

Deutscher Bundestag
Ausschuss für wirtschaftliche
Zusammenarbeit und
Entwicklung

Ausschussdrucksache
Nr. 16(19)486b

Check against delivery



STATEMENT

21 January 2009

Public Hearing at the German Bundestag (BT)

Committee on Economic Cooperation and Development (AWZ)

Topic: “Instruments for the Promotion of Rural Development”

THE OBJECTIVES, CHALLENGES AND GUIDING VISIONS IN
RURAL DEVELOPMENT WITHIN THE DEVELOPMENT
COOPERATION FRAMEWORK, WITH A PARTICULAR FOCUS ON
MICROFINANCE, LAND AND PROPERTY RIGHTS, AND
AGRICULTURAL COOPERATIVES

THE PERSPECTIVE OF THE INTERNATIONAL FUND
FOR AGRICULTURAL DEVELOPMENT (IFAD)

Rural development: challenges and guiding visions

A: Challenges?

1. Today's first discussion considers the challenges and guiding visions in rural development, with a particular focus on three specific areas: microfinance, land and property rights, and agricultural cooperatives.
2. Let me first address the **challenges**.
3. At IFAD's Governing Council in February 2008, IFAD's President, Mr Lennart Båge, spoke about the "**triple scourge**" of **rising food prices, climate change** and **enduring poverty**. He called upon the international community to invest in smallholder farmers to help them to address this triple scourge because the lives of millions of poor rural people – and our common future – depend on it.
4. If the situation seemed bleak just seven months ago, it looks even bleaker now. **Global financial markets are in apparent meltdown**. The livelihoods of many people in developed countries hang in the balance. But the very lives of many more poor people in developing countries are at genuine risk. The consequences of today's financial crisis, coming hot on the heels of last year's volatile food prices and the growing effects of global warming, could spell **disaster for the 1.4 billion people already living below the US\$1.5 a day poverty line and the one hundred million who now risk falling below it**.
5. **The crisis has roots going back over the past three decades**. During this time **development aid for agriculture dropped** from 18 per cent of total ODA in 1979 to just 2.9 per cent in 2006. Domestically, too, **investment in agriculture fell**. Agricultural spending to total Government spending by developing countries declined by a third in Africa and by as much as two thirds in Asia and Latin America. During this period **productivity growth was also declining**, from 3 to 4 per cent in the 1980s to 1 to 2 per cent today, while **demand for food was rising** because of growing populations and growing incomes.

B: Guiding visions

6. **Global challenges demand multilateral action for global solutions**. Today's challenges cannot be solved by a single government, a single group of countries or a single organisation acting in isolation. The United Nations Secretary-General, Ban Ki-moon's High-Level Task Force on Food Security brings together the UN system, the World Bank, the IMF and the WTO in a **unique process of multilateral coordination and coherence** in the face of high and volatile food prices. The **Comprehensive Framework for Action**, or CFA, prepared by the Task Force, addresses both the short-term emergency needs of those who are hungry today, as well as the medium- and longer-term imperative to

improve agricultural practices and so achieve a higher and sustainable level of agricultural productivity and production in the future.

7. A key element of the CFA is its recognition of the **importance of promoting agricultural investments focused on smallholder farmers and rural development** as part of the global response to today's global challenges.
8. Why is it so important that agriculture should be the focus of our collective attention? Because, as the World Bank's World Development Report (2008) confirms, **GDP growth generated by agriculture is up to four times more effective in reducing poverty than growth in other sectors.**
9. **Agriculture has been shown time and again to have a powerful impact on poverty reduction.**

C: Examples

- In **Viet Nam**, seventy-three percent of the population live in rural areas and agriculture remains their main source of livelihood, predominantly from smallholder plots. Two decades ago Viet Nam was a severely food-deficit country. Today it is a major food exporter, among the largest rice exporters in the world, mainly thanks to development of the smallholder farming sector. In recent years, Viet Nam achieved growth rates of seven to eight percent. Just as importantly, it combined this with rapid poverty reduction – down to less than 15 percent last year from 58 in 1993.
- In **Malawi**, in 2006 and 2007, an investment of about US\$90 million in around two million farm households, or about US\$50 per farm, contributed to an additional harvest output of up to US\$160 million. You can't take that as a blueprint for universal application, but if you make a quick calculation, and figure US\$50 input per farm for the 80 million or so smallholder farms across Africa, that comes to about US\$4 billion of investment p.a. needed. Sadly we're not even close to that. But we should be, if we want to reap the clearly substantial rewards of investment in smallholder agriculture.

D: Instruments for the promotion of rural development

10. IFAD's mandate is to enable poor rural people to overcome poverty. To do this in the face of today's global challenges, we need to pursue **increasingly innovative policies, programmes and projects**. Micro-finance, land and property rights, and farmers' organisations are three good examples of where IFAD has developed valuable experience.
- Micro- and rural finance:
 - As the rural sector has matured over the last two decades, the provision of financial services to poor people has moved beyond "microcredit" to "microfinance", and now to rural financial services

encompassing a more diverse range of financial services, including **savings, remittances, leasing and insurance.**

- Access to financial services allows poor rural people to buy fertiliser and better seeds, as well as investment goods such as transport, irrigation, small farm machinery.
 - Rural finance projects and programmes can help poor rural people **improve the conditions** in which they live. Savings, investment and insurance can help them to **mitigate sudden shocks and risks**, such as drought.
 - Recent developments in rural finance include **risk transfer mechanisms** to support rural livelihoods, **index-based weather insurance**, and the use of **technology** among remote and dispersed populations.
 - Rural finance has wider-reaching social and economic effects: microfinance clients are more likely than non-clients to send their children to **school**. The majority of microfinance programmes specifically target **women**, often the most disadvantaged members of rural societies, opening up greater livelihood opportunities for them and allowing for their increased participation in the economy.
 - **Almost 20 per cent of IFAD's investment portfolio, or approximately US\$770 million, is focused on rural finance.** IFAD has pioneered the development of rural microfinance and today provides about **US\$150 million each year to help build inclusive financial systems that serve poor farmers and rural small entrepreneurs, in particular women.**
 - IFAD's vision for rural finance is reflected in our latest **Rural Finance Policy**, which will be presented to our Executive Board in April 2009. I should like to take this opportunity to **thank the GTZ¹** for their support, through CABFIN², in updating IFAD's Rural Finance Policy, as well as helping with our operating guidelines.
- Remittances:
- While we are on the subject of rural and micro finance, let me say a word about remittances. According to a recent IFAD study, **remittances reached an estimated value of US\$300 billion in 2006, of which \$100 billion went to rural areas.**
 - The **Financing Facility for Remittances** supported by IFAD is a US\$13 million multi-donor fund that aims to reduce rural poverty and promote development through a triple-pronged approach. First, it supports and develops international and domestic remittance services that are innovative, cost-effective and easily accessible. Second, it works to create linkages between remittances and financial services and products in rural areas. And third, it seeks to develop innovative and productive rural investment channels and opportunities for migrants and community-based organisations. I should like to take this opportunity to **invite the German Government to join the group of**

¹ German Technical Cooperation

² Partnership for Improved Capacity building – a donor working group

international funders, which includes the EC, the Governments of Luxembourg and Spain, the UNCDF, CGAP and IDB/MIF.

o Land and property rights:

- **Economic growth can be up to two to three times higher and more broadly shared when people have equitable and secure access to land.** A case in point is China, where land reform in the late 1970s and early 1980s contributed to the largest and fastest rural poverty reduction in modern times.
- **Secure access to productive land has multiple economic, social and political benefits.** It reduces vulnerability to hunger and poverty; influences the capacity of poor rural people to invest in their productive activities and in the sustainable management of their resources; enhances their prospects for better livelihoods; and helps develop more equitable relations with the rest of their society, thus contributing to greater justice, peace and sustainable development.
- This makes land an **enormous social and political resource and economic asset.** Add to the mix climate change and a growing population, as well as increasing demand for food and agro-fuels, and it explains why access to productive land is under growing pressure, and why **land is an increasingly desirable commodity.** It also explains why Angola's plan to exploit both its fertile soils and high global food prices to attract US\$6 billion in agriculture investments over the next five years has been received with such keen interest among private sector investors.
- **Recent interest in agricultural land in developing countries from foreign investors represents a double-edged sword.** On the one hand, it offers opportunities for increased foreign direct investment into the commercialisation of agriculture. On the other hand, land rights and food security could be at risk, especially for small scale farmers. **We need to find and promote "win-win" situations. Contract farming or out-grower schemes could be the answer.** IFAD has supported the fostering of community-investor partnerships in many countries.
- All this underlines why **land tenure security is necessary.** And it is important to specify what type of land tenure systems we are promoting and what kind of land rights need to be secured - full private ownership or use rights? And whose rights – individual, family, village, ethnic group, or state? There is no one-size-fits-all.
- **But land tenure security is not sufficient on its own for sustainable rural poverty reduction and improved livelihoods.** Measures to strengthen land tenure security must be complemented by pro-poor policies, services and investments that reduce vulnerability and enable poor rural people to make the best use of their land access. IFAD has addressed land issues mainly through its projects and programmes, and principally through its **investments in irrigation, water and soil conservation, forestry and agro-forestry, and natural resource management.**
- We have also supported **policy dialogue and the development of voluntary guidelines for the formulation of good land policies.**

One example is the ongoing process for developing pan-African land policy guidelines, which is being led by the African Union Commission, UN Economic Commission for Africa and the African Development Bank.

○ Farmers' organisations:

- **IFAD does much of its work directly and consistently with the most marginalised rural people, their community institutions and farmers' organisations.**
- Farmers' organisations are immensely valuable partners in the pursuit of rural development.
- Farmers' and rural producers' organisations can help **promote and support agricultural and rural development**. They can inform **poverty production strategies and public policies**. And they can help **consolidate good governance and democracy**.
- Whether cooperatives and producers' organisations, economic interest groups, rural interest groups, unions, federations or confederations, farmers' organisations need to have certain essential characteristics. They need to be **independent, autonomous, private and membership-based** to be effective.
- IFAD has a long tradition of working in close collaboration with farmers' organisations. For the past decade, we have stepped up our support to building the capacity such organisations – at **national, regional and international** levels.
- By 2004, we were ready to consider how best to institutionalise partnerships with farmers organisations. The result was the establishment of the **Farmers' Forum**, a bottom-up process of consultation and dialogue between farmers' and rural producers' organisations, governments and IFAD, focused on agriculture, rural development and poverty reduction. At the second global meeting of the Farmers' Forum this year in Rome, **over 70 farmers' leaders, representing approximately 700 million farmers worldwide** participated. They were able to provide some valuable recommendations, which we are drawing on to improve our own development effectiveness.
- The Farmers' Forum has proved a successful initiative, appropriately rooted in concrete partnership and collaboration at the country and regional level. **Representatives of farmers' organisations now participate in the development of our country strategies and participate in the development of three out of four IFAD-funded projects**, making them better and more sustainable.

Conclusion

11. There are around **450 million smallholder farms worldwide**, measuring two hectares or less **and home to approximately two billion people** – or about a third of humanity. Most of these people live on less than one or two dollars a day. They are trapped in poverty and are rightly the focus of the Millennium Development Goals.

12. These **small, family-based farms have tremendous, under-utilised capacity**. With help in the areas I've just covered, they can increase their production and productivity, raise their incomes and, at the same time, contribute to greater food security.
13. If the international community works together and coordinates its efforts to support rural and agricultural development, **poor rural people can be equipped to face today's global challenges with confidence and contribute to the solution**. Unless this is done, poor rural people will continue to be marginalised, living in poverty, dependent on aid, and under growing pressure to leave their lands.
14. The German Government's constant and generous support has been fundamental to the quality, relevance and effectiveness of IFAD's projects, which have reached approximately 400 million poor rural people over the past three decades. As we stand on the brink of our eighth Replenishment period, I look forward to strengthening our unique partnership.

Additional background material on Africa

- Three-quarters of Africa's poor live in rural areas and depend on agriculture as their main source of livelihood, whether as producers, traders or small-scale artisans.
- Small-scale farms provide up to 80 per cent of African agricultural production.
- Agriculture is also a major source of employment: in sub-Saharan Africa, it provides as much 70 per cent of jobs, the majority of which are in smallholder farming where women farmers produce the bulk of Africa's food crops.
- There are around 80 million smallholder farms in sub-Saharan Africa, out of a total of 450 million worldwide.
- Land degradation and dwindling water resources for irrigation have resulted in Africa's soils being the most depleted in the world. Less than five per cent of Africa's land is irrigated, although twenty per cent is irrigable. That leaves 80 per cent that is rain fed. In these areas, land degradation is a key problem.
- In sub-Saharan Africa up to 40 per cent of some crops grown are lost as a result of poor agro-processing.
- Since the early 1960s, Africa has gone from being a net food exporter to a net importer. Per capita food production has declined as the population growth rate of 3 per cent a year has outstripped the 2 per cent annual increase in food production. Africa is the only place in the world where overall food security and livelihoods are deteriorating.