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Re-engaging in Agriculture in Asia and the Pacific in the 21st Century*

Thomas Elhaut, PhD

Director for Asia and the Pacific Division
International Fund for Agricultural Development (IFAD)
Rome, Italy

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Good morning, Dr. Balisacan, distinguished colleagues, members of academic and research environment, distinguished guests, ladies and gentlemen.

I feel guilty that I made Dr. Balisacan wait so long before accepting this invitation but I wanted to build up my anticipation because as you well know, anticipation doubles the pleasure that I now have – to be with you in such a distinguished and reputed institution. I'm of course particularly honored to speak at your seminar series, but this seminar might be a little bit different from what you are used to getting at seminars. Usually, distinguished academics do seminars when they have new research findings that they want to share with the world. I come to you with a seminar raising questions rather than providing answers. Hopefully, we will arrive at some ideas on how we may work together in the future.

The topic that I have agreed with Dr. Balisacan to talk about is not just agriculture. It is about the need to engage in agriculture but in a different context than we have classically been used to. So, the title is about re-engaging in agriculture in Asia and the Pacific in a manner that is appropriate for the 21st century. Let me share with you some of these thoughts, most of which are coming from the experience that we've had through our country programs throughout the region, matched by some analytical and policy work that we do.

Let me start by asking the question, "Why is agriculture so important?"

First of all, agriculture is important because the majority of the poor and a large number of poor people live in rural areas with agricultural livelihoods.

Secondly, from the economic point of view, a large share of gross domestic product, and in fact in many, many cases, even growing nominal contributions from agriculture to the national economy, is still the reality. Agriculture is, in most of the countries, still a major if not the largest creator of employment and income and is certainly providing a large portion of exports. It is an engine of growth and poverty reduction. Also, agriculture, through its backward and forward linkages with the rest of the economy, boosts the other sectors of the economy. It boosts the other sectors

of the economy in such a way as to reduce poverty on a sustainable basis. Most developing countries require growth to the tune of about eight percent. But it is impossible to achieve that growth without three to four percent agricultural growth. That just shows how important the agricultural sector remains.

The third reason why agriculture is so important was demonstrated to us in 1997 when the financial crisis erupted in Asia. If we take the example of Thailand during that period, 1.8 million people had to leave the modern sector of the economy back to the rural areas, and 800,000 of those people have not made it back yet to the modern sector of the economy. They are still in the rural areas. So, agriculture as a safety net is still very important.

The fourth reason why we need to focus on agriculture is that agriculture is both affected by climate change, a new challenge that we are facing, but is also to some extent, contributing to the acceleration of climate change. The only way that we can break through that vicious circle of causing and being affected by climate change is by doing something about the way we do agriculture.

The fifth reason is that as the economies grow, there is economic transformation. People move out of the agriculture sector but they soon will realize that actually, the modern sector of the economy doesn't have the capacity to absorb the labor freed up from the agriculture sector through the transformation. Also, as the exchange rates develop in the region and the labor costs likewise start increasing, the modern sector of the economy will be constrained in giving productive employment to poor people. There again, the agriculture sector will become important.

Finally, in the longer run, by 2050, the world population will need to be fed and at the rate we are going, we are not going to be able to do that without major trade-offs.

So these are the reasons why we need to be in agriculture. Now, why do we pose that question in the first place? Well, you may all remember that up to the early 80s, a lot of fiscal resources as well as development assistance resources were allocated to agriculture development. Throughout the 80s, we saw a decline in development

assistance in the first place, especially in the agriculture and rural sectors. Why was that? There are several reasons.

First of all, there was the dominant economic paradigm, which some people refer to as the Washington Consensus – which was basically saying that government should not be involved in the productive sector of the economy. Governments should liberalize the economy, disengage from the productive sector of the economy, let the market forces play their role, and through the playing of the market forces, you get the most economically efficient allocation of productive resources in the economy that will create growth and reduce poverty. Of course, there would be some people who would be left out of the benefits of growth from the economy and those who would just create safety nets. Obviously, there was disengagement from agriculture with that paradigm.

The second reason for the decline in development assistance to agriculture is that the natural trend is through growth economic transformation. With the growth of the modern sector of the economy, people leave the agriculture sector, so why invest?

The third reason is that the finance ministers who had to make the choices of allocating fiscal resources saw a long-term decline in the trend of commodity prices. The economic viability of investment projects in agriculture was questioned and at the end of the day, the opportunity cost of capital was leading them to actually invest in the other sectors of the economy and buying the food elsewhere.

The other reason, of course, was that as we came out of the Green Revolution, we started to see in the early 80s the problems of the environment, the issues of land erosion, water quality and access to water. This realization led to apprehension about how we engage in agriculture.

Without answers to these disengagements, from a development point of view, another reason was that agricultural development projects are very difficult projects. They are difficult and expensive to design. It is difficult to assess where the real demand and real opportunities are and to build on that investment program. Agricultural development projects have slow implementation because of the quality

of rural institutions, low resource allocations, and slow adoption of modern technology. Sustainability of agriculture development projects has been a challenge; and it still is.

Then humanity became concerned about the protection of the environment, the forests, the ancestral domains, and the cultural heritage. The safeguard policies were becoming disincentives for investments in agriculture. Of course, there is also that very high-risk element in doing agriculture development and agriculture investments. So, this is why we've disengaged from agriculture.

Thus, when we now say let's re-engage in agriculture, let's make sure that we do it in such a manner that we are not going to run into the same difficulties and phase again, as the donors and the governments are now coming back to agriculture. We ought not go back to a similar situation in five to 10 years' time where people pull out of agriculture again. Why do we then have hopes that this time around, we can re-engage in agriculture? What has changed that would make us do it more successfully?

First of all, we have committed ourselves to achieving the Millennium Development Goals. Without agricultural growth, we simply will not make it to the Millennium Development Goals. Even though East and Southeast Asia as a group will reach, and in some cases, have already reached the Millennium Development Goals, we cannot say the same about South Asia. But throughout the whole region, agricultural growth needs to step up to achieve the Millennium Development Goals so that it is need-driven, with the hope that we will make a difference. When we look at 2015 and when we would have reduced poverty by half, the remaining half are going to be hard-core poor, people who would be left out of the growth-induced poverty reduction success. These are people who will remain to live in the upland areas, the less favored areas. They will be predominantly indigenous people, most of them women, but all of them depending on very marginal, very fragile agricultural livelihoods. Again, that gives us hope that we can re-engage in agriculture, because there is a demand; there is a need.

The other reason why we have hope that we can re-engage in agriculture is the need that is brought to us because of climate change. People are already affected and will be affected. Entire regions and countries are affected by climate change. There is a shift. Some regions and countries will gain and have opportunities; some will lose. We cannot just passively sit there and let it happen. We need to be engaged and work with this. Then of course, these are the enormity of the demands. We need to be concerned about resource efficiency. Again, that's why I'm hopeful that we can re-engage in agriculture to respond to these needs. There are also opportunities. You might have noticed that in recent times, commodity prices for agriculture have started rising again. It gives us hope, which makes agriculture investments economically viable again.

There is a new demand structure with more demand because of increased income for higher-value products. Animal proteins, for example, have its down side; but the up side is that it does create an opportunity for higher productivity agriculture, commercial agriculture, and competitive agriculture. There are new opportunities that are coming in. Biofuels is one. Organic farming is another. There are new opportunities that give us hope that we can re-engage in agriculture.

The other aspect is that the market is now broadening. It's no longer just the local markets, which still remain important. But there are also the national and regional markets. Cross-border trade is taking place as well.

Last but not the least, the opportunity is arising for re-engaging in agriculture because there is a recognition by policymakers that the Washington Consensus is affected by the reality of policy failure, market failure, and incomplete markets – for instance, the existence of uninsured risks; and there is also institutional failure. You have failures across the lines. There is also the need to re-engage in agriculture because of its public good characteristics.

So this is why we are hopeful that we can re-engage in agriculture without the risk of withdrawing again in the near future, provided we do it right.

Thus, let me now come and say what we think are the elements of doing it right. How do we re-engage in agriculture in the 21st century?

Of course, we start dreaming of what we managed to do under the Green Revolution. For the first 20 years of the Green Revolution, rice production increased by 3.1 percent per year, wheat by 5.1 percent per annum. Per hectare yields increased by two percent and three percent, respectively, for rice and wheat per annum. In the livestock sector, techniques for genetic improvement, animal health and animal feeding led to increases in productivity of poultry by 2.7 times over 50 years. Cow milk productivity increased by 2.5 times and pig productivity increased twice. How can we repeat this? How can we beat this? Let us see what the elements of the Green Revolution were.

The Green Revolution was a package of production techniques for irrigated agriculture using high-yielding rice and wheat varieties, chemical fertilizer, and phytosanitary protection. But it was accompanied by a very comprehensive package, almost an arsenal, of supporting agricultural policies. We had guaranteed harvest prices offered by the public sector, with prices fixed ahead of time. There were subsidies for fertilizers, plant treatment and equipment, access to credit, subsidized credit, with standard packages for inputs and equipment, even for labor. We had tariff protection and we had very impressive extension systems without cost recovery. These were later on extended beyond irrigated agriculture, to all agriculture – including dry land using improved varieties, not just high-yielding varieties but improved varieties, and improved breeds using intensive production techniques and chemical inputs in the broader sense of the word.

Major infrastructure works were undertaken – large irrigation schemes – and we were benefiting from supportive agriculture policy measures that were reducing uncertainty and improved the profit margins, at least in the technology adoption stage. There was rural electrification to pump water for irrigation; parastatals for inputs and output marketing; and price control commissions subsidized consumer prices to boost the demands. Of course, there was agrarian reform, even though it was partial.

But the conditions have changed. We cannot repeat that model. It is not possible and it is probably not even desirable. The sustainability of the natural resource base and environmental concerns would really discourage us to repeat that model. The policy outlook is different now. The role of government has irreversibly changed. The role and effectiveness of subsidies have been questioned by all social scientists. And the unlikely cost recovery is undermining sustainability. The challenge that we also had was the absence of the redistribution of the benefits of these initiatives and the fiscal resource base is simply no longer there to repeat that model.

In the meantime, we also realized that it's not only policy that matters. Institutions matter. An institutional failure matters quite a lot. Market, policy, and government failures are important. But what is even more important is that the government, after structural adjustments, no longer has even the capacity to deal with policy, market, and institutional failures. Unfortunately, because of the way we look at institutions, the poor still do not have a voice and their institutions are still weak, prohibiting them to influence the policy framework to be more conducive to change.

So we need to do it differently. We need to look at research and extension in a very different way from how we looked at it in the past. Our focus must be on-farm, much more demand-driven. We need to focus not on technology generation and transfer but on the capacity of the farmer to constantly adapt to the new economic realities, to the new climatic environment that we are working in.

We need to have a different approach to financial services than we had before. Agricultural microfinance still remains a challenge. Micro-insurance is a key instrument to help farmers transfer risks. Land ownership needs to be looked at in a different way. We need to be concerned about secured tenure and access to markets.

Again, the regional/global markets are there; cross-border trades are offering great opportunities and helping the farmer link to regional and global markets; and it is an important way to go. Bringing the private sector as a provider of market services closer to the farmer through mechanisms such as contract farming is part of the new model. We need to focus on diversification and adaptation. In agriculture, we need to

courageously move toward higher productivity, commercial agriculture, much more competitive agriculture.

At the same time, we need to support people to move out of agriculture to create space for a more competitive agriculture on the other side, facilitating rural agricultural immigration but working on the forward-backward linkages with the agriculture sector. When it comes to the institutions, instead of putting all of our attention to institutions that supply services, we need to focus on institutions that create the demand for services in a sustainable manner. So, it's a re-orientation of our institutions. There are a number of concrete examples that one could give to illustrate how and why the Green Revolution is not replicable and needs to change to deal with all these issues that I just mentioned.

Just to name a few – in the past we were concerned about the competition of plants for light and space. We are now focusing on the partial conservation of vegetative cover. We are looking at mixed cropping systems and we capitalize on complementarities of plants. Let me take another example – soil preparation, how we deal with soil structure. Again, the use of microflora to structure the soil, zero tillage, is part of our instrumentation for agriculture development. Mineral fertilizers – we are now looking at recycling of nutrients from previous vegetative biomass and from animal biomass.

When it comes to tolerance of the agricultural ecosystem to drought, we are now looking at mainstreaming soil to maintain soil moisture through vegetative cover and mulching and only looking at irrigation for support purposes. We are looking at synergies within the farming system rather than specialization. When it comes to on-farm time and risk management, we are now looking at the relaxation of the calendar of interventions vis-à-vis risk; we are looking at the primary use of ecological and economic resilience inherent in the system.

When it comes to institutions, what we are looking at now is to promote the decentralization and development of social capital to empower the poor communities to work together for a common purpose. We want to ensure the participation of target communities in the decision-making process; about what goods and services

are to be provided including the allocation of public funds. We need to involve target communities in the governance of institutions involved in the creation and delivery of goods and services. We need to promote pluralism in the delivery of services to encourage competition on the supply side and increase choice on the demand side. We need to rationalize the roles and responsibilities of the public and private sector organizations in the provision of services related to public and private goods.

Let me end with a few comments on what this implies for an institution like the International Fund for Agricultural Development (IFAD). As I said, we need to focus our attention in program design away from the supply organizations to supporting the demand side. We are dealing with a different type of client. What this actually means is that we need to change the way we do our business. We need to change the way we run our processes. We need to consult directly with the farmers and their organizations. We need different instruments.

IFAD, like most of the other international financial institutions, is mainly working through loans to governments. We now need to look at how we can transfer resources to other actors beyond just the governments – not just the central and local governments, not only the governments but also the private sector and the civil society as well. How can we transfer resources more directly to these new actors without high transaction costs?

We need to offer knowledge services. When it comes to agriculture, fast growing and successful economies in the region do not necessarily need the transfer of resources but are looking for knowledge services, learning from what is happening in other countries and transfer that. Then of course, we need to facilitate the exchange throughout the region and pro-poor policy choices.

I have two colleagues in the room here that will help me answer your questions later on. Both of them, the Country Program Manager for the Philippines, is managing these consultative processes that I've been talking about; and the Regional Economist is working on that activity of exchanging pro-poor policy work across the region so that we learn from each other. What this needs is actually what I expressed now as some ideas, some convictions that we have, to which we have

started to respond by adjusting the way we work. But we believe that it is probably safer to do more research on that and we're looking at establishing strategic partnerships with institutions, centers of excellence that can help us do the research to validate those perceptions that we have and structure our efforts in a better way in the future.

When I say strategic partnerships, we mean a limited number of institutions with whom we share a strategic vision on poverty and poverty reduction in the region where we commit ourselves for a long-term engagement to support a heavily prioritized program that focuses on the key agenda – and we would try and resource adequately.

What I hope with my presentation here today is to hear your views, to hear your ideas on how we can work together and to articulate this paradigm, these ideas, that model in a better way – so that we can then together, hand in hand, talk back again to the policymakers and influence their policy choices – so that indeed, we can go back to agriculture. We can improve agricultural competitiveness and we can indeed do better than just halving poverty by 2015 and thereby reduce our problem after 2015.

Thank you for your attention.