



CAPSA

Flash

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## Short Article

# Structural Transformation: A Paradigm for Rural Development and Poverty Alleviation

Developing a modern rural development strategy for poverty reduction in the coming decades requires recognition of the growing role of a broadly defined and diversified agricultural system, as well as technological and institutional changes (IFPRI and ADB, 2007). In this regard, it is necessary to identify and implement structural transformation that complements inclusive growth and rural development, in addition to ensuring the participation of the rural poor in the development and implementation of the relevant policies and programmes.

Derived from an historical perspective of structural transformation, Timmer (2006) described the inter-related processes and main principles for achieving and sustaining higher standard of living. The three inter-related processes are: declining share of agriculture in GDP and employment; urbanization and the rise of the modern industrial and service economies; and demographic transition to a low rate of birth and mortality and better health standards. The main principles for achieving structural transformation are the use of improved technology, investment in education for improving labour force quality, lower transaction costs to connect and integrate economic activities, and more efficient resource allocation. Basically, the outcome of economic structural transformation is the similarity of the agricultural and non-agricultural sectors with regard to labour and capital productivity.

The importance of structural transformation through inclusive growth and agricultural/rural development is indicated by the current problems in developing countries, especially in Asia. From 1970 to 2004, Asia has undergone a dynamic growth highlighted by the decline in poverty rate from 50 to 18 per cent and in the rate of hunger from 30 to 16 per cent. Continuation of these trends would result in a substantial contribution of roughly 42 per cent of global GDP by 2015 (IFPRI and ADB, 2007). Despite remarkable progress on economic growth and poverty reduction, 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, three quarters of which will live in rural areas.

Henderson (2007) noted the expected convergence of rural-urban welfare in the structural adjustment process. Asia is experiencing conditions contrary to these expectations; for example the persistence of rural-urban inequality resulting from the slight divergence in rural and urban incomes. In Asia rural income lags behind. The ratio is estimated at between 1.3 and 1.8. In Indonesia, The Philippines and China, the ratios are higher, around 2.0, 2.2 and 3.0. Rural-urban inequality contributed about 25 to 50 per cent of overall inequality. The factors that affect inequality are: the

promotion of heavy industry at the expense of agriculture; a shift of the focus of policy to the urban sector; openness and trade globalization; unequal characteristics of rural and urban residents; and inequality in the returns to these characteristics.

This evidence shows that the key to further poverty reduction in Asia is structural economic transformation through inclusive and sustainable agricultural and rural development. Strategic policies for enhancing structural transformation (Timmer, 2006; Henderson, 2007) are: (a) to balance rural and urban investment and development by focusing on agricultural and rural development, as well as maintaining urban growth; (b) to generate higher income by improving the integration of labour and financial markets, and accelerating farm labour integration into non-farm and rural economies; (c) to strengthen the capacity of the poor and enhance their access to economic opportunities through rural investment and labour migration; and (d) to narrow the gap between rural and urban (agricultural and non-agricultural) productivities.

The International Food Policy Research Institute and Asian Development Bank (2007) identified six priority actions for achieving inclusive agricultural and rural development. These are: (a) increasing technological innovation capacity in new agricultural supply chains; (b) investing in infrastructure and communication systems to reduce spatial disparities and foster rural-urban linkages; (c) developing ecosystem services through public-private co-operation in order to meet the challenges of water scarcity and climate change; (d) facilitating the health benefits of agriculture and reducing the risks, especially the transmission of animal diseases; (e) encouraging the development of finance and insurance interventions for the poorest; and (f) providing effective safety nets and nutritional improvement in rural areas.

In summary, it can be concluded that the acceleration of structural transformation for poverty reduction can be achieved through sustaining economic growth that focuses on agricultural and rural development. This should be complemented with basic principles such as generating opportunity and access for all. In this regard, both the personal capability of the poor has to be improved, and their ability to access economic opportunities through rural investment and labour migration. ■

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*(References available upon request)*

## FlashBREAKING



### South Asian Nations Team Up for Food Security

Eight South Asian countries – Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka – have launched a regional food security programme, pooling together scientific and natural resources to improve crop production and nutrition in the region and fight poverty and hunger. The South Asia Food Security Programme will receive an estimated US\$ 25 million for ten projects beginning in 2009. The donors include the Asian Development Bank, the International Fund for Agricultural Development and the UN Food and Agriculture Organization (FAO). This regional co-operation in research is, among other things, intended to address the huge gaps in yield between crops grown in experimental fields and in farmers' fields, due to inadequate crop management practices.

Padma, T.V., 2008. South Asian Nations Team Up for Food Security. SciDev.Net, <http://www.scidev.net/> (11 March 2008).

### FreeRice Internet Game a Big Success

The award-winning Internet word game, FreeRice, has revealed a surprising staying power as a web phenomenon, and six months after its birth has now generated 21 billion grains of rice for the world's hungry using the money it receives from private companies in return for advertising space. The idea behind FreeRice has excited many on the web, where players donate 20 grains of rice to the United Nations World Food Programme every time they get a right answer. Baidu, China's biggest Internet search engine, plans to promote FreeRice on the homepage of its charity section, and Firefox, the popular web browser, has also launched an initiative to promote the game.

World Food Programme, 2008. FreeRice Internet Game Emerges as Web Phenomenon. News – Press Release, <http://www.wfp.org/> (7 March 2008).

### Reprieve for Indebted Small Farmers in India

The Indian government is to cancel the entire debt of the country's small farmers in a giant scheme that will cost 600 billion rupees (US\$ 15 billion). The farm loan cancellations will be offered to all farmers with less than two hectares of land. Reaction from farmers' groups has so far been mixed. An Indian newspaper reported that 48.6 per cent of farm households were indebted. Of the total number of indebted farmers, 61 per cent had operational holdings of below one hectare. It is estimated that 57.7 per cent of the outstanding amount was sourced from institutional channels (including government) and the balance, 42.3 per cent, from moneylenders, traders, relatives and friends.

OneWorld South Asia, 2008. Indebted Small Farmers in India Get a Reprieve, <http://southasia.oneworld.net/> (13 March 2008).

### World Fertilizer Prices up 200 per cent

World fertilizer prices surged by more than 200 per cent in 2007, as farmers sought to maximize corn production for ethanol, according to the International Center for Soil Fertility and Agricultural Development (IFDC). The unprecedented rise in fertilizer prices is creating a fertilizer crisis for resource-poor farmers in developing countries. Particularly hard-hit are farmers in Sub-Saharan Africa. The rise in fertilizer prices is fuelled by new demand for grain for biofuel production, higher energy and freight

prices, increased demand for grain-fed meat in emerging markets, and increased use of natural gas as liquefied natural gas (LNG). High-level fertilizer use in industrialized countries to maximize grain harvests is driving world prices higher.

Mongabay.com, 2008. World Fertilizer Prices Surge 200% in 2007, <http://news.mongabay.com/> (20 February 2008).

## The Biofuel Revolution: Boon or Bane?

Cereal prices that have risen drastically in recent years stem from low world grain stocks, a rapidly growing demand for feed, and slow growth in agricultural productivity. Increased production of biofuels has intensified competition for grain supplies, contributing to higher prices and greater price volatility. The poor will be hurt most by rising food prices, because this will prompt them to reduce food purchases. Development experts are also worried about the environmental impacts of the biofuel boom. Particularly alarming is the possibility of biodiversity-rich tropical forests being destroyed to make way for more feedstock plantations. A further concern is the likely impact of biofuel production on water, particularly in China and India. The conventional approach to capture economies of scale in biofuel production is through large-scale farming under a corporate model (e.g. in Brazil and the USA). In developing countries, this approach would exclude the poor (even pushing them off their land) and drive up the prices of staple foods. Consequently, the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT) supports private-public partnerships where the distilleries provide farmers with improved seed and technical advice, and offer them a guaranteed price for their crops. Active participation of rural poor through strong producer organizations is the best guarantee that biofuels will be a boon rather than a bane for the world's poor. ■

Based on CGIAR, 2008. The Biofuel Revolution: Boon or Bane for the Developing World's Poor?, <http://www.cgiar.org/> (March 2008).

## Rural Financial System in Thailand: Ongoing Success

In 1966, the Government of Thailand established the Bank for Agriculture and Agricultural Cooperatives (BAAC) to enhance agricultural production. BAAC provides appropriately designed financial services to farmers through JLGs (Joint Liability Groups). A JLG is a group of a minimum of five farmers who mutually guarantee small loans, initially up to US\$ 5,082. Once borrowers demonstrate a reliable repayment record, they become eligible for a larger loan and other loan instruments. Lending through JLGs benefits both borrowers and BAAC. BAAC has a relatively low ratio of overdue debts to overall credit (less than 5 per cent). Borrowers receive credit without the need for collateral and the Bank reduces its administrative costs. Through this mechanism, the Bank serves 95 per cent of Thai farmers. Key factors for this success are: establishing a close relationship between the Bank's officers and farmers, providing a good service attitude to farmers as clients, and selecting and using appropriate technology. At the end of 2006, BAAC had 75 provincial offices, which supervised 908 branches throughout Thailand. To date, the Bank also has 945 field units scattered around the local areas of districts, serving as places of contact for its rural clients. BAAC has around 12 million farmers' savings accounts. This number provides significant proof that there is a high demand for financial services in rural areas. The availability of tailored financial services is an essential part of the enabling environment for rural economic growth and poverty reduction in Thailand. ■

Based on IFAD, 2008. Rural Financial System in Thailand: the Bank for Agriculture and Agricultural Cooperatives, <http://www.ifad.org/> (February 2008).

## Steady Rise in Agri-imports to Hit Domestic Farmers Hard

India, with 300 million poor people, has managed to push its doors wide open to produce from foreign farms. Customs duties on most major food items in short supply are now at zero or an all-time low. India now has zero duty on major staples such as wheat, wheat flour, corn, pulses and jute. Moreover, under the South Asia Free Trade Agreement (SAFTA), duty has been reduced from between 16 and 40 per cent down to zero on meat, fish, milk, dairy products and dry fruits from Bangladesh, Nepal, Bhutan and the Maldives. A study found that complete trade liberalization under WTO or bilateral FTAs can affect families in rural India and also increase rural unemployment. Unskilled labour loses from the reduction of agricultural tariffs and domestic subsidies, while it gains from the reduction of manufacturing tariffs. Skilled labour and owners of capital both benefit from all liberalization measures, except for a reduction of agricultural subsidies. Owners of land lose from all agricultural liberalization measures and gain from liberalization of trade in manufactured goods; and the owners of natural resources lose overall. Interestingly, the same effect on lower farm customs duties in India can be seen in another big country such as China. Because such a high proportion of the labour force of these countries is still engaged in agriculture, and the sector is still the main reservoir of poverty in the country, the risks posed by agricultural trade liberalization are high and must be carefully managed. ■

*Based on Srinivas, N.N., 2008. Steady Rise in Agri-imports to Hit Domestic Farmers Hard. The Economic Times, <http://economictimes.indiatimes.com/> (22 February 2008).*

## Innovations in Microfinance in Rural Areas

Thanks to the microfinance revolution, millions of poor people now have access to some form of formal financial service. However, recent studies indicate that rural areas and agriculture tend not to be served. Rural areas represent a particularly difficult challenge even for efficient microfinance institutions because of the high operating costs in reaching dispersed populations and making small loans to farmers with risky enterprises. Fortunately, many innovations are being tested to expand the financial frontier. Some product and service innovations include things such as: individual loans for short-term crops; value chain approaches; use of non-standard assets as collateral; the use of post offices and community-based organizations as small partial service offices; mobile banking units to reach remote areas; and experiments in crop, livestock and health insurance products. From a technology perspective, experiments are being conducted with improved technologies to reduce the transaction costs of supplying financial services – for example, by delivering financial services through automatic teller machines, debit and credit cards, Point of Sale devices and cell phones, and the use of palm pilots for loan assessments and loan payments. With regard to innovations in delivery mechanisms, linkages, partnerships and alliances are being developed in which two or more institutions co-operate to provide financial services. It is expected that their natural complementarities will reduce costs and risks in ways that each would be unable to accomplish by itself. One of the major threats to innovative approaches to expanding microfinance into rural areas is interest rate ceilings imposed by many countries. ■

*Based on Meyer, R.L., 2008. Innovations in Microfinance in Rural Areas. International Fund for Agricultural Development, <http://www.ifad.org/> (January-February 2008).*

## Flash EVENTS



Food, Fuel and Forests:  
A Seminar on Climate Change, Agriculture and Trade  
12 May 2008  
Novotel Hotel, Bogor, Indonesia  
[Info:  
http://www.agritrade.org/events/InternationalFood  
AgriculturalTradePolicyCouncilEvents.html](http://www.agritrade.org/events/InternationalFoodAgriculturalTradePolicyCouncilEvents.html)

Poverty Reduction and  
Social Protection Conference 2008  
19 – 21 June 2008  
Bangkok, Thailand  
[Info:  
http://www.tomorrowpeople.org/index.php?option=  
com\\_content&task=view&id=29&Itemid=72](http://www.tomorrowpeople.org/index.php?option=com_content&task=view&id=29&Itemid=72)

The International Conference on Sustainable  
Agriculture for Food, Energy and Industry 2008  
2 – 6 July 2008  
Sapporo, Japan  
[Info:  
http://www.sgp.hokudai.ac.jp/ICSA2008/index/  
introduction.html](http://www.sgp.hokudai.ac.jp/ICSA2008/index/introduction.html)

Improving the Performance of Supply Chains in the  
Transitional Economies: Responding to the Challenge  
of Linking Smallholder Producers to Dynamic Markets  
9 – 12 July 2008  
Waterfront Hotel, Davao City, Philippines  
Abstract Deadline: 20 December 2007  
[Info:  
http://2008davao.googlepages.com/](http://2008davao.googlepages.com/)

eAgriculture India 2008  
29 – 31 July 2008  
[Info:  
http://www.e-agriculture.org/  
100.html?&no\\_cache=1&L=0](http://www.e-agriculture.org/100.html?&no_cache=1&L=0)

## Paper Review

# Pacific Food System Outlook 2007-2008: Linkages to Growing Urban Markets Spur Rural Development

Pacific Economic Cooperation Council, Singapore, 2007, ISBN: 981-230-405-3.

Regional economic integration, which is symbolized by the formulation of FTAs (Free Trade Agreements) is both positive and negative for rural poverty alleviation. If economic integration offers small-scale farmers better access to international markets and attracts foreign capital to invest in rural areas, it surely benefits those who don't have proper pathways to escape from poverty under the current conditions of the rural economy.

On the other hand, improved transportation infrastructure means that farmers will face severe competition with imported commodities – a challenge they could hardly have imagined before FTAs were established. The Pacific Food System Outlook report presents the following example: "China, Australia and the United States can deliver fresh produce to residents in Manila at prices below those received by small-scale producers in the Province of Benguet, the salad bowl of the Philippines, who have to truck their vegetables down time-consuming, winding mountain roads to Manila." Another example is: "The overland shipping time of a container from Chongqing in central China to Shanghai (approximately 2,500 km) is 10 to 15 days, about the same time it takes to ship a container from Los Angeles to Shanghai, a distance four times as far."

Developing countries in Asia and the Pacific certainly have comparative advantages of agricultural production for various commodities, thanks to abundant natural and human resources. However, the lack of appropriate transportation infrastructure prohibits the farmers from realizing this potential for economic development. This report suggests two key factors for the capacity building of rural food producers that are required to penetrate the growing urban market. One is the quality and extent of transportation infrastructure, and the other is the domestic food producers' participation in the development of modern food supply chains.

As for the transportation infrastructure, the report suggests that the underinvestment in infrastructure is explained in part by the infrastructure being public goods. Once the initial investment is made, many parties can use the infrastructure, in most cases with no payment. The potential for free riders is a disincentive for the private sector to invest in road construction. The report emphasizes the role of the public sector in infrastructure development. On this point, agricultural R&D used to have similar characteristics because most beneficiaries of the technological development in agriculture are capital-deficient farmers with less ability to pay for the developed

technologies. However, the progress of bio-technology and the establishment of intellectual property right protection are gradually changing the situation. With regard to transportation infrastructure, the public sector will continue to play an important role. However, if an infrastructure construction project has sufficient profit as a result of the growing local economy, more private companies should be encouraged to be engaged in those projects, and public investment (including investment by international financial institutions) should concentrate more on the infrastructure which mainly benefits rural poor people who definitely need the access to urban areas but can't bear the cost.

In parallel with the expansion of transportation infrastructure, modern self-service supermarket chains are spreading rapidly. On this issue, the report draws various policy recommendations such as providing extension services to help farmers be more responsive to supermarket demands, improve producer access to credit and encourage farmers to form associations to deal with modern retailers. One of the most remarkable of the report's recommendations is the call for policy support for traditional markets not to compete with supermarkets but to find a niche in the evolving food systems. If the traditional retail shops and wet markets upgrade facilities with sufficient food safety, utilities, laboratory testing for food-borne pathogens and distribution centres for small retailers, their face-to-face services can offer another option to customers who prefer a more personal transaction process and large selections of very specific commodities.

Readers are presented with an overall picture about how urbanization will change rural development strategies, especially through improved transportation and access to modern markets. Recently, the spread of cellular phones and laptop computers changed cities into so-called 'urban mines', because the waste from this high-tech equipment contains a significant amount of rare metals. Now, it is not only the modern prospectors (recycling manufacturers) but also rural farmers who are beginning to try making their fortune in urban mines. As for the farmers, their quest is not for the rare metal in modern wastes but the emerging markets that are buried in the growing urban societies. Their challenges will be physical (transportation infrastructure) and virtual (transaction with modern retail chains) access to these treasures. ■

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