women, female foeticide, malnutrition, dowry, child marriage, and joint property ownership. They also provide women with training and opportunities for socio-economic empowerment, ensure women’s safe mobility, and take actions against violence. Courage Brigades are now powerful institutions, recognized by the communities, *panchayats* (local government units), and the police. Through their advocacy work, they managed to have women’s concerns acknowledged at community level and press for more balanced household workloads, as well as greater women’s decision-making power and participation in social and economic activities.

Increased rural wages are expected to lead to greater agricultural production costs, consolidation of larger farms, mechanization, higher food prices and wages in the manufacturing sector. However, increased labour costs can also affect the competitiveness of smallholders. A key challenge would be to find ways of improving production efficiency through higher crop productivity, as increased capital intensity is not a viable option for the typically labour-intensive small farming systems. At the same time, introducing farm machinery may be necessary in cases where the transformation process is more advanced and the shift of labour from agriculture to industry, as well as growing urbanization, are leading to agricultural labour shortages in rural areas. The introduction of farm machinery in the production chain could enhance farming efficiency, crop diversification and yields, and labour productivity. For harvesting and processing, it could also increase yields by reducing crop losses.

The non-farm economy

Non-agricultural activities and services are steadily increasing in rural areas, offering livelihoods for a growing number of people. In most countries, farm revenue now represents less than 50 per cent of the overall household income. The rural non-farm sector plays an important role as a household risk mitigation and diversification strategy, especially in the context of small, diminishing and deteriorating landholdings, as well as landlessness. However, due to the limited availability of human, financial and physical capital, as well as because of gender, caste, or social inequalities, poorer households are often unable to engage in remunerative non-farm activities.

ACTIONS AND RESPONSES TO ENSURE SUCCESSFUL TRANSFORMATION

Actions and responses should aim to: i) enable smallholders to produce more for a growing population and better for more sophisticated and urbanized markets, with diminishing land and water resources, and under the stress of climate and food price volatility; ii) reduce post-harvest losses; and iii) enhance poor rural people’s risk management capacities and resilience to shocks (e.g. sickness, food supply shortages, price increases and volatility, natural hazards, etc.). The ultimate benefits would be improved household food security, nutrition and incomes, as well as reduced social and economic inequalities among urban and rural areas. Actions and responses should specifically focus on:

- **Linking smallholders with markets and value chains**

Appropriate institutional mechanisms need to be put in place to reduce entry barriers, transaction costs and risks for smallholders’ access to high-value markets. Producers also need support to strengthen their position in the value chains, while connecting with agro-processors and modern retail outlets. **Membership-based institutions**, such as producer organizations and cooperatives, can mediate smallholders’ access to financial and non-financial inputs and services, technologies and markets; facilitate their integration into modern supply chains; produce economies of scale; and ensure the establishment and

enforcement of mutually beneficial contractual arrangements. **Contract farming** is another mechanism that could help reduce producers' risks of price volatility, while enhancing their access to inputs and secure markets. Farmers' **competitiveness** also needs to be increased by removing biases against them, namely institutional gaps (e.g. weak extension services) and policy distortions (e.g. minimum support prices), while delivering **innovative financial mechanisms** to reduce investment risks, such as weather index-based insurance and supply chain financing.

- **Creating a conducive institutional environment**

Development of **rural infrastructure, transportation and other facilities** (i.e. electricity, banking, ICTs, storage) is a fundamental prerequisite for responding to the opportunities arising from globalized markets, while minimizing risks and costs for private investors in rural areas. Ensuring **secure rights over land** and other **natural resources**, especially for women and indigenous people, provides incentives to farmers to invest in land and adopt sustainable management practices. Land tenure security also ensures availability of collateral, improves farmers' bargaining power, supports the development of land markets, increases land value, and reduces social conflicts and risks associated with large-scale farmland concessions.

- **Promoting resilient agricultural production and sustainable natural resource management**

Increasing crop yields remains crucial to both maintaining food security and responding to the emerging market opportunities. Alternative agricultural technological innovations – including low external input and sustainable agricultural approaches, such as zero tillage, organic agriculture and biotechnology, integrated agricultural and natural resource management, and more efficient water management systems – enhance farmers' productivity while protecting their increasingly scarce natural resources. **Organic agriculture and environmental sustainable certification** (e.g. Fairtrade) have become a prerequisite for market access by smallholder producers of exportable commodities such as cocoa and coffee. However, smallholders face considerable obstacles in complying with organic standards and affording certification costs individually – which may partly be addressed by promoting their collective action. **Payment for Environmental Services (PES)** is an increasingly promoted community-based approach to conserving natural resources and overcoming market failures. Responding to **climate change** is becoming even more critical, with opportunities being offered by policy incentives for smallholders to invest in mitigation and – more importantly – adaptation of low-carbon agricultural practices.

BOX 3 - Investing in pro-poor environmental services

The Programme on *Rewards for, Use of, and Shared Investment in Pro-poor Environmental Services (RUPES)*, supported by an IFAD grant to the World Agroforestry Centre (ICRAF), piloted systems of rewards for environmental services (RES) in upland areas of several Asian countries. In **Viet Nam**, RUPES facilitated the development of an environmental services (ES) scheme between the Ba Be National Park as ES beneficiary/forest owner and the Leo Keo community. RUPES also supported the development of policies for the conservation of biodiversity, landscape and watershed management, and carbon sequestration. In **China**, lessons from a RES scheme for grasslands were adopted to design an ecological land-use plan for Xishuangbanna Prefecture of Yunnan Province. In **the Philippines**, RUPES helped draft the Philippine Climate Change Act and review the Sustainable Forest Management Act.

BOX 4 - Rewards for organic farmers living in the Pacific

IFAD has been assisting the Pacific countries to establish regional standards for sustainable organic agriculture and build farmers' capacity to meet these and – subsequently – fair-trade standards. With support from the IFAD grant programme, the Pacific Organic and Ethical Trade Community (POETCom), and the Secretariat of the Pacific Community, twenty papaya farmers in Fiji's Sabeto Valley will soon start exporting organically certified papaya to the New Zealand market.

- **Enhancing post-harvest practices and non-farm activities**

In addition to enhancing productivity, farmers need to add value to their primary production and diversify their income-generating activities. Post-harvest handling, storage and processing practices need to be improved to reduce losses, and improve quality and food safety. To achieve this, the extension service delivery system should be strengthened and diversified by involving the private sector and establishing public-private partnerships (PPPs) that enhance farmers' linkages with service providers, traders and agribusiness firms, while improving value-adding agro-processing technologies. The promotion of non-farm activities also requires support for entrepreneurship development and provision of rural education, technical and vocational training, and financial services.

- **Empowering women, rural youth and indigenous people**

Women and young people constitute the majority of rural population, with the former being the backbone of rural economy and the latter being the future. However, their full potential remains largely untapped due to persistent gender inequalities and limited recognition of young people as agents of change. Indigenous communities have distinctive and rich cultures, and valuable traditional knowledge; yet, they are among the most disadvantaged and marginalized groups, suffering from limited access to education and income-generating opportunities, displacement from their traditional lands, and exclusion from decision-making processes. Addressing gender inequalities, the development challenges facing young people, and indigenous peoples' vulnerabilities, while concurrently investing in their capabilities, is essential for inclusive and sustainable transformation.

- **Promoting community-led participatory processes**

Inclusive and sustainable rural transformation will not happen unless greater participatory and transparent **governance** is promoted at the local level. This should be primarily done by building and empowering **community-based institutions** to lead the decision-making and development processes. IFAD projects should use smallholder institutions as platforms for bottom-up and participatory decision-making, development planning and execution, and pro-poor policy influence and change.



- **Working in partnership**

Greater knowledge, capacity and resources are needed to enable smallholders respond to the new opportunities and challenges emerging from rural transformation. There is also a need to review IFAD's operational and business model in order to increase its development efficiency and effectiveness. In particular, IFAD should: i) engage with the private sector and promote PPPs; ii) more proactively seek opportunities of project **cofinancing**, including in sectors that are beyond its mandate but relevant to rural transformation; iii) develop a specific strategy to engage with **middle-income countries**, which have experience in successful transformation; iv) promote **South-South cooperation**; and v) systematically **scale up** successful models and innovations to enhance outreach and impact.



BOX 5 – Enhancing community participation and development

In **China**, IFAD introduced in its projects the Village Implementation Groups (VIGs), which are responsible for participatory planning, beneficiary selection and M&E data collection. Based on existing Village Development Committees, the membership of which was enlarged to include representatives from poor households, farmers and women, VIGs prepare Village Development Plans that feed into the projects' Annual Work Plans and Budgets (AWPBs).

In **Laos**, the *Rural Livelihoods Improvement Programme* (RLIP) trained village administration committees and assisted the beneficiary communities in the formulation of village community plans.

In **Solomon Islands**, the IFAD-World Bank *Rural Development Project* (RDP) facilitated a participatory process led by the Ward Development Committees, whereby the whole community – including women, young people and disabled people – has been involved in the selection of community infrastructure for project financing.

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IFAD is an international financial institution and a specialized United Nations agency dedicated to eradicating poverty and hunger in rural areas of developing countries.



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