Development Centre Studies

A New Rural Development Paradigm for the 21st Century

A TOOLKIT FOR DEVELOPING COUNTRIES

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Foreword

Three billion people in developing countries live in rural areas, and they include the majority of the world's poor. They are constrained by a lack of productive employment opportunities, poor education and infrastructure, and limited access to markets and services. Although building on the experience of early developers is key, rural regions in less developed parts of the world today face new challenges and opportunities that developed countries did not face before. Challenges include a more demanding competitive international environment, rapidly growing rural populations, increased pressure on limited environmental resources and climate change. Opportunities include advances in information and communications, agricultural, energy, and health technologies that can help address some of these challenges.

This book was made possible thanks to the support of the Korean Ministry of Foreign Affairs, which is interested in promoting rural development in developing countries. Besides taking stock of rural areas in developing countries today, the book summarises the theories and approaches to rural development. It then analyses rural development strategies in both OECD and developing countries to identify lessons for policy makers interested in building resilient and sustainable rural livelihoods. This includes a case study of Korea's *Saemaul Undong* rural development programme. This historical experience is enriched by analysing the rural development strategies of diverse countries in Asia and sub-Saharan Africa at lower levels of development. Based on the analyses and historical experiences of these countries, this book concludes that it is necessary to develop a new rural development paradigm for developing countries in the 21st century.

The new paradigm stresses the need for strategies that are context-specific and maximise policy complementarities. Strategies need to be multi-sectoral, focusing on not just agriculture but also rural industry and services, and on not just rural areas but also rural-urban linkages. Strategies have to be multi-agent and multi-level, involving not just national but also local and regional governments as well as the private sector, international donors, non-governmental organisations and rural communities. They also have to account for demographic challenges, give women greater rights and a greater role in economic decisions, and be inclusive and sustainable. Finally, enhancing governance capacity is necessary not just to develop but also to implement strategies.

The book sets out a toolkit consisting of a process for developing rural strategies. The process includes assessing each country's specific natural, human and institutional resources, hard and soft infrastructure, incentives for different agents to work together, policies that may be relevant for the country's conditions, and the priorities and sequencing of those policies into a coherent strategy. The process also consists of developing a

financing and implementation plan with monitoring and accountability to make necessary and inevitable adjustments over time as conditions change.

Effective rural development strategies are necessary ultimately for reaching the Sustainable Development Goals (SDGs) and promoting inclusive and sustainable economic growth. The new rural development paradigm and toolkit outlined in this book can help design such rural strategies, moving developing countries closer to attaining the SDGs and improving their overall welfare.

Angel Gurría

Secretary-General of the OECD

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Acronyms and abbreviations

ANADER	*Agence Nationale d'Appui au Développement Rural*
ASEAN	Association of Southeast Asian Nations
Caistab	*Caisse de Stabilisation*
CBE	Community-based enterprise
CCP	Chinese Communist Party
CNY	Chinese yen
ECA	Europe and Central Asia
EOI	Export oriented industrialisation
EPB	Economic Planning Board
EUR	Euro
FDI	Foreign direct investment
GDP	Gross domestic product
GNI	Gross national income
GVA	Gross value added
GVC	Global value chain
HCI	Heavy and chemical industries
ICT	Information and communication technology
KES	Kenyan shilling (currency)
KRW	Korean won (currency)
LED	Local economic development
MDG	Millennium Development Goal
MENA	Middle East and North Africa
MPI	Multidimensional Poverty Index
NACF	National Agricultural Co-operative Federation
NMC	National Milling Corporation
NRDP	New Rural Development Paradigm
NSGRP	National Strategy for Growth and Reduction of Poverty
NTP-NRD	National Targeted Program on New Rural Development
ODA	Official development assistance
ORD	Office of Rural Development
PPP	Purchasing power parity
PSE	Producer Support Estimate
SDG	Sustainable Development Goal
SEZ	Special economic zone
SODE	*Société de développement*
SSA	Sub-Saharan Africa
TVE	Township and village enterprise
USD	United States dollars
WHO	World Health Organization
XOF	West African CFA franc

Executive summary

Three billion people live in rural areas in developing countries. Conditions for them are worse than for their urban counterparts when measured by almost any development indicator, from extreme poverty, to child mortality and access to electricity and sanitation. And the gulf is widening, contributing to large-scale migration to urban areas. This situation exists despite half a century of rural development theories and approaches, and despite the global momentum built around the Millennium Development Goals between 2000 and 2015. Without a new framework for rural development in developing countries, it is unlikely that the new Sustainable Development Goals will be met.

This book calls for a new paradigm for rural development that is equipped to meet the challenges and harness the opportunities of the 21st century – including climate change, demographic shifts, international competition and fast-moving technological change.

Ten key lessons for rural development

Some developing regions have managed to tackle rural development much more successfully than others. This book compares the national rural development experiences of Asia and sub-Saharan Africa, drawing on six case studies (Korea, Thailand, Viet Nam, China, Côte d'Ivoire and Tanzania). Understanding the specific dynamics and trajectories driving rural development in these regions and countries can shed light on the challenge of how to close the urban-rural gap and ultimately contribute to national development. Given that OECD countries are largely managing to close the rural-urban gap, the book reviews the theory and practice of rural development policies over time and in both the developing and developed world.

The analysis yields ten lessons which help inform a new rural development paradigm:

1. Rural areas vary enormously, so rural strategies need to be tailored to each country's specific conditions
2. Governance is a key factor in the success or failure of rural development
3. Demographic dynamics play a vital role
4. Policies that build on rural-urban linkages can drive development
5. Agricultural development is key for improving welfare in many developing countries today
6. … but there is more to rural areas than agriculture
7. Inclusive infrastructure is critical for rural economic growth

8. Gender equality is fundamental for rural development
9. Inclusive policy approaches are necessary to reduce rural poverty
10. Rural development and environmental sustainability go hand in hand.

A New Rural Development Paradigm for developing countries

The New Rural Development Paradigm (NRDP) presented in this book offers a framework for building rural development strategies for developing countries in the 21st century. It is based on the lessons drawn from the country case studies, previous approaches and theories on rural development and the new rural paradigm for OECD countries, adapted to the reality of developing countries today. The NRDP:

- is multi-sectoral: focusing not just on agriculture, but also rural industry and services; and not just rural focused, but also building on rural-urban linkages
- is multi-agent and multi-level: involving not just national government, but also local and regional governments, the private sector, international donors, NGOs, and rural communities
- contains 8 key components, a menu of 25 broad policy tools which offer opportunities for rural development in the 21st century, and a 7-step implementation guide.

The NRDP is founded on eight components that characterise the new context in which rural areas find themselves:

- **Governance**. A consistent and robust strategy is not enough if implementation capacity is weak. It is thus important for an effective strategy to build governance capacity and integrity at all levels.
- **Multiple sectors**. Although agriculture remains a fundamental sector in developing countries and should be targeted by rural policy, rural development strategies should also promote off-farm activities and employment generation in the industrial and service sectors.
- **Infrastructure**. Improving both soft and hard infrastructure to reduce transaction costs, strengthen rural-urban linkages, and build capability is a key part of any strategy in developing countries. It includes improvements in connectivity across rural areas and with secondary cities, as well as in access to education and health services.
- **Urban-rural linkages**. Rural livelihoods are highly dependent on the performance of urban centres for their labour markets; access to goods, services and new technologies; as well as the exposure to new ideas. Successful rural development strategies do not treat rural areas as isolated entities, but rather as part of a system made up of both rural and urban areas.

- **Inclusiveness**. Rural development strategies should not only aim at tackling poverty and inequality, but also account for the importance of facilitating the demographic transition.
- **Gender**. Improving rural livelihoods should take into account the critical role of women in rural development, including their property rights and their ability to control and deploy resources.
- **Demography**. High fertility rates and rapidly ageing populations are two of the most relevant challenges faced by rural areas in developing countries today. Although the policy implications of these two issues are different, addressing these challenges will imply good co-ordination across education, health and social protection policies, as well as family planning.
- **Sustainability**. Taking into account environmental sustainability in rural development strategies should not be limited to the high dependence of rural populations on natural resources for livelihoods and growth, but also their vulnerability to climate change and threats from energy, food and water scarcity.

The Sustainable Development Goals (SDGs) are closely linked to addressing the new challenges for rural areas, such as demographic pressure, ecological side-effects and climate change, and poor governance, along with negative consequences imposed by lagging rural areas such as polarised regional development and rural migration into urban slums. Since the SDGs and rural development are closely interconnected, investment in both areas will have mutually beneficial impacts. Thus rural development should be put at the heart of national development strategies in all countries at all development stages to ensure equal, inclusive and sustainable development for all.

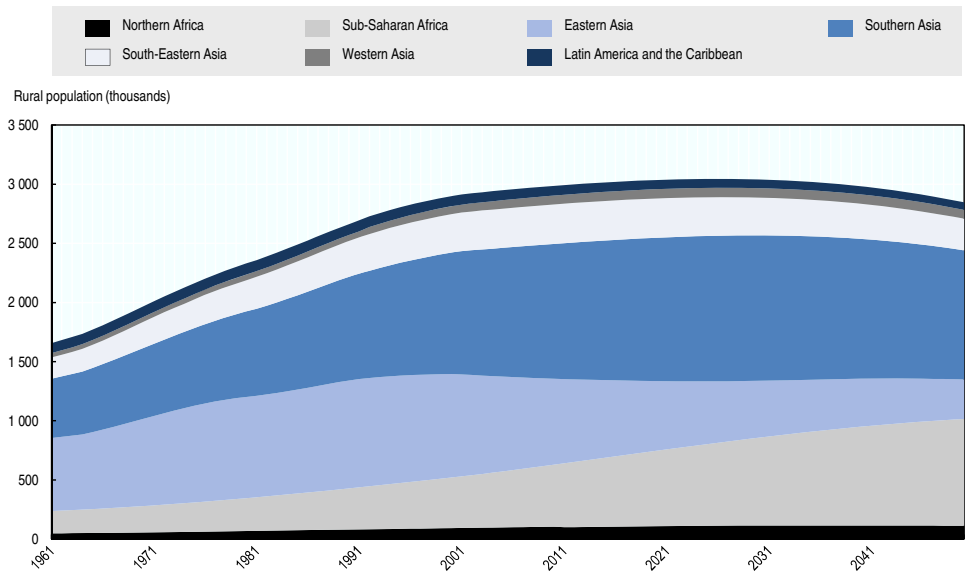
Chapter 1
Overview: A New Rural Development Paradigm

There is need for a new rural development paradigm for developing countries. Three billion people live in rural areas in developing countries and the number is expected to increase further over the next couple of decades. Rural areas in developing countries are characterised by high poverty rates, limited access to basic public services, and an overall lack of opportunities. Actions aiming to improve rural livelihoods are not new, but the overwhelming reality facing many rural populations today suggests that the results of previous efforts have been limited. Achieving the recently launched Sustainable Development Goals will not be possible without the implementation of effective rural development strategies. This chapter provides an overview of the book. It outlines the situation of rural areas in developing countries today. It revisits previous approaches and theories for rural development, summarising the rural policy experience across OECD countries – with a particular focus on the Korean experience – and five developing countries in Asia and sub-Saharan Africa. Building on these experiences, the chapter summarises a series of policy lessons, which help to frame a New Rural Development Paradigm for developing countries in the 21st century.

There are 3.4 billion people living in rural areas today. Only since 2007 has the urban population surpassed that of rural areas. Around 92% of the rural population is located in developing countries. Moreover, the number of rural people in developing countries is still increasing, and is projected to continue growing until 2028 (Figure 1.1). Conditions for rural people across the developing world are worse than for their urban counterparts when measured by almost any development indicator, from extreme poverty, to child mortality and access to electricity and sanitation. The gulf is widening, contributing to large-scale migration to urban areas. However, urban areas in developing countries have limited ability to house and productively employ their own increasing populations, let alone migrants. The result is an increase in slums and urban poverty.

This situation exists despite half a century of rural development theories and approaches, and despite the global momentum built around the Millennium Development Goals between 2000 and 2015. Without a new framework for rural development in developing countries, it is unlikely that the new Sustainable Development Goals will be met.

Figure 1.1. **The rural population in the developing world continues to grow**



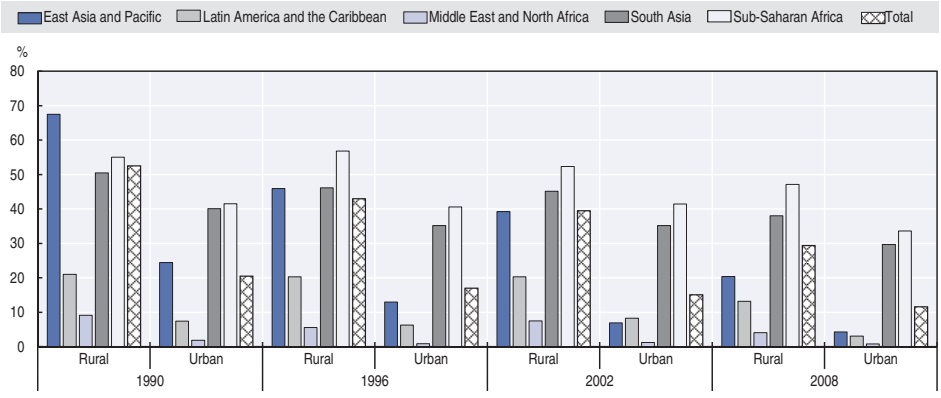
Source: FAO (2015), *FAOSTAT*, database, http://faostat3.fao.org, accessed 8 June 2015.

The rural-urban gap is widening across the developing world

Rural populations are being left behind by economic growth, and a high share of them live in extreme poverty (Figure 1.2). The global extreme poverty ratio (the share of population living on less than USD 1.25 per day) fell from 52.5% in 1990 to 29.4% in 2008 in rural areas. However, the ratio is more than twice that of urban areas, where the share of extreme poverty fell from 20.5% to 11.6% over the same time period. Regionally, East Asia and Pacific had the highest rural poverty rate at 67.5% in 1990, but this dropped dramatically to 20.4% in 2008. Poverty is now more severe in sub-Saharan Africa, where the rate fell by only 8% over those two decades.

Figure 1.2. **The majority of the extreme poor live in rural areas in developing countries**

Share of population living on less than USD 1.25 per day

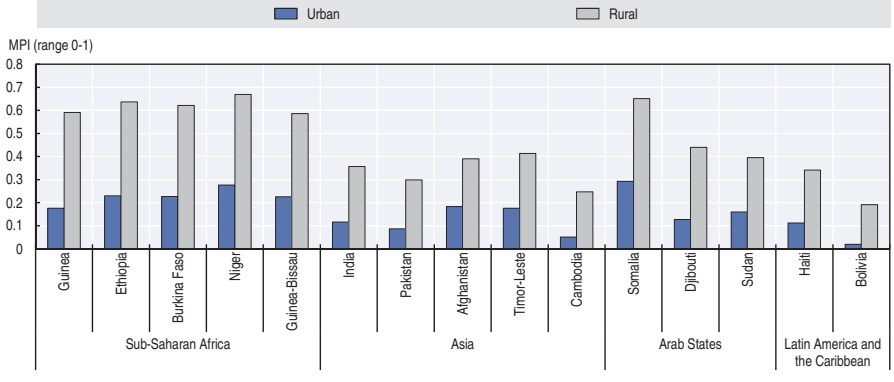


Source: World Bank (2013), *Global Monitoring Report 2013: Rural-Urban Dynamics and the Millennium Development Goals*.

Large gaps in economic and social conditions remain between urban and rural populations (Figure 1.3). The Multidimensional Poverty Index (MPI) developed by the Oxford Poverty and Human Development Institute shows the discrepancy between developing country urban and rural areas in terms of the progress made in education, health and living standards. Figure 1.3 shows the top 15 countries with the highest rural-urban MPI gap. While urban areas in all countries outperformed rural areas, the gap was particularly large in sub-Saharan African countries. All these countries also notably scored high in the national MPI, which implies that improving the livelihoods of the rural population is critical for advancing national welfare.

Figure 1.3. **Rural areas are behind urban areas in many indicators of poverty**

Multidimensional Poverty Index for rural and urban areas in selected countries (late 2000s)



Note: The MPI ranges from 0 to 1, with 1 being the highest level of multidimensional poverty. The MPI reflects poverty in three dimensions (education, health and living standards) using 10 indicators: nutrition, child mortality, years of schooling, school attendance, cooking fuel, sanitation, water, electricity, floor and assets. More information on the MPI is available at the Oxford Poverty and Human Development Initiative website.

Source: Oxford Poverty and Human Development Initiative (2015), *Global MPI Data Tables for 2015* (database), www.ophi.org.uk/multidimensional-poverty-index/mpi-2015/mpi-data/, accessed 11 August 2015.

What can we learn from rural development experiences from both South and North?

Being rural in developed and developing countries is different. In developed countries, the rural population makes up on average about 20% of the total population, and the income gap between urban and rural areas is not large. In developing countries, rural areas usually account for more than 50% of the population and most of the poverty.

The existence of a "rural gap" between the developed and the developing world must not be considered as an explanation for the different levels of economic development of the two regions: rural is not synonymous with backwardness. Many high-income countries have large rural areas, but the roles these rural areas play are very different from the standard roles played in the developing world. What matters is the type of economic activities performed, together with the level of productivity and value-added generated, the provision of public services, employment opportunities, and the ability to develop rural-urban connections.

In rural areas of developed countries, agriculture is much more productive and is not necessarily the predominant provider of income; instead, local economies tend to favour higher value-added activities and are characterised by more complex socio-economic processes. In rural areas of developing countries, on the other hand, primary economic activities are fundamental sources of employment, the availability of modern technologies is very limited, infrastructure is undersupplied, and human capital is low.

The developed world's experience provides a series of valuable lessons, although they may not fully apply to developing countries. This is because rural development in OECD countries took place at an earlier time when the global context was quite different and the structural transformation of OECD economies was underway. Moreover, in contrast to OECD countries, the level of human and institutional capital as well as infrastructure is lower in developing countries today.

Table 1.1. **The new rural paradigm in OECD countries**

	Old paradigm	New paradigm
Objectives	Equalisation or entitlement approach, focused on farm income, farm competitiveness	Competitiveness of rural areas, valorisation of local assets, exploitation of unused resources
Key target sector	Sector based	Various sectors of rural economies (e.g. rural tourism, manufacturing, information and communications technology (ICT) industry, etc.)
Main tools	Subsidies to agriculture	Investments and transfers to low income rural population rather than the agricultural sector
Key actors	National governments, farmers	All levels of government (supranational, national, regional and local), various local stakeholders (public, private, NGOs)

Source: OECD (2006), *The New Rural Paradigm: Policies and Governance*, http://dx.doi.org/10.1787/9789264023918-en.

Thinking on rural development in OECD countries has evolved, and a new rural paradigm has been developed to provide guidance on what the OECD considers to be a good direction for rural development policies. This asserts that rural areas can be

independently prosperous and that they are not necessarily fated to lag behind urban areas economically. It has promoted the importance of bottom-up approaches for coping with the socio-economic diversity characterising rural areas in OECD countries, and highlighted the need for a multi-sectoral approach that seeks to find the competitive edge of rural areas through multi-level co-ordination mechanisms and the promotion of investment, rather than subsidies (Table 1.1). However, in reality the new rural paradigm has not been fully implemented in most of the OECD countries reviewed; in particular, there has been limited progress in moving from an emphasis on subsidies to the promotion of investment (OECD, 2014). Nevertheless, the new rural paradigm has contributed to rural policy in OECD countries in a variety of ways.

Similarly, theories and approaches to rural development in the South have also shifted over the years, from rural areas being treated as "backwaters" in need of modernisation, to more nuanced approaches valuing rural knowledge and promoting local participation in policy making. The current situation of rural areas in some parts of the world suggests however that previous policy actions have largely failed to meet the needs of rural populations, to ensure equitable development, or to create sustainable growth trajectories. In the post-Millennium Development Goal (MDG) era, implementing effective rural development strategies is a necessary condition for promoting sustainable and inclusive economic growth.

The limited success of the old approaches, and changing international development contexts, call for a new rural development paradigm that takes advantage of the diverse and innovative roles rural areas can play while integrating specific economic, social and ecological concerns.

Case studies from Asia and sub-Saharan Africa offer insights

Some developing regions have managed to tackle rural development much more successfully than others. This book analyses these patterns through six country case studies – Korea, Côte d'Ivoire, Tanzania, Thailand, Viet Nam and China. Understanding the specific dynamics and trajectories of rural development in these regions and countries can shed light on the challenge of how to close the urban-rural gap and ultimately contribute to national development.

The Republic of Korea: From developing to developed country in a generation

The Republic of Korea's rapid rise from a mainly agricultural nation and food-aid recipient to one of the fastest-growing OECD economies is inspirational. This case study explores the factors behind this transition, focusing on the role of rural development policy from the 1950s onwards. Of particular interest is the national programme for rural development known as *Saemaul Undong*, or new village movement. Korea's fast and successful industrialisation process involved large-scale migration from rural to urban areas, as well as an increasing rural-urban income gap. *Saemaul Undong* acted as a buffer during this transformation, redistributing wealth through subsidies for agriculture, increasing agricultural productivity, and providing infrastructure in rural areas. While Korea's set up is unique, its approach offers a number of valuable lessons for developing countries.

Saemaul Undong was a multi-level and multi-sectoral strategy that improved living standards in rural areas while limiting the wage-gap between urban and rural areas following the successful Korean industrialisation process (Table 1.2).

Table 1.2. **Components of *Saemaul Undong*'s strategy**

	First phase–*Saemaul Undong* (1970-1973)	Second phase–*Saemaul Undong* (1974-1979)
Goal	*Modernise rural villages*	*Create income-generating activities*
Strategy	Top-down actions to mobilise communities in order to identify local priorities and carry out projects to build or improve infrastructure	Improve agricultural productivity and promote non-farm employment in rural areas
Tools	Combination of top-down and bottom-up planning and co-ordination mechanisms In-kind transfers from the central government Incentive-based mechanisms promoting competition across villages Massive training of community leaders	Subsidies to agriculture Investment in rural infrastructure Investment in health and education Introduction of high-yielding crop varieties Fiscal incentives to promote delocalisation of firms from urban to rural areas
Actors	All levels of government and village leaders	All levels of government and village leaders as well as the private sector

Note: The categorisation of the two phases mainly follows the categorisation of Korea's Ministry of Home Affairs. It should be noted that while modernising rural villages was the main priority during the first phase, it continued until 1979.

Korea's success in rural development was the result of a combination of factors:

- The government's strong vision and ability to plan, co-ordinate and implement a multi-sectoral strategy. This included combining top-down and bottom-up approaches, monitoring and evaluation, and strong incentives for collective action.
- Consolidation of institutions for delivering national and rural development strategies that helped build the foundations for economic development and implement policies effectively.
- Previously implemented supportive policies, including the 1949 land reform and early investment in education, and the presence of a certain degree of social capital in rural areas for mutual co-operation, consensus building and collective action.
- Policies to enhance agricultural productivity, including technological advances and sustained investment in rural infrastructure.
- The very rapid industrialisation and the ability of urban areas to productively absorb migrants from rural areas.
- The ability to harness the demographic transition, driven in part, by education and government family planning programmes.
- Strong support to farm households through a grain pricing policy and subsidies for key farming inputs.
- Promotion of rural industry and non-farm activities.

Viet Nam: A diversified market economy moving to a more holistic rural development

Following the war, Viet Nam's centrally planned economy shifted towards a socialist-oriented market economy through *Doi Moi* (renovation). Today, Viet Nam is focusing on strengthening social welfare to address rising disparities in different parts of society. Viet Nam did not have any specific rural development policy before 2007, but instead focused heavily on agriculture. In 2008, it announced the National Targeted Program on New Rural Development (NTP-NRD). Viet Nam's experience shows the need for a holistic and consistent overarching rural development strategy, autonomy and capacity in provincial governments, investment in public goods and services, and well-sequenced investments and mutually supportive agricultural upgrading and industrialisation.

Thailand: Moving towards bridging the rural-urban gap

Thailand invested in rural infrastructure early on and focused on increasing agricultural production to fuel industrialisation. However, export-oriented industrialisation in the 1980s led to a persistent massive urban-rural gap, and the government has been striving to improve welfare and access to basic services and to diversify economic activities. Like other countries, Thailand's experience highlights the significance of a holistic rural development strategy. Investments in human capital and flexible strategies that take advantage of the evolving international environment are also crucial components of successful rural development.

The People's Republic of China: From closed economy to industrial powerhouse

Over the past 30 years, the People's Republic of China has been transformed from a mostly poor, rural society to the world's second-largest economy. Its successful development has largely depended on labour-intensive, urban-centred industrialisation, and a modern strategy that involves integrated regional development and economic diversification with large investments in regional transportation networks, basic public services and human capital. However, despite tremendous progress, rural populations still lag behind their urban counterparts on most indicators of welfare; this gap is the continuing focus of government attention. China's lessons include the importance of multi-level governance, strong government capacity for co-ordination, monitoring and flexibility and multi-sectoral policies backed up with investments.

Côte d'Ivoire: Rebuilding export-oriented agriculture

Côte d'Ivoire has gone through several dynamic development phases, from its "miracle" booming agricultural sector to a commodity crash and political instability that hindered the design and implementation of comprehensive rural development strategies. The country prioritised agricultural development and diversification as the engine of the economy, rather than implementing a series of explicit rural development strategies. Côte d'Ivoire's patchy rural development performance highlights the need for a clear and flexible strategic vision, political and social stability, a multi-sectoral approach that goes beyond agriculture, and a sustainable process of capital accumulation.

Tanzania: From Ujamaa to economic liberalisation

Tanzania's rural development strategy evolved from the failed *Ujamaa* movement during the socialist period to agricultural production during economic liberalisation, and more recently to actions aiming to reduce poverty. Tanzania's poor rural development experience shows the importance of putting in place adequate incentives and of strong implementation capability to achieve positive development outcomes. It stresses the need for rural development strategies that go beyond agriculture and address multiple rural issues holistically. Other lessons include the need for sound governance and better co-ordination among international donors.

Ten key lessons for rural development

The analysis presented in this book yields ten lessons which help inform a new rural development paradigm:

1. Rural areas vary enormously, so rural strategies need to be tailored to each country's specific conditions

Developing countries are tremendously diverse: they are at different points on the development spectrum, they have vastly differing governance structures, institutional capacity, and political landscapes that affect their ability to implement strategies; they have different levels and types of natural resources from which to draw to sustain their populations and drive development; and they have different levels of hard and soft infrastructure. The specific characteristics and conditions of each country have to be taken into account in order to achieve sustainable rural development.

2. Governance is a key factor in the success or failure of rural development

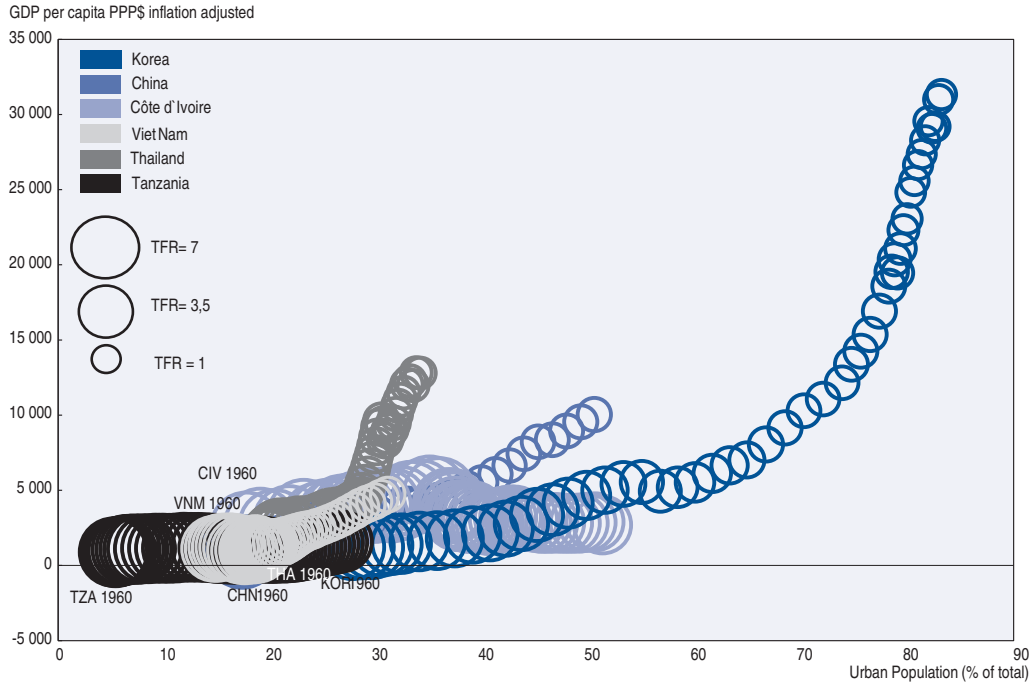
Looking at past experience, one of the fundamental reasons for the failure of development approaches has been their neglect of governance issues. Ambitious approaches such as the World Bank's Integrated Rural Development in the 1980s and the more recent UN's MDGs framework have been widely criticised for failing to account for existing technical, administrative, institutional, and human capacity in their policy design. The case studies show that the Asian countries (Korea, Thailand, Viet Nam, China) benefited tremendously from much stronger governance and institutional capabilities than the African countries (Côte d'Ivoire, Tanzania).

3. Demographic dynamics play a vital role

Demographic structure and trends need to be taken into account because they have big implications for the economic opportunities and welfare of rural populations (Figure 1.4). In the Asian case study countries, education and health improvements and consistent family planning led to drastic decreases in the total fertility rate and the mortality rate, and increases in life expectancy. These spurred rapid demographic transitions that dramatically reduced dependency ratios and enabled more rapid growth in income per capita, thereby

fuelling economic development. The failure to address demographic challenges in sub-Saharan African countries, in contrast, has hindered structural transformation and rural development and continues to pose increasingly daunting challenges, both long-term and short-term. Forty-six sub-Saharan African countries have fertility rates above 3 births per woman, 35 have fertility rates above 4, and 13 have rates above 5. In the next few decades, large youth bulges will present enormous challenges for ensuring that there is enough food, water and other resources to sustain the population; and creating enough jobs to enable productive livelihoods.

Figure 1.4. **Income per capita, urbanisation rate and total fertility rate trajectories for the six case study countries, 1960-2011**



Note: The size of the bubbles represents the total fertility rates (TFRs) of each country. The World Bank defines TFRs as the number of children that would be born to a woman if she were to live to the end of her childbearing years and bear children in accordance with current age-specific fertility rates.

Source: www.gapminder.org/data/.

4. Policies that build on rural-urban linkages can drive development

Viewing rural and urban areas as separate and cleanly delineated entities does not capture the dynamic hybrid nature of rural-urban regions. There are complex and dynamic demographic, administrative, economic, social, and environmental linkages between rural and urban areas; viewing rural and urban areas as distinct entities in policy making does not reflect the reality of these interdependencies. It can lead to co-ordination failures, negative externalities, and sectoral approaches that may miss important structural and demographic elements of development and possible complementarities at the regional level. Increasing rural-urban linkages can improve regional competitiveness and lead to

poverty-reducing impacts through consumer linkages, remittances, changing rural land-to-labour ratio, and non-farm employment. Korea, Viet Nam and China were all successful in integrating rural areas into national policy, building on the diverse links between rural and urban areas to strengthen regions as a whole and help them become more resilient, productive contributors to the national economy.

5. Agricultural development is key for improving welfare in many developing countries today

Agriculture remains the backbone of the economy and the main source of employment in many developing countries. The case studies in developing countries show the diverse functions that agriculture has played in rural and national development and its potential for improving the well-being of rural populations. In Tanzania, improving the adoption of modern agricultural technology and irrigation systems will be key for increasing the income of a growing rural population and limiting the effects of high fertility rates. The experience of Côte d'Ivoire shows that building a strong commercial agricultural sector can lead to an increase in production and higher farm income if the right institutional settings and stability are both in place. Agriculture in Thailand and Viet Nam has served as a support-base for industrialisation by lowering food prices, decreasing food imports, and increasing foreign exchange reserves.

Box 1.1. **Food for thought: Boosting farm incomes through local research in Côte d'Ivoire**

The cocoa sector in Côte d'Ivoire employs some 800 000 producers, sustaining about eight million people directly or indirectly. It accounts for 15% of gross domestic product (GDP) and 40% of exports.

The "Mercedes" cocoa variety, developed by the National Agricultural Research Centre (CNRA) in Côte d'Ivoire, takes 18 months to reach maturity – instead of up to 6 years for traditional varieties – has larger beans, and yields between 1.5 to 3 tons per hectare. The "Mercedes" variety was developed using non-genetically modified methods and was blended with local varieties to make it more resistant to local diseases. Producers gave it the name of "Mercedes" in recognition of its upmarket quality. The introduction of the variety ahead of the 2013-14 crop season led to a record harvest of 1.7 million tons, up from 1.4 million the previous year, boosting revenues by 20% to about EUR 2 billion. Importantly, this performance is also thanks to good rains and the price support system in place in Côte d'Ivoire.

Source: Abidjan.net (2014), "Le Cacao Mercedes a permis à la Côte d'Ivoire d'atteindre une production record en 2014 (DG CNRA)", http://news.abidjan.net/h/511929.html; Blas, J. (2010), "Falling cocoa yields in Ivory Coast", www.ft.com/cms/s/2/28e00036-67a0-11df-a932-00144feab49a.html.

6. … but there is more to rural areas than agriculture

Rural development approaches have historically emphasised the role of agricultural modernisation and mechanisation as the driver of rural development over other sectors. While agriculture undoubtedly plays a vital role in rural development, the development of non-farm industry and services also has a role to play – having the potential to slow rural-urban migration, thereby easing environmental pressures on large cities, and leading to a

more equitable distribution of income. Thailand has promoted regional and sectoral integration between agriculture, industry, and services, leading to the emergence of successful agro-businesses as major rural employers and a higher level of rural diversification than most other Asian countries. Viet Nam has improved the rural business environment to attract manufacturing FDI into rural areas. Key elements of success in both Thailand and Viet Nam include the diversification of the rural economy, strong and early infrastructure investments in remote areas, the availability of finance in rural areas, and high ICT connectivity.

7. Inclusive infrastructure is critical for rural economic growth

The country case studies show that those countries that are successfully developing have made significant improvements in diminishing rural-urban gaps in hard (roads, rail, bridges, airports, etc.) and soft infrastructure (health, education, social capital, legal, and political systems). Basic rural infrastructure (both hard and soft) is significantly more developed in the Asian countries (China, Thailand, Viet Nam) than in the African ones (Côte d'Ivoire, Tanzania). Korea offers a strong example of the use of hard and soft infrastructure to drive industrialisation and growth, embedding strategic investments in key infrastructure within its successive five-year economic development plans from the 1960s to the 1990s. Major investment in education has been another key driver of growth in Asian countries.

8. Gender equality is fundamental for rural development

Women are key players in agriculture and rural development in many countries. They make up to 43% of the workforce in agriculture in developing countries, are responsible for household food security, and act as the main caregivers. Yet, women's contributions are not fully acknowledged and they commonly lack access to land, fertilisers, water for irrigation, seeds, technology, tools, credit, livestock, extension services, output market and profitable cash crops. Women also have less access to education and health infrastructure and services. Restricting women's equal access to economic opportunities and resources constrains agricultural productivity, poverty alleviation, food security, rural livelihoods and rural development. It also adversely affects women and children's human development. It is estimated that endowing women and men with the same access to resources could raise total agricultural output by 2.5% to 4% in developing countries, and reduce the number of undernourished people by 12% to 17% globally (FAO, 2011).

9. Inclusive policy approaches are necessary to reduce rural poverty

Over the past few decades, several of the case study countries have made remarkable progress in reducing poverty, especially Korea, China, Thailand and Viet Nam. The success of the Asian countries in reducing poverty compared to those in sub-Saharan Africa can be attributed to a variety of factors, including governance capacity, infrastructure investment, and early health and education policies that enabled demographic transitions and structural transformations. In Korea, Thailand, Viet Nam and China, early commitments to providing basic health, education, and other public services played an important role in rapidly raising

incomes and living standards. In all cases, government policy should explicitly target poverty in multiple dimensions (health and nutrition, education, other hard and soft infrastructure, job creation) and combat the exclusion of certain groups.

10. Rural development and environmental sustainability go hand in hand

Rapid development, industrialisation, population growth and urbanisation in many countries over the past few decades have had major negative environmental consequences, placing increasing pressure on the environment. The negative impact of environmental damage on human health and livelihoods is a barrier to welfare improvement and progress in development. The rural poor are especially vulnerable to environmental degradation and climate change. If not carefully crafted, rural development policies can increase the negative feedback loops between environmental degradation and poverty. For example, high fertiliser and pesticide use can increase the toxins in groundwater and surface water, and the conversion of ecosystems to agriculture can also degrade soil quality and contribute to the loss of natural habitats and biodiversity.

Technology offers transformational solutions for rural areas

Despite the daunting challenges facing rural areas, there also exist significant, yet-to-be-tapped opportunities arising from advances in technology, science and social organisation. If well managed, technology and science can improve the quality of life of rural households and help in dealing with many of the structural challenges of the developing world, including climate change and environmental crisis, bad governance and corruption, food security, disease, access to services and finance, and low agricultural productivity. For example, ICTs have a multitude of rural applications and can concretely improve the competitive position of the rural sector in the economy. The exploitation of sustainable biofuel technologies offers several opportunities for rural job creation, the environment, energy efficiency, health and increases in productivity. Technology – from ICTs, gene engineering and advanced water management – also has a role in promoting modern, farmer-focused, globalised and productive agriculture. Finally, technology transfers to developing countries can significantly increase vaccine supply and access, meeting one of the most pressing health issues facing developing countries.

Box 1.2. **Food for thought: Connecting the world**

In 2014, Facebook, in partnership with leading global technology companies, launched an ambitious new project called Internet.org – the goal being to expand Internet access and make it affordable across the world. The first part of this global effort is focused on decreasing connectivity costs, especially by exploiting partnerships with local mobile operators to develop new models for Internet access. Promising early results are already being seen, from the Philippines to Paraguay.

But partnerships are only a partial solution: Facebook is now developing new technologies to overcome physical barriers to connectivity, including beaming Internet to the ground from space or from high altitude solar-powered unmanned aircraft. The potential benefits in terms of Internet access for rural people are huge.

A new rural development paradigm for developing countries

The New Rural Development Paradigm (NRDP) presented in this book offers a framework for building rural development strategies for developing countries in the 21st century. It is based on the lessons drawn from the country case studies, previous approaches and theories on rural development and the new rural paradigm for OECD countries, adapted to the reality of developing countries today.

Table 1.3. **The evolution towards a New Rural Development Paradigm**

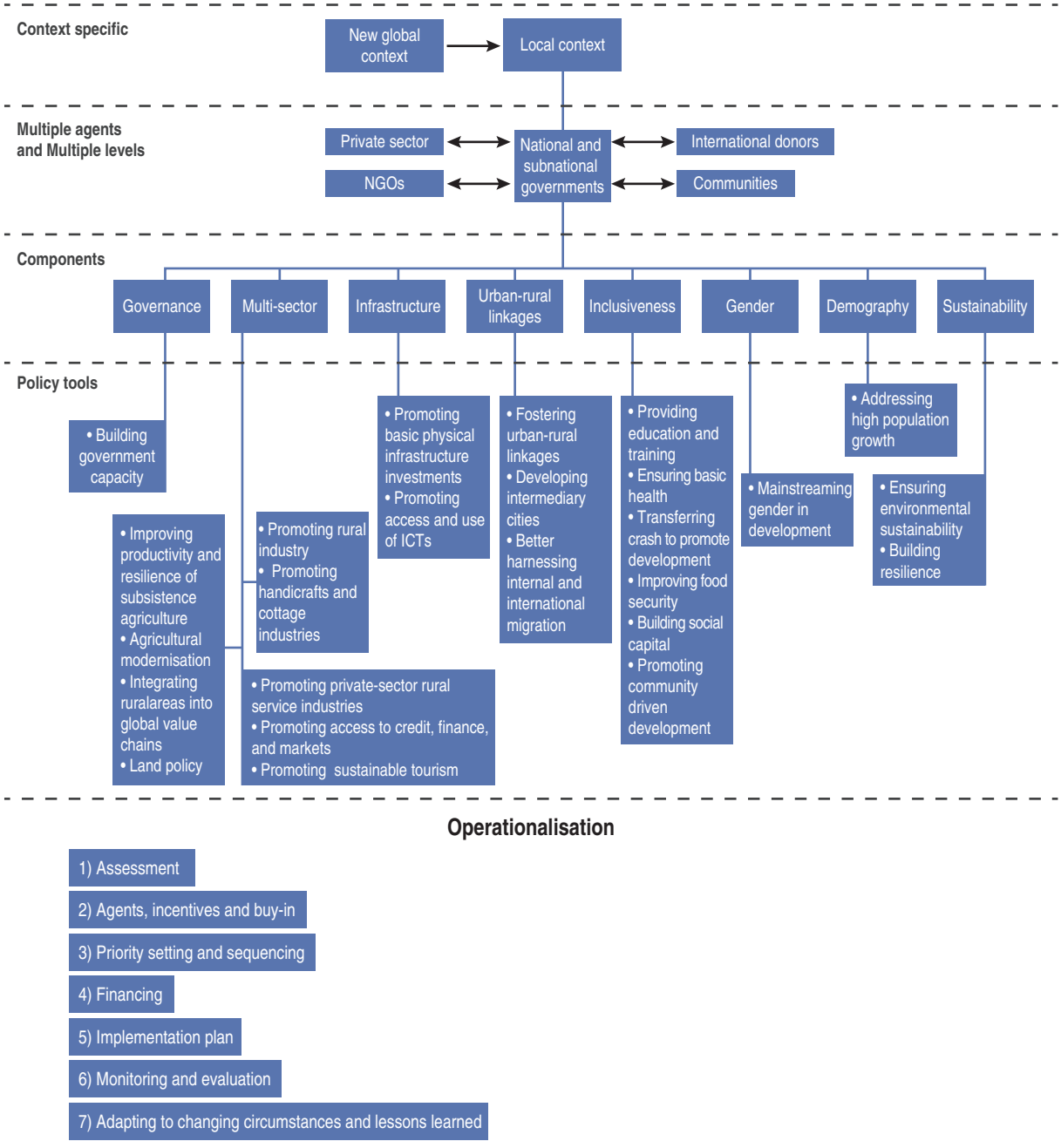
	Old paradigm	New context	New paradigm
Principles	Focus on rural areas only Growth will follow agricultural and industrial development	Widening inequalities between rural and urban Climate change Rapid population growth in many developing countries Information revolution	Rural areas inextricably linked to cities, regions and national context Women critical for rural development Governance capacity is key
Key target sector	Agriculture, rural communities	Agriculture not able to provide sustainable livelihoods for growing populations Urban areas not able to productively absorb large inflows of rural migrants	Multi-sectoral: all economic sectors that can contribute to productive growth: agriculture, rural industry, services, tourism, ICT, biofuels.
Main approach	Project-based Agricultural technology Green Revolution	Sustainable Development Goals Multi-dimensional poverty assessment and Multi-dimensional Country Review Community-driven development	Tailored to the specific context (natural, economic, social, and institutional) Prioritised and realistic Well-sequenced to maximise synergies
Key actors	Agricultural ministries, agricultural research and extension, donors, local governments, farmers	Greater participation by non-state actors including the private sector, rural communities, CSOs, and foundations	Multi-agent: participation and collaboration of broad set of stakeholders across public and private sectors and from national to local

Table 1.3 summarises the historical evolution of thinking and approaches to rural development, highlights some of the new challenges and opportunities, and enumerates some of the key elements of the New Rural Development Paradigm for developing countries.

The New Rural Development Paradigm for developing countries (Figure 1.5):

1. is multi-sectoral: focusing not just on agriculture, but also rural industry and services; and not just rural focused, but also building on rural-urban linkages
2. is multi-agent and multi-level: involving not just national government, but also local and regional governments, the private sector, international donors, NGOs, and rural communities
3. contains 8 key components, and includes an illustrative menu of 25 policy tools which offer opportunities for rural development in the 21st century.

Figure 1.5. **A New Rural Development Paradigm for developing countries**



The new paradigm is based on eight components

The NRDP is driven by eight components that characterise the new context in which rural areas find themselves (shown in Figure 1.5):

- **Governance**. A consistent and robust strategy is not enough if implementation capacity is weak. It is thus important for an effective strategy to build governance capacity and integrity at all levels.
- **Multiple sectors**. Although agriculture remains a fundamental sector in developing countries and should be targeted by rural policy, rural development strategies should also promote off-farm activities and employment generation in the industrial and service sectors.
- **Infrastructure**. Improving both soft and hard infrastructure to reduce transaction costs, strengthen rural-urban linkages, and build capability is a key part of any strategy in developing countries. It includes improvements in connectivity across rural areas and with secondary cities, as well as in access to education and health services.
- **Urban-rural linkages**. Rural livelihoods are highly dependent on the performance of urban centres for their labour markets; access to goods, services and new technologies; as well as the exposure to new ideas. Successful rural development strategies do not treat rural areas as isolated entities, but rather as part of a system made up of both rural and urban areas.
- **Inclusiveness**. Rural development strategies should not only aim at tackling poverty and inequality, but also account for the importance of facilitating the demographic transition.
- **Gender**. Improving rural livelihoods should take into account the critical role of women in rural development, including their property rights and their ability to control and deploy resources.
- **Demography**. High fertility rates and rapidly ageing populations are two of the most relevant challenges faced by rural areas in developing countries today. Although the policy implications of these two issues are different, addressing these challenges will imply good co-ordination across education, health and social protection policies, as well as family planning.
- **Sustainability**. Taking into account environmental sustainability in rural development strategies should not be limited to the high dependence of rural populations on natural resources for livelihoods and growth, but also their vulnerability to climate change and threats from energy, food and water scarcity.

There are seven steps for preparing national rural development strategies

1. Assess the rural and national situation

The first step is to carry out a full assessment of the current situation in both rural areas and the national economy. The assessment will need to look beyond traditional measures of income. Development is a multidimensional process that involves and affects multiple aspects of people's lives, not simply their incomes (Chapter 3). Table 9.A1 in Chapter 9 illustrates the interaction of some of critical elements influencing this process across all developing countries according to their institutional and structural issues, such as the capability of government, population dynamics and environmental sustainability (Annex 9.A1):

- share of the population living in rural areas.
- natural resources rents as a percentage of GDP
- total fertility rates
- level of fragility, from "very high alert" to "very stable"
- landlocked countries
- climate change vulnerability.

Understanding the context of each country is necessary for developing a specific approach to rural development. For example, countries expecting a rapid population increase, such as many sub-Saharan African countries, will face challenges in job creation and providing sustainable basic services and food security. In contrast, many Asian countries are facing rapid population ageing and will need social cohesion policies and strategies adapted to the shrinking work force. In fragile states, developing and implementing a sustainable rural development strategy is difficult due to weak implementation capacity – here the focus should be on basic needs and governance, first and foremost. Landlocked countries pose additional problems in that they generally face higher transport costs for exports. Therefore their rural development strategies need to explicitly address how to overcome this constraint by developing effective transport corridors as well as focusing on exports of high value-to-weight products. For those countries expected to be affected the most by climate change, the strategy could include some key tools such as spatial planning and risk mapping (for prevention) and disaster funds, drought/flood insurance, adaption plans, developing of drought resistant crops and water sharing agreements (for adaptation).

2. Identify actors and build buy-in

The second step is to identify the most relevant actors involved in the formulation and implementation of a rural development strategy, and the incentives for these actors to contribute to the strategy and rural development overall. Actors include the target population, various levels of government, the domestic and foreign private sectors, members of civil society, and others, such as foundations and international CSOs. Effective engagement with these actors is critical for several reasons. It is necessary to build their ownership and buy-in both for designing the overall strategy and for achieving its various

objectives. It is especially essential to get input from the target population in order to understand their needs, concerns and preferences.

3. Prioritise and sequence the strategy

The third element of the process is to develop a strategy. It is vital to be pragmatic in developing strategies that take into account what can be done in the usually very constrained political economy context of each country. This involves careful consideration of trade-offs and complementarities of policies across different issues and stakeholders. The policies enumerated in the toolkit are just illustrative. In practice, policy makers should examine which of these tools are best matched to the specificity of their countries. Setting priorities and sequencing policies are critical components. Constraints in physical, financial and political resources limit the number of actions and reforms that a government can pursue at any given time.

4. Seek finance

Financing is a key consideration when building an overall development framework, given that many governments in developing countries have weak capacity for resource mobilisation. In most cases, it will also be necessary to obtain foreign funding from multilateral financial institutions, donors, foundations, and even foreign financial institutions and the private sector for those components that can produce revenues necessary to repay loans. Countries with high natural resource rents (e.g. almost one-third of the countries in sub-Saharan Africa), can use these to fund their rural development strategies. Remittances are another important potential source of financing, sometimes even larger than aid flows or foreign investment. Transfers from urban migrants to their rural family are also significant. Governments and other development actors can develop ways to harness these resources for broader local development.

5. Implement the strategy

Once the plan is set and resources made available, the next step is implementation. This is the meat of the whole strategy, and will involve the use of the relevant policy tools linked to the policy components listed in Figure 1.5. This requires effective co-ordination across different ministries and agents with clear lines of communication and accountability as well as the necessary capacity to actually do the implementation.

6. Monitor and evaluate

Mechanisms for monitoring and evaluation should be embedded in the strategy and considered right from the design phase. Monitoring, accountability and adjustment are central to effective strategies as they track progress and ensure timely correction if implementation goes off-track. In addition, the strategy should allow for later adjustment to changes in both internal conditions such as droughts, floods, political change and civil strife, as well as external effects such as a slump in commodity prices.

7. Adapt to changing circumstances and lessons learned

The final step is to adapt the rural development strategy to changing circumstances and lessons learned during the implementation process. Rural areas are not static; they

constantly evolve according to changing conditions at national and international levels. Rural development strategies need a robust design that allows them to adapt to changes while minimising adaptation costs.

Policy tools for rural development

Policy actions are required to address the issues raised in each of the components of the New Rural Development Paradigm and of course for the implementation of the strategies. Because rural contexts vary enormously across the developing world, however, these are just illustrative of the types of policies that can promote rural development. Some will be more important or suitable than others, depending on the context. The assessment and prioritisation process previously outlined will help determine the most suitable tools for each country.

Conclusion

The objective of the new paradigm is to provide policy makers with a broad framework for thinking through the elements that need to be taken into account in developing effective rural development policies. These policies should improve the welfare of rural population and contribute to a country's overall inclusive economic and social development, while taking into account environmental sustainability.

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Chapter 2
The rural world today

Most of the population of developing countries resides in rural areas, which are characterised by high levels of poverty and a lack of opportunities. The absolute number of rural people is expected to continue to grow in South Asia and especially in sub-Saharan Africa. At the same time, the gulf between rural and urban areas in terms of development is widening within developing countries. Some developing regions have managed to tackle rural development much more successfully than others, however. This chapter analyses these patterns on a global level, and then with particular reference to Southeast Asia and sub-Saharan Africa. Differences across developing countries call for context-specific approaches to tackle their problems and to exploit their opportunities. Changes in both demography and the environment, along with weak governance systems, are among the most important challenges to be faced by rural areas of developing countries in the coming decades.

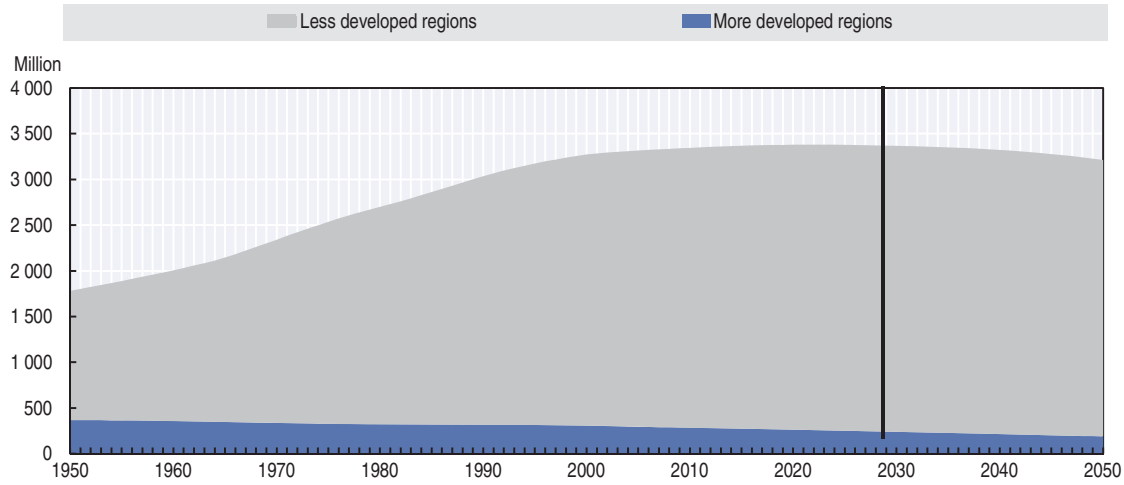
Rural areas around the world are not homogeneous. They differ across and within countries in terms of demographic trends, economic activities and natural endowments. Urbanisation is much more advanced in developed countries, while the rural population is still growing in developing countries. Within developing countries, the gulf is widening between rural and urban areas in terms of development. Conditions for rural people across the developing world are worse than for their urban compatriots when measured by almost any development indicator, from extreme poverty, to child mortality and access to electricity and sanitation. Despite this general picture, some developing regions have managed to tackle rural development much more successfully than others. This chapter analyses these patterns on a global level, and then with particular reference to Southeast Asia and sub-Saharan Africa – two regions of particular interest for the Korean government, the sponsor of the project. Understanding the specific dynamics and trajectories driving rural development in these regions can shed light on the challenge of how to close the urban-rural gap and ultimately contribute to national development.

The rural transformation is quite different in developed versus developing countries

In spite of the global urbanisation trend of recent decades, which has seen the share of the population living in urban areas increase from 30 to 54% between 1950 and 2014 (UN, 2014), developing countries are still predominantly rural. The world's rural population is around 3.4 billion, 90% of whom are concentrated in Asia and Africa (UN, 2014). This share will continue to grow in the coming decades, widening the gap with more developed regions (Figure 2.1). The developing and developed worlds are at two very different stages of their urbanisation processes, with the latter being much more advanced. The rural population has been increasing in developing countries since 1950 and is projected to continue to do so until 2028, when it will begin to decline before stabilising at around 3.2 billion by 2050 (UN, 2014). In the developed world, on the other hand, the number of rural inhabitants has been following a sustained decline since 1950, with projections suggesting that less than 0.2 billion people will reside in rural areas by 2050. Overall, however, the relative share of the rural population is declining in both worlds as the total number of rural inhabitants is growing more slowly than the global population.

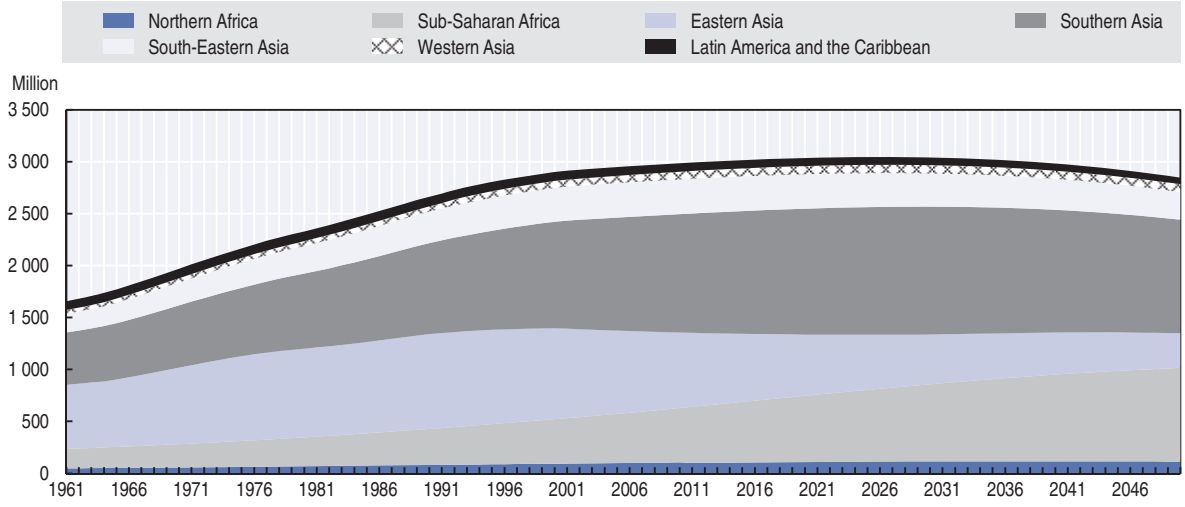
Regional differences are evident, however (Figure 2.2). The rural population is predicted to continue its upward trend in the next decade, particularly in Africa, before starting to decline progressively, with the urban share overtaking the rural share by 2025 (IFAD, 2011). In sub-Saharan Africa, however, even after urban dwellers become the majority in the mid-2030s, the absolute number of people in rural areas will continue to grow (AfDB, OECD and UNDP, 2015). The rural population will follow the same upward trend in South Asia as well, while northern Africa and the west of Asia and Latin America host stable, relatively small rural populations, with no dramatic change expected between now and 2050.

Figure 2.1. **Rural people make up a much larger share of the population in the developing world**



Source: FAO (2015), *FAOSTAT* (database), http://faostat3.fao.org, accessed 8 June 2015.

Figure 2.2. **Rural population growth varies across developing world regions, 1961-2050**

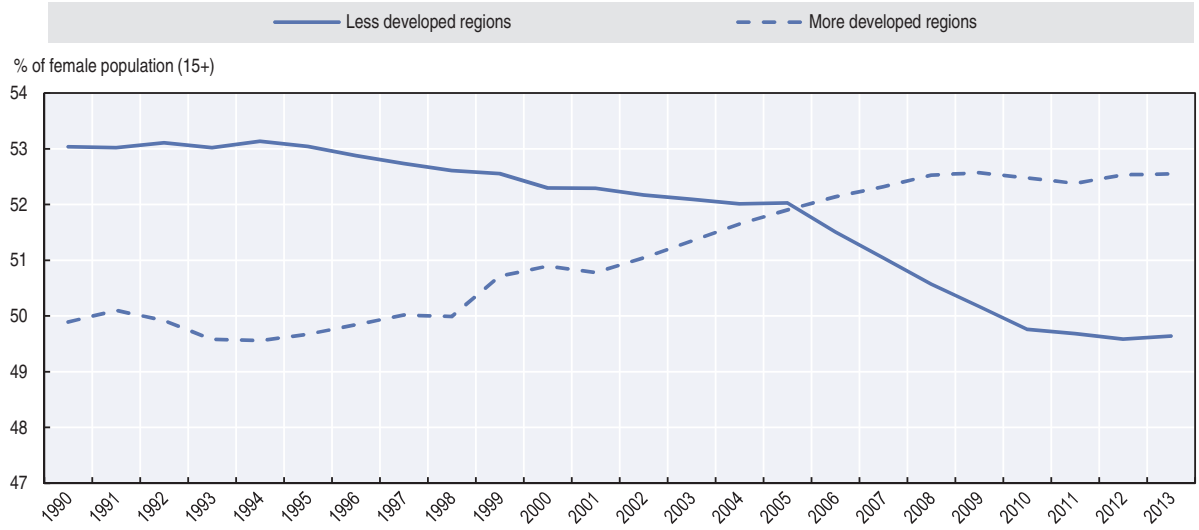


Source: FAO (2015), *FAOSTAT* (database), http://faostat3.fao.org, accessed 8 June 2015.

Closing the gender gap in agriculture in the rural developing world would have important benefits for the agricultural sector as a whole. Granting women the same access to productive resources as men would increase their farms' production by 20-30%. That, in turn, would likely raise the output of the agricultural sector across the developing world by 4%, reducing the number of hungry people by 100 to 150 million (FAO, 2011). But the gap does not only exist in agriculture, with the broader female labour force participation rate in the developing world lagging behind that of the developed world (Figure 2.3).

Figure 2.3. **Women make up a much smaller share of the labour force in the developing world**

Female labour force participation rate, 1990-2013



Source: World Bank (2015a), *World Development Indicators* (database), http://data.Worldbank.org/data-catalog/world-development-indicators, accessed 6 August 2015.

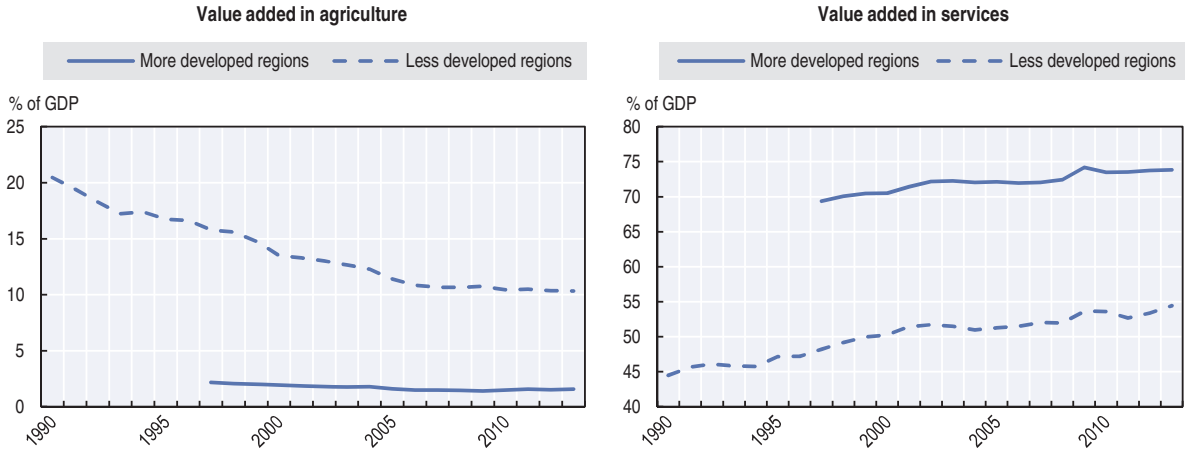
Rural is not synonymous with backwardness

The existence of a "rural gap" between the developed and the developing world must not be considered as an explanation for the different levels of economic development of the two worlds. Rural is not synonymous with backwardness. Many high-income countries have large rural areas, such as Denmark (see Chapter 4), but the roles these rural areas play are very different from the standard roles played in the developing world. What matters is the type of economic activities performed, together with the level of productivity and value-added generated, the provision of employment and the ability to develop rural-urban connections.

In rural areas of developed countries, agriculture is much more productive and is not necessarily the predominant provider of income; instead, local economies tend to favour higher value-added activities and are characterised by more complex socio-economic processes. In rural areas of developing countries, on the other hand, primary and basic economic activities are fundamental sources of employment, the availability of modern technologies is very limited, infrastructure is undersupplied, and human capital is low.

In the developing world, rural is considered the default situation. Despite significant urbanisation over the past decade, developing countries are still primarily rural, and poverty is still concentrated mainly in rural areas. Agriculture employs a major share of the working-age population, and also produces a much higher share of total value added compared to the developed world. The exact opposite is true of the services sector, with developing countries lagging behind the services and knowledge-based economies of the more developed ones. This underscores the completely different structural transformation process of the two worlds (Figure 2.4).

Figure 2.4. **Agriculture is still the most important sector in the developing world**



Source: World Bank (2015a), *World Development Indicators* (database), http://data.Worldbank.org/data-catalog/world-development-indicators, accessed 6 August 2015.

The rural-urban gap is vast across the developing world

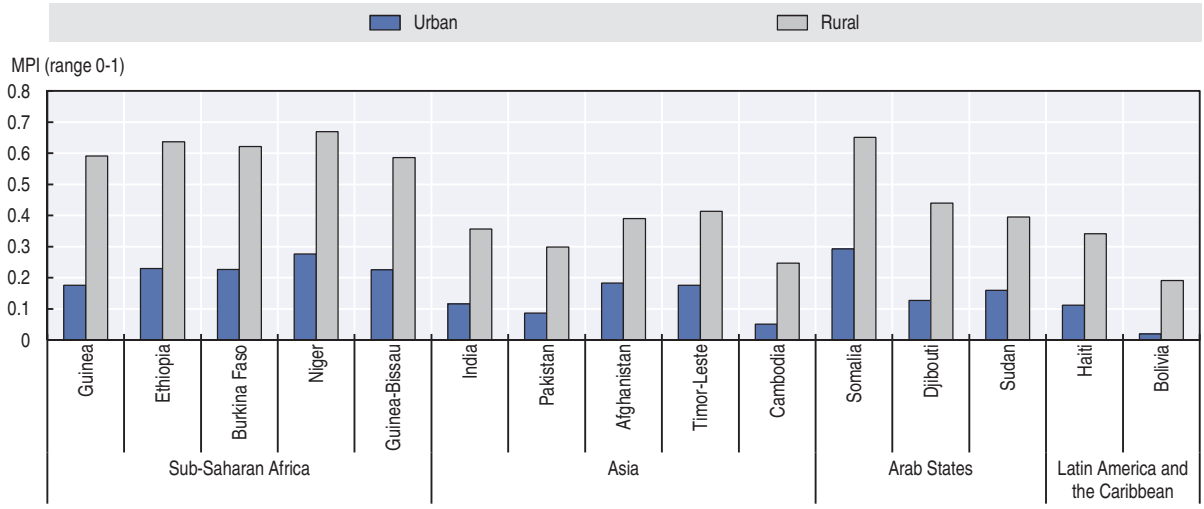
Structural differences also exist between rural areas in developing countries in different regions of the world. These differences once again refer to demography and the performance of rural areas within each regional economy. Urbanisation and poverty levels, the vulnerability to environmental issues, and the capacity and the efficiency of governance systems are among the other factors that increase this heterogeneity.

Overall however, there is a widening gulf between rural and urban areas in developing countries. The Multidimensional Poverty Index (MPI) developed by the Oxford Poverty and Human Development Institute shows the discrepancy between developing country urban and rural areas in terms of the progress made in education, health and living standards. Figure 2.5 shows the top 15 countries with the highest rural-urban MPI gap. While urban areas in all countries, with the exceptions of Montenegro and Barbados, outperformed rural areas, the gap was particularly large in sub-Saharan African countries. In the case of Guinea and Ethiopia, the MPI gap was over 0.4 between the two regions. The gap in Asia was smaller, but was still around 0.2 for the selected countries. All these countries also notably scored high in the national MPI, which suggests that improving the livelihoods of the rural population is critical for advancing national welfare.

The urban-rural gap is also evident when looking at individual development indicators. For example, the global extreme poverty ratio (the share of population living on less than USD 1.25 per day) fell from 52.5% in 1990 to 29.4% in 2008 in rural areas (Figure 2.6; World Bank, 2013a). However, the extreme poverty ratio in urban areas is less than half that of rural areas, falling from 20.5% to 11.6% over the same period. Regionally, East Asia and the Pacific had the highest rural poverty rate in 1990 – at 67.5% – but this dropped dramatically to 20.4% in 2008. Poverty is now more severe in sub-Saharan Africa where the rate fell by only 8% in nearly two decades.

Figure 2.5. **Rural areas are falling behind in multiple indicators of poverty**

Multidimensional Poverty Index for rural and urban areas in selected countries (late 2000s)

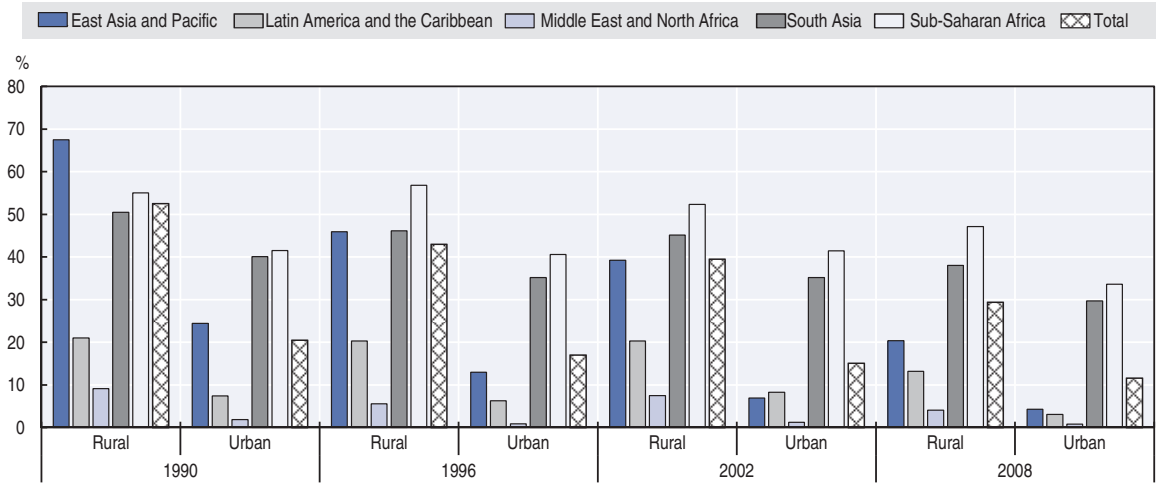


Note: The MPI ranges from 0 to 1, with 1 being the highest level of multidimensional poverty. The MPI reflects poverty in three dimensions (education, health and living standards) using 10 indicators: nutrition, child mortality, years of schooling, school attendance, cooking fuel, sanitation, water, electricity, floor and assets. More information on the MPI is available at the Oxford Poverty and Human Development Initiative website.

Source: Oxford Poverty and Human Development Initiative (2015), *Global MPI Data Tables for 2015* (database), www.ophi.org.uk/multidimensional-poverty-index/mpi-2015/mpi-data/, accessed 11 August 2015.

Figure 2.6. **Extreme poverty is much more persistent in rural areas than in urban areas**

Share of population living on less than USD 1.25 per day, 1990-2008

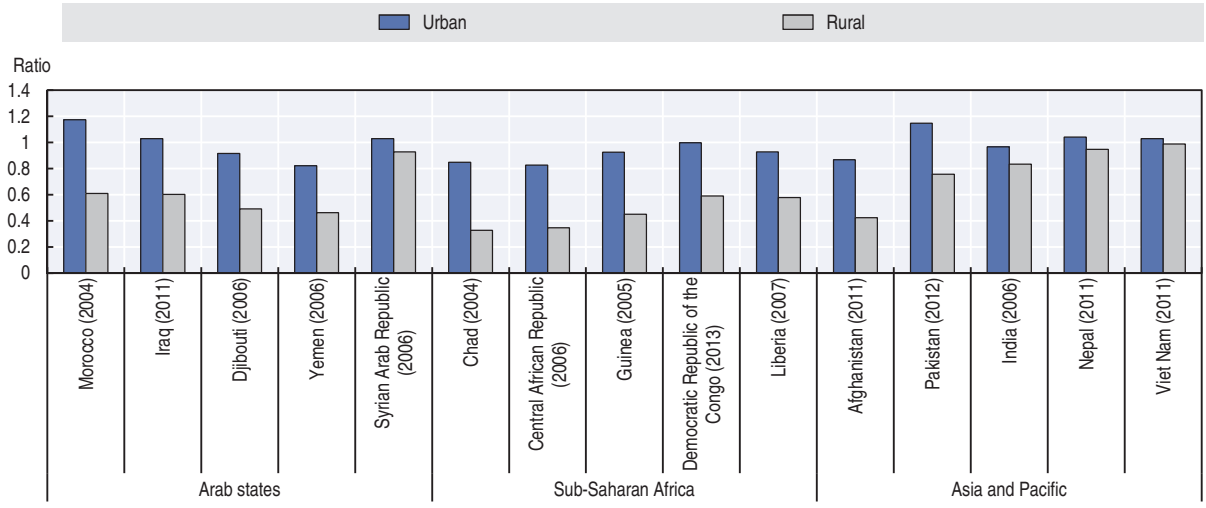


Source: World Bank (2013a), *Global Monitoring Report 2013: Rural-Urban Dynamics and the Millennium Development Goals*.

Large disparities also persist between rural and urban areas in access to basic services and infrastructure. Progress reports on the Millennium Development Goals clearly indicate a narrowing, but still apparent, gap between the two areas in their progress towards reaching these targets (World Bank, 2013a). In terms of education, 2008-12 survey data indicate that rural primary school-aged children are twice as likely to be out of school than urban children (16% and 8% respectively (UN, 2015). Girls from poor rural households are less likely to attend school due to social norms that view girls' education to be less valuable than boys'. Rural children also have less access to secondary and tertiary education, and the gender gap is wider too (Figure 2.7; UN, 2010; 2015). Although students in urban areas across countries are endowed with nearly equal access to education, opportunities for girls in rural areas are fewer. The gap is especially large in sub-Saharan African countries and the Arab states, where strong social norms undervalue the role of girls' education. The gap is smallest in Asia and the Pacific. Most Southeast Asian countries have little gender disparity in both primary and lower secondary education attendance rate in both urban and rural areas.

Figure 2.7. **Rural girls have the poorest attendance rates for lower secondary education**

Differential ratio of girls' to boy's attendance rates, selected countries

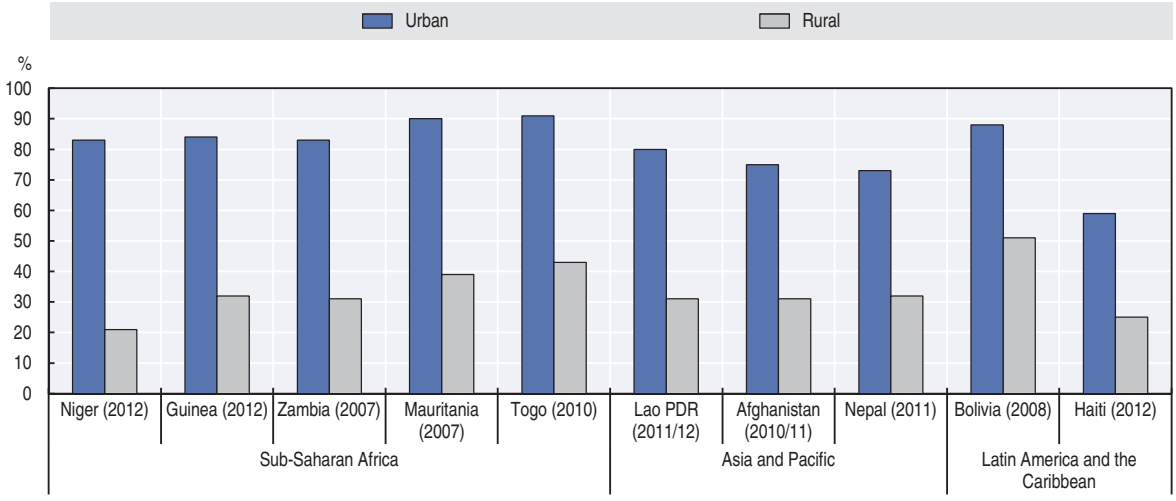


Note: Among countries with data availability, those with the highest gap between urban and rural areas from respective regions were chosen.

Source: UNESCO (2015), *UIS.Stat*, Institute for Statistics Database, http://data.uis.unesco.org/; accessed 7 August 2015.

As for maternal health, Figure 2.8 shows the stark rural-urban difference in access to skilled health personnel when giving birth. In 2012, 32 million out of 40 million births in rural areas in developing countries took place without the help of skilled health personnel. In Asian countries, such as Lao PDR, Afghanistan, Nepal and Timor-Leste, the number of rural women giving birth with access to skilled medical assistance is less than half of that for urban women. For instance, in 2011/12 only 31% of women living in rural areas in Lao PDR had access to skilled health staff, compared to 80% of women in urban areas. In other Southeast Asian countries, the gap is smaller. In 2010, 67% of women in rural areas in Cambodia were attended by skilled personnel, compared to 95% in urban areas; in the Philippines in 2013, 64% and 83% of women were attended by skilled staff in rural and urban areas, respectively. Viet Nam provides an interesting example of good access to health services in rural areas: in 2010/11, 90% of rural women had access to skilled health personnel, compared to 99% in urban areas. The latter contrast the situation of sub-Saharan Africa where in 15 out of 22 countries less than 50% of women in rural areas had access to skilled personnel (WHO, 2015). Disparities between urban and rural areas are also present in other health-related areas across developing countries. For instance, in 2008, only one-third of rural women received recommended care during pregnancy. There is also a large difference between urban and rural residents in the use of contraceptives (UN, 2010).

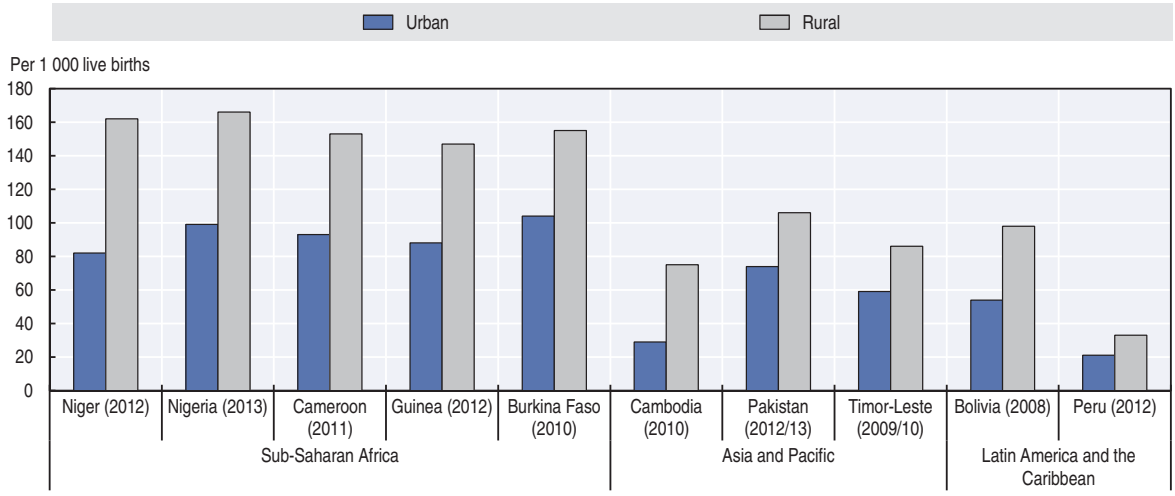
Figure 2.8. **Rural women have lower access to skilled health personnel when giving birth**



Note: Among countries with data availability, those with the highest gap between urban and rural areas from respective regions were chosen.

Source: WHO (2015), *World Health Statistics 2015* (database), www.who.int/gho/publications/world_health_statistics/2015/en, accessed 7 August 2015.

Figure 2.9. **Children under five in rural areas have much higher mortality rates**



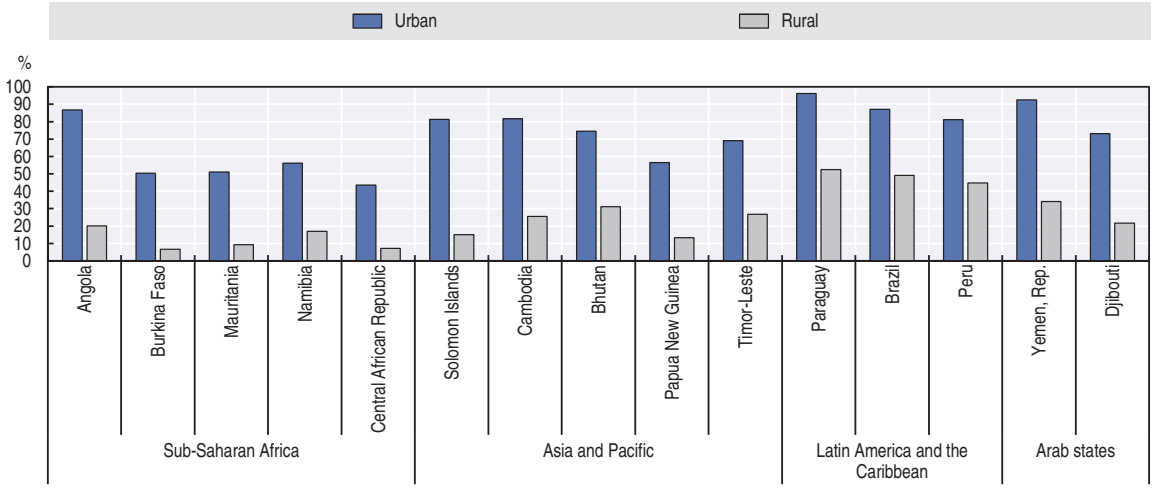
Note: Among countries with data availability, those with highest gap between urban and rural areas from respective regions were chosen.

Source: WHO (2015), *World Health Statistics 2015* (database), www.who.int/gho/publications/world_health_statistics/2015/en, accessed 7 August 2015.

Health is also a critical constraint for children in rural areas. In 2008, children under five living in rural areas in developing countries were nearly twice as likely to be underweight than those in urban areas; the ratio rises by almost five times in Eastern Asia (UN, 2010). Between 2005 and 2013, under-five child mortality was 1.7 times higher in rural areas than urban areas globally. Although the under-five mortality rate is generally higher in sub-Saharan Africa, the gap is just as high in some countries in Asia and Latin America (Figure 2.9). For instance, children under five living in rural areas in Cambodia are 2.6 times more likely to die than children in Cambodia's urban areas. Overall, insufficient and unequal access to both education and health services contributes to a vicious cycle for both women and children: less access to education means less knowledge, which means high disease transmission, high child mortality, low human capital, low productivity and income (UN, 2015; World Bank, 2013a).

A striking difference between rural and urban is seen in access to improved water and sanitation facilities. Lack of such facilities is now largely a rural phenomenon, affecting seven out of ten rural residents (Figure 2.10). While urban areas have moderate access to these facilities, the rural population, particularly those living in sub-Saharan Africa, Asia and the Pacific, have very low access. Less than 10% of the rural residents in countries like Burkina Faso (6.7%), Central African Republic (7.2%) and Mauritania have access to these facilities, compared to 50% of their urban compatriots. Even in Latin America and the Arab states, where the provision of improved sanitation facilities is generally higher than other regions, the gap between urban and rural areas in a number of countries remains around 40% to 50% (UN, 2010; UN, 2013; World Bank, 2013a).

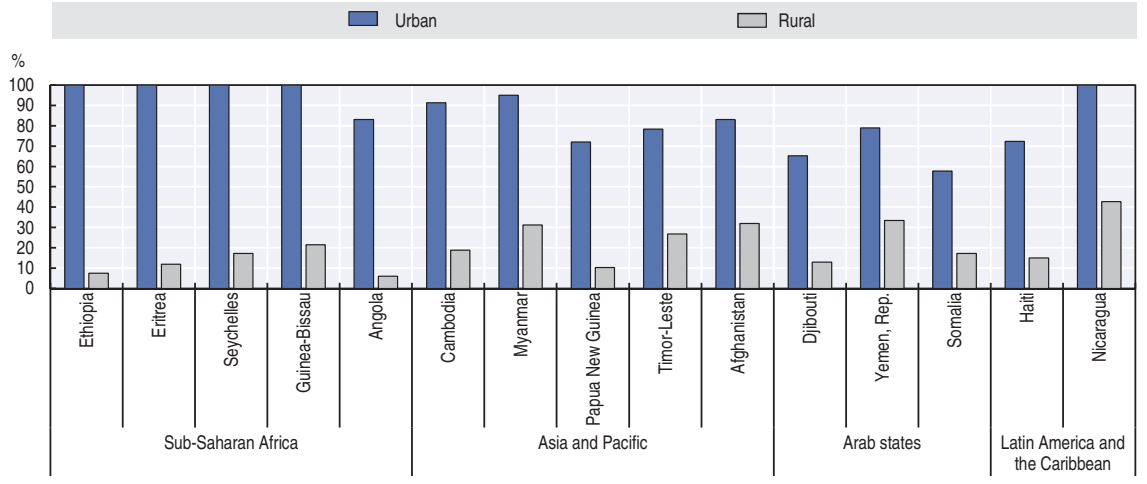
Figure 2.10. **Lack of access to improved sanitation facilities is a rural phenomenon, 2012**



Note: Among countries with data availability, those with the highest gap between urban and rural areas from each region were chosen.
Source: World Bank (2015a), *World Development Indicators* (database), http://data.Worldbank.org/data-catalog/world-development-indicators, accessed 6 August 2015.

The same goes for access to electricity, which remains a largely rural problem across all developing regions (Figure 2.11). In sub-Saharan Africa, while urban areas have nearly full access to electricity (with the exception of Angola), less than 20% of rural residents benefit from the same service. The urban-rural gap in many sub-Saharan African countries easily exceeds 50%, and is as high as 92.5% in Ethiopia.

Figure 2.11. **Lack of access to electricity is another rural phenomenon in developing countries, 2012**



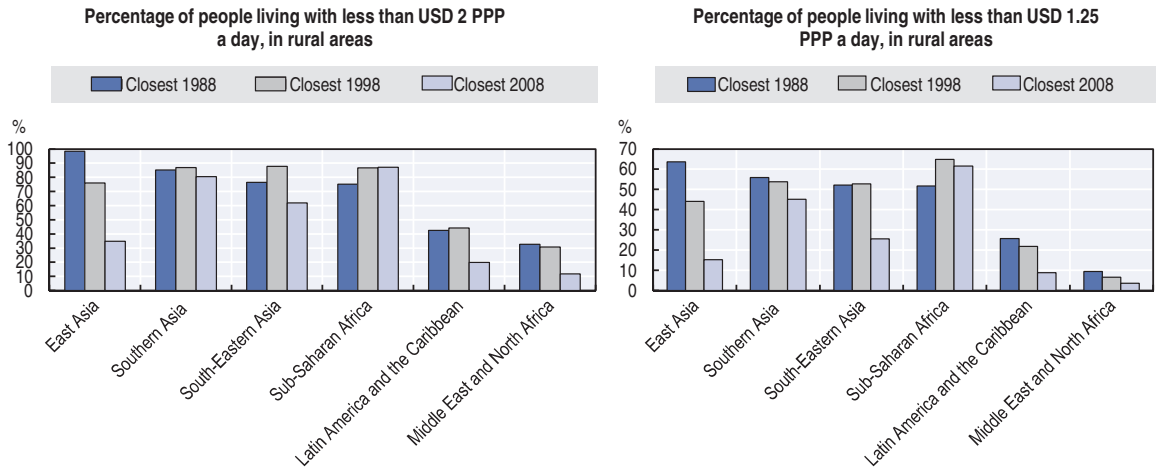
Note: Among countries with data availability, those with the highest gap between urban and rural areas from each region were chosen.
Source: World Bank (2015a), *World Development Indicators* (database), http://data.Worldbank.org/data-catalog/world-development-indicators, accessed 6 August 2015.

These disparities between rural and urban areas persist despite significant efforts aiming to transform rural areas (see Chapter 3). Rural women in particular face greater disadvantages in accessing basic services and infrastructure. Although this situation is more critical in sub-Saharan Africa, improvements in other regions are also needed to bridge the gap across areas and gender as well as to improve rural and national welfare. This implies that inclusive and effective rural development strategies are necessary to eradicate poverty, narrow both gender and rural-urban disparities, and reach the Sustainable Development Goals.

Rural areas in developing countries are very diverse

In addition to the differences between rural and urban, "ruralities" within the developing world are also very different across space and time, calling for context-specific approaches to tackle their problems and to exploit their opportunities. Differences arise in many areas, ranging from socio-economic aspects, economic roles, demography, governance systems, environmental issues and urbanisation, just to mention a few. All of these factors interact with each other in complex ways.

Figure 2.12. **Rural poverty is declining faster in some rural regions, 1988-2008**

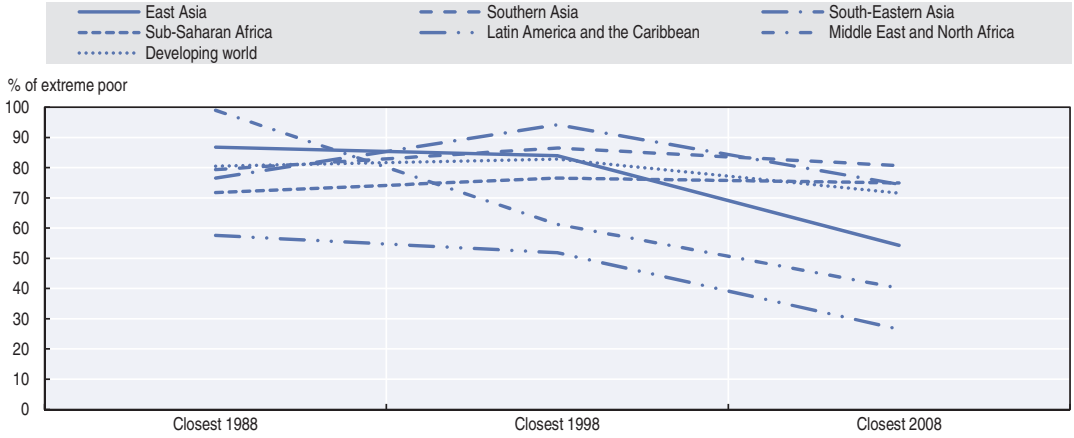


Note: Due to limited data availability, the statistics displayed refer to year "closest" to the one indicated in the legend (1988, 1998, and 2008).

Source: IFAD (2011), *Rural Poverty Report 2011,* www.ifad.org/rpr2011.

Figure 2.13. **Rural poverty reduction rates vary across the developing world, 1988-2008**

% of rural people living on less than USD 1.25 per day



Source: IFAD (2011), *Rural Poverty Report 2011*, www.ifad.org/rpr2011.

While the majority of the world's poor live in rural areas and face severe poverty, some areas have achieved significant reductions in rural poverty (mainly Latin America and the Middle East and North Africa). Other regions, especially in Asia and Africa, still show high, and sometimes increasing, levels of rural poverty (e.g. sub-Saharan Africa). As Figures 2.12 and 2.13 show, there are several cross-regional differences in terms of rural poverty. For instance, South and Southeast Asia outperform sub-Saharan Africa in terms of poverty reduction. Yet, the percentage of extreme poor living in rural areas is still very high. The share in Southeast Asia dropped from 94.2% in 1998 to 74.5% in 2008, but is still above the developing world average of 71.6%. In sub-Saharan Africa, the percentage of extreme poor in rural areas has remained stable, at between 70% and 75% since 1988 (IFAD, 2011). Progress in reducing poverty is particularly marked in Latin American and the Middle East and North African (MENA) countries, as well as in East Asia, whose positive overall results have been mainly driven by China. The major issue facing Latin American countries is inequality rather than poverty itself, with significant debates on the lack of effectiveness of fiscal and redistributive policies in tackling that problem.

The pattern of rural employment also varies by regions and sex (Table 2.1). Agriculture employs more than half of the total population in sub-Saharan Africa, followed by East Asia and the Pacific excluding China. In South Asia and Latin America, the share of men involved in agriculture is twice as high as the female share. Agriculture is dominated by self-employment, both for men and women across all regions. However, in regions like South Asia the share of women self-employed and the share of those receiving a wage – both within the agricultural sector – are very similar. This could be due to women's weak property rights in terms of land and other assets, combined with lower land availability (FAO, IFAD and ILO, 2010). Women tend to be less employed in non-agricultural sectors; this is the case in all regions, with the highest gender gaps in MENA and South Asia.

Table 2.1. **Rural employment varies by sector, type and region, 2000**

Share of adult population (%)

Employment status	Sub-Saharan Africa		South Asia		East Asia and the Pacific (excl. China)		Middle East and North Africa		Europe and Central Asia		Latin America and the Caribbean	
	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male
Agriculture	**54.9**	**60.6**	**24.1**	**54.9**	**44.1**	**56.2**	**39.6**	**34.0**	**12.3**	**18.6**	**25.1**	**59.3**
Self-employed	53.5	56.6	12.7	33.1	38.4	46.8	38.6	24.6	6.9	8.5	22.8	38.4
Wage earner	1.4	4.0	11.4	21.8	5.7	9.4	1.0	9.4	5.4	10.1	2.3	20.9
Non-agriculture	**9.6**	**15.5**	**5.6**	**27.2**	**19.7**	**28.9**	**6.7**	**39.7**	**19.7**	**38.7**	**23.2**	**26.4**
Self-employed	6.8	6.9	2.9	11.8	11.3	11.5	2.8	8.8	1.6	7.4	11.7	9.2
Wage earner	2.8	8.6	2.7	15.4	8.4	17.4	3.9	30.9	18.1	31.3	11.5	17.2
Non-active or not reported	**32.7**	**21.7**	**64.3**	**14.6**	**35.5**	**14.4**	**53.3**	**26.0**	**46.9**	**27.5**	**51.2**	**13.4**
Total	**97.2**	**97.8**	**94.0**	**96.7**	**99.3**	**99.5**	**99.6**	**99.7**	**78.9**	**84.8**	**99.5**	**99.1**
Residual	2.8	2.2	6.0	3.3	0.7	0.5	0.4	0.3	21.1	15.2	0.5	0.9

Note: Data are for 2000 or the nearest year. Based on representative household surveys for 66 countries, which accounts for 55% of the population in Sub-Saharan Africa, 97% in South Asia, 66% in East Asia and the Pacific (excluding China), 74% in Europe and Central Asia, 47% in the Middle East and North Africa, 85% in Latin America and the Caribbean. See the World Bank (2007) for methodology and the list of countries.

Sources: World Bank (2007), *World Development Report 2008: Agriculture for Development*; FAO, IFAD and ILO (2010), *Gender Dimensions of Agricultural and Rural Employment: Differentiated pathways out of poverty*.

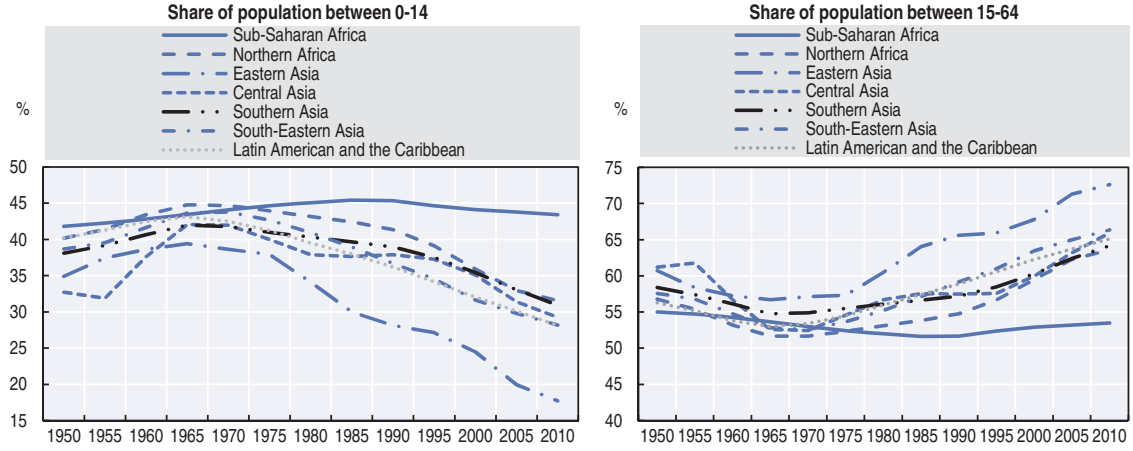
To explore the factors behind this variable regional progress, this study focuses on two main regions – Southeast Asia and sub-Saharan Africa – which host four of the rural development case studies in Chapters 6 and 7. Despite displaying some similarities and common trends, Southeast Asia and sub-Saharan Africa also have important differences in their urbanisation structures, demographic dynamics, economic structure, poverty and environmental and institutional capacity. Understanding the factors behind these differences within rural regions can help in defining a new rural development paradigm. The section below outlines some of the key differences, which are analysed in more depth in the later chapters in this book.

Southeast Asia and sub-Saharan Africa: Rural dynamics compared

Demographic dynamics

The demographic transition started earlier in Asia than in sub-Saharan Africa, generating different demographic profiles in the two regions. With the exception of sub-Saharan Africa, in most regions the population aged 0-14 peaked during the 1970s and decreased from then on, implying an increase in the share of their population aged 15-64, commonly referred to as the working-age population (Figure 2.14). It was also the case in Southeast Asia. On one hand, the share of population aged 0-14 in 1970 was the highest in all of Asia, but it decreased from 43.8% in 1970 to 28.2% in 2010. On the other hand, the share of population aged 15-64 increased significantly from 52.6% in 1970 to 66.3% in 2010, and was the second region with the highest share in 2010 after Eastern Asia.

Figure 2.14. **Demographic profiles vary across regions, 1950-2010**



Source: UN (2012), *World Population Prospects: The 2012 Revision* (database), http://esa.un.org/wpp, accessed 18 June 2015.

The demographic transition is also pronounced in other Asian regions. East Asia experienced the sharpest decrease in the percentage of population aged 0-14 between 1970 and 2010, from 39% to 17%. As a consequence, the working age population increased over the same period at a similar rate, from 57% to 73% (UN, 2014). In contrast, in sub-Saharan Africa the share of youth has not seen a continued decrease; instead it has remained relatively stable, accounting for 45% of total population; the share of working age population has also remained stable between 50% and 55% of the total population, reflecting a demographic transition still in its earliest stages.

Sub-Saharan Africa has a unique and very problematic demographic profile. The sub-continent has the highest fertility rates in the world. Although its population is still growing, its rate has slowed over the past 15 years compared to pre-2000. Yet the number of people living in rural areas is only expected to reach its maximum absolute number in 2028, before starting to decrease (IFAD, 2011).

A majority of sub-Saharan countries are still in the first stages of their transition, with decreasing infant and child mortality rates giving way to a "baby-boom" period, as shown in Figure 2.13. In 2013, 43% of people were aged between 0 and 15 in sub-Saharan Africa; the absolute number of people in that age group is expected to double by 2050 (AfDB, OECD and UNDP, 2015). This is a unique situation globally, with this age group in the other developing regions making up around 30% of the total population, or even well below. To turn this into a demographic dividend, countries will have to step up their provision of education and productive employment. Without sufficient job creation, this demographic scenario will create a problematic surplus of unemployed youth. The pressure on educational and health care infrastructure will also increase. Accelerating the demographic transition process, for instance by educating girls and promoting family planning, could help alleviate some of the population pressure in the future; but explicit policies to provide productive employment for the population bulge will be critical.

Urbanisation dynamics

Southeast Asia has an advanced level of urbanisation, characterised by the presence of many large urban centres. In sub-Saharan Africa, larger shares of the population tend to concentrate is a small number of cities. Moreover, the urbanisation process that has taken place in Southeast Asia has been characterised by labour shifting away from agricultural activities, while urbanisation in sub-Saharan Africa has occurred without industrialisation, structural change from agriculture to manufacturing and services, or substantial economic growth (Gollin, Jedwab and Vollrath, 2012).

The number of people living in rural areas in Southeast Asia peaked in 1995 and is now slightly declining; by 2025 the urban population will overtake the rural population (IFAD, 2011). Nevertheless, the rural population is still very sizeable, numbering more than 335 million people or 54% of the total population (FAO, 2015).

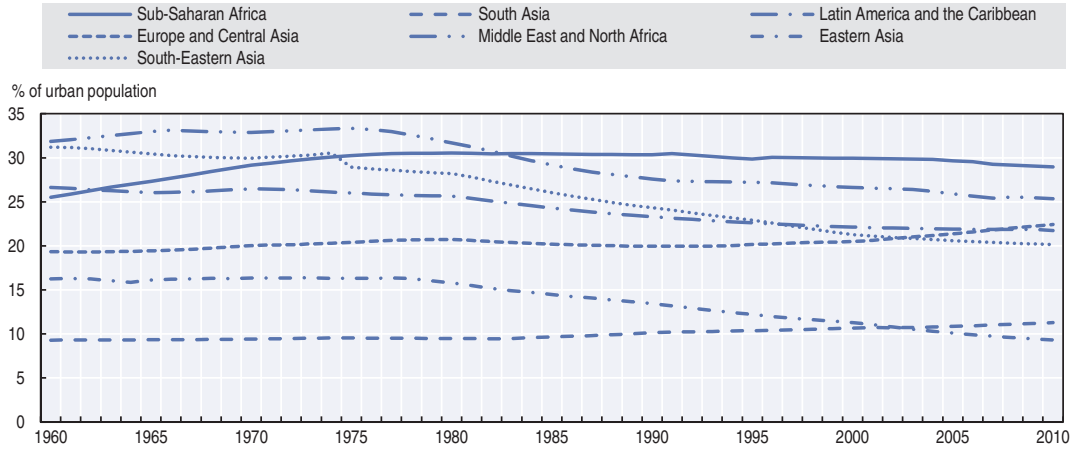
To look at where these regions stand in terms of their urbanisation process, Figure 2.15 illustrates the share in the overall urban population of those people residing in the largest urban area. A high share indicates an urban system dominated by a small number of urban areas. South Asia and Eastern Asia have seen a decrease in the share of their population living in the largest cities since the 1970s, reaching 20% and 11% respectively by 2010. Urbanisation in sub-Saharan countries started later than in Southeast Asia. Its pattern also differs: Figure 2.14 shows that the region is characterised by the highest share of the urban population concentrated in the largest urban centres. As a result, the majority of the non-rural population lives in urban slums and smaller settlements characterised by insufficient basic infrastructure, high inequality and high levels of poverty.

Economic dynamics

The more advanced level of urbanisation in Southeast Asia might reflect the differences in the structural transformation process in the region compared to other parts of the developing world. Industrialisation has taken place across Southeast Asia in the past few decades, with the economy moving towards higher value-added sectors and exploiting opportunities outside of agriculture. The value-added produced in the manufacturing sector in Southeast Asia today is well above the level for sub-Saharan Africa and even those in the European, Central Asia and MENA developing regions. Local economic dynamics and interactions with other big actors and markets in the *Asian* region, such as China, have played a key role in promoting the shift from a traditionally agriculture-based economy to a much more manufacturing-based one in many Asian countries. The transition is also evident in the drastic decrease in agricultural value-added over the last 50 years in Asia (Figure 2.16). In the 1960s, on the other hand, Southeast Asia was strongly biased towards agriculture, with value-added as high as South Asia and much higher than sub-Saharan Africa.

Figure 2.15. **Urban maturity varies across the developing world, 1960-2010**

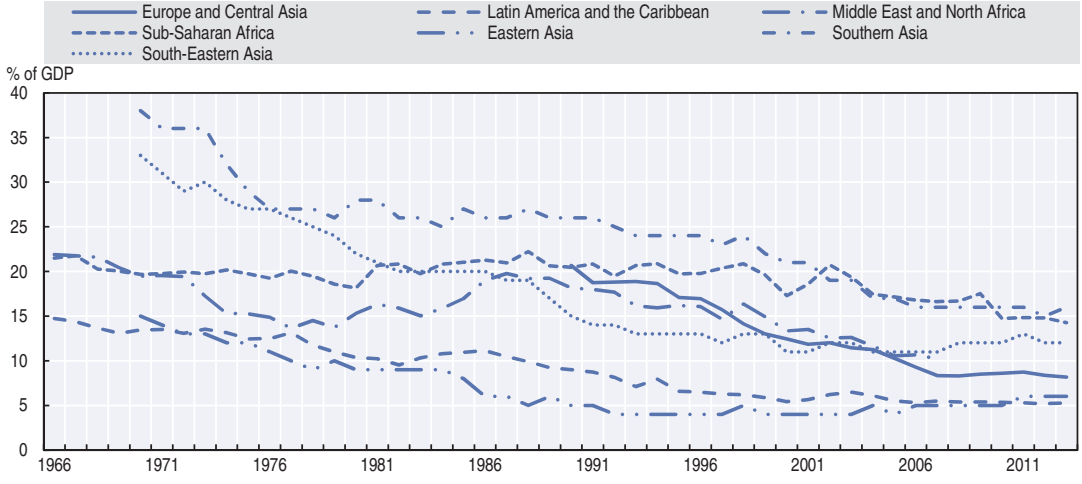
Population of the largest city as % of urban population



Source: Author's calculations based on World Bank (2015a), *World Development Indicators* (database), http://data.Worldbank.org/data-catalog/world-development-indicators, accessed 6 August 2015.

Figure 2.16. **The share of agriculture in the economy has declined faster in Asia than in Africa, 1966-2013**

Value-added as % of GDP

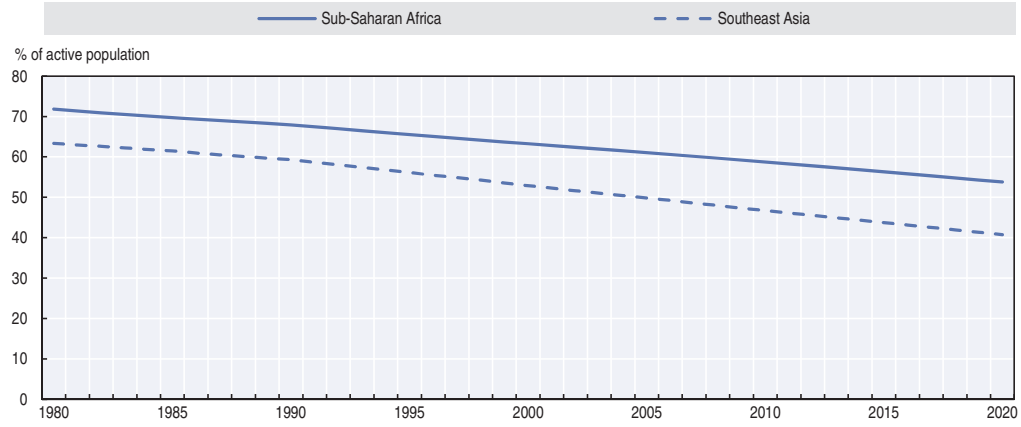


Source: FAO (2015), *FAOSTAT,* (database), http://faostat3.fao.org, accessed 6 August 2015; World Bank (2015a), *World Development Indicators* (database), http://data.Worldbank.org/data-catalog/world-development-indicators, accessed 6 August 2015.

Despite this economic transformation, in many of the region's economies, agriculture is still a very important sector, both nationally and for rural areas. In particular, agricultural growth was one of the key engines of the Southeast Asian economic transformation process highlighted above. Agriculture proved to be particularly efficient in a context of egalitarian land distribution, stable macroeconomic policies and relatively open trade policies, more or less following the example of China. Today a large share of the Asian population still counts on agriculture to secure their livelihoods, particularly in rural areas. This is clear when looking at the portion of the active population employed in the primary sector. The percentage is high (almost 45% in 2014) but decreasing, with agricultural employment expected to decline to just over 40% by 2020 (Figure 2.17).

The process of economic transformation in sub-Saharan Africa is still at its early stages, with agriculture being the predominant livelihood activity and sub-Saharan economies still highly agriculture-based (World Bank, 2007). There has been little progress in developing higher value-added sectors in manufacturing and services. Between 40% and 70% of rural households still earn more than three-quarters of their income from on-farm sources (IFAD, 2002). Employment in agriculture is consequently higher in sub-Saharan Africa than in Southeast Asia, with 57% of people employed in the primary sector in 2014 (FAO, 2015). Forecasts for the next five years suggest a similar picture, with a slight decrease in the share of agricultural employment, but remaining above 50% until 2020. The share of value added in agriculture is among the highest in the developing world (comparable to South Asia) and it does not seem to be decreasing significantly (Figure 2.16). On the other hand, the low value-added generated by the manufacturing sector signals the difficulty local economies are experiencing in shifting from agriculture to higher value-added sectors.

Figure 2.17. **Agriculture still employs a large, though declining, share of Africa's active population, 1980-2020**



Source: Authors' calculations based on data from FAO (2015), *FAOSTAT* (database), http://faostat3.fao.org; accessed 6 August 2015.

Environmental dynamics

The price of rapid economic growth and an early demographic transition is environmental degradation. Key issues for Southeast Asia are deforestation and

desertification, which are currently rendering major tracts of arable land unusable in the region. It also poses threat to biodiversity and ecosystem. Rural areas are primarily affected by this phenomenon, with the biggest problems arising for poor rural households counting on agriculture and other primary basic activities to secure their livelihoods. Industrialised and intensive modes of production in rural areas accompanied by high level of agrochemical use reduce soil fertility. Growth in manufacturing sector and urbanisation was made at the expense of higher energy and resource consumption as well as high air and water pollution. Also, excessive and illegal fishing cost destruction of mangrove forests, degradation of water quality and increased use of chemicals among others (Elliot, 2012).

Moreover, uncertainty over future scenarios related to climate change in the coming decades raises additional questions about the resilience and adaptation capacity of rural areas in developing countries. Climate change affects regions differently based on their geographic and development context. In Southeast Asia, continued reliance on agriculture for income and employment, challenges in managing natural resources (such as land, water and forest) from greater variability and extremes, as well as high dependency on marine resources make the region vulnerable to climate change (World Bank, 2010). In particular, global warming will raise the sea-levels, intensify tropical cyclones, and reduce marine ecosystem services, all of which put additional pressure to both rural and urban livelihoods by further exposing them to flooding, saltwater intrusion and coastal erosion. It will also have adverse effects on agriculture, fisheries and aquaculture (World Bank, 2013b).

In sub-Saharan Africa, demographic problems are accompanied by major environmental issues and widespread poor governance in the region. Climate change in the context of barely burgeoning environmental policies and discontinuities in development policies, sometimes linked to conflict, as well as rapid population growth, all compound the region's exposure to environmental challenges. These include deforestation, soil erosion, desertification and wetland degradation – problems that are particularly relevant due to the continued importance of subsistence-based agriculture.

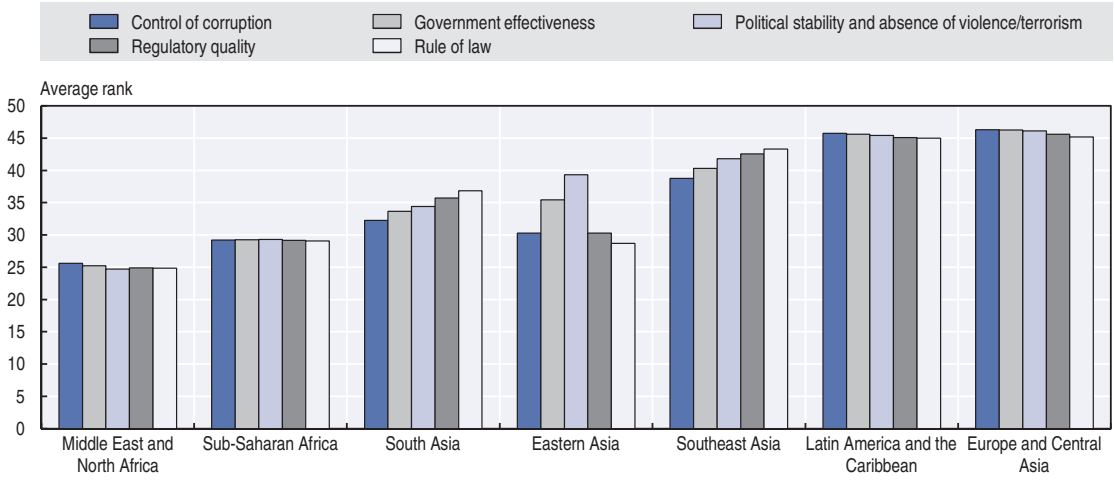
Climatic variations and erratic rainfall have tangible negative effects on rural livelihoods, as is the case of the Sahelian region, hindering efforts to achieve food security and to reduce poverty. Sub-Saharan Africa is also vulnerable to climate change as it is naturally fragile, being largely covered with desert or dry land; is highly exposed to droughts and floods which will only worsen with climate change; and is very dependent on natural resources (World Bank, 2010). In addition, climate change is expected to directly and indirectly undermine food production, livestock, arid land, health (such as undernourishment, mortality and morbidity), and education of children (World Bank, 2013b).

Governance dynamics

Governance plays a key role in economic development. Factors such as bureaucratic efficiency, absence of corruption, protection of property rights, and the rule of law have been associated with better economic outcomes (Mauro, 1995; Alesina, 1998; Kaufmann & Kraay, 2002). As will be discussed in later chapters, these factors are also fundamental for reaching the goals of rural development strategies: even well-designed rural development strategies cannot achieve their expected outcomes when co-ordination and implementation capacity are missing.

Figure 2.18. **Governance differs across regions**

Average rank of countries across governance dimensions by region, 2014



Source: Authors' calculations based on World Bank (2015a), *World Development Indicators* (database), http://data.Worldbank.org/data-catalog/world-development-indicators, accessed 6 August 2015.

Improving governance will open a number of opportunities for development in Southeast Asia and in particular in sub-Saharan Africa. The Worldwide Governance Indicators (World Bank, 2015b)[1] show that in 2014, sub-Saharan countries ranked among the lowest groups of countries on a number of governance dimension, such as control of corruption, government effectiveness, political stability and absence of violence, regulatory quality and rule of law. When all countries in the world are ranked from 0 to 100 for each of these dimensions, the average rank among sub-Saharan countries is close to 30 (Figure 2.18). Weak governance in the region may be explained by the historical experiences that did not lead to particularly strong state capacity and institutions of governance. Many sub-Saharan African countries faced ethnic tensions that were worsened by colonial rule, weak local skill bases and low accountability pressure. They also experienced economic crisis and political instability that disrupted both governance and economic growth (Bräutigam and Knack, 2004).

The average ranks of Southeast Asian tend to be higher, going from 39 in the case of control of corruption, to 42 in the case of rule of law. However, Southeast Asia still ranks lower than regions like Latin America and the Caribbean. The rural development experience of OECD countries (Chapter 4) shows that improving governance can lead to better co-ordination and more effective policy delivery, which in turn can increase the welfare of rural population and promote social cohesion.

Challenges for the rural sector in developing countries

The diversity of rural areas implies that the sets of challenges and opportunities they face are different. Thus, rural development strategies need to be tailored and adapted to local rural realities. Context-specificity will be key to determining the success or failure of governments in addressing and coping with challenges on the one hand, and in reaping all the opportunities on the other.

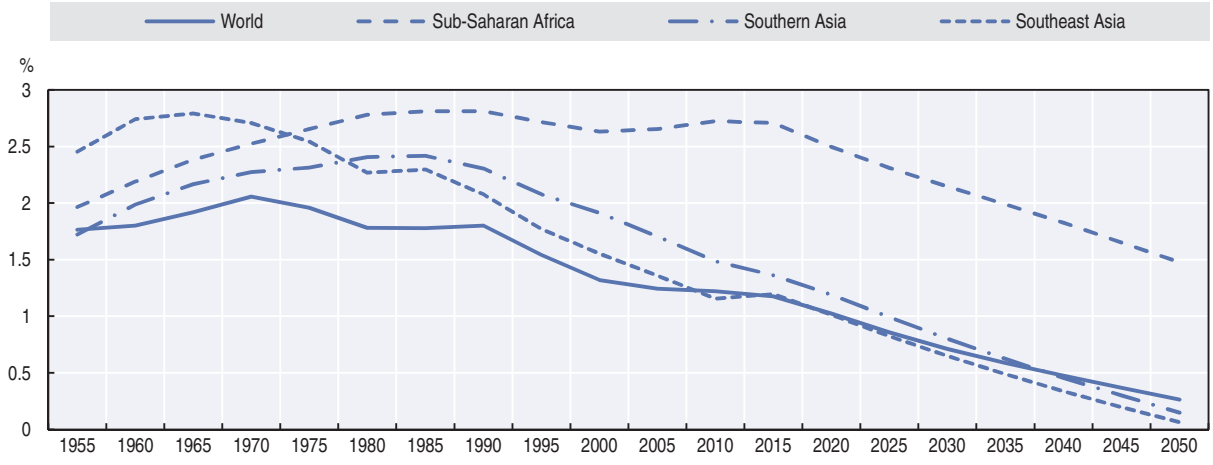
Demography: time bomb or dividend?

Demography is one of the biggest challenges that the developing world is currently facing. The types of problems depend on the position of the different populations in the demographic transition process. At the beginning of this process, populations normally go through a sharp decrease in mortality rates, followed by a subsequent decrease in fertility, which produces a permanent move towards a population with higher life expectancy at birth and greater shares of old people in the overall age pyramid (Lee, 2003). The lag in time between mortality and fertility declines produces an initial high rate of population growth lasting until fertility enters its downturn. Once the decline in fertility begins, there are several opportunities for economic development as changes in mortality and fertility allow for a remarkable increase in the working-age population. People in this category are the only ones able to produce, save and invest more than they consume, producing the surplus of resources that the economy needs to exploit efficiently.

Cashing in on this demographic dividend requires active and sound policy making. If the right set of policies is not in place, the dividend can instead become a burden which will further limit the economic potential of regions. Improvements in human capital, the promotion of labour market flexibility, investments in technological progress, job creation, and more consistent integration into the global economy all need to be pushed up the agenda of policy makers. This is particularly pressing in sub-Saharan Africa (Figure 2.19), which is poised to experience an unprecedented boom in the working-age population, all of whom will require education and productive employment.

Figure 2.19. **Sub-Saharan Africa faces an unprecedented demographic pressure**

Population growth rates



Source: World Bank (2015a), *World Development Indicators* (database), http://data.Worldbank.org/data-catalog/world-development-indicators, accessed 6 August 2015.

Environmental vulnerability is most severe in rural areas

Rapid economic and population growth, in parallel with urbanisation, create several environmental concerns that sometimes put rural people's livelihoods at risk. Of particular concern are deforestation, desertification, soil erosion and wetland degradation, which are currently rendering major tracts of arable land unusable in rural areas. These problems undermine the livelihoods of the large segment of the rural population which depends on agriculture, exacerbating poverty and food insecurity, particularly in sub-Saharan Africa, and hindering the potential for agricultural modernisation. The lack of sound environmental policies and guidance for natural resource exploitation, together with the improper or scarce use of new technologies, are reducing soil productive capacities, and sometimes also aggravating pre-existing pollution problems. There is still great scope for intervention, especially in applying new technologies and scientific innovations in order to cope with these challenges, especially in sub-Saharan Africa and many areas of Southeast Asia.

Weak governance makes development difficult

Governance challenges and socio-economic development are highly interconnected, particularly in the developing world. Development can only occur if a country has effective institutions in place. If administrative bodies at local, regional or national level are not able to co-ordinate and efficiently perform their assigned tasks, it is very difficult to promote growth, reduce poverty, fight corruption, improve social outcomes and solve all the other problems currently facing the developing world. Governance challenges include the establishment of efficient co-ordination mechanisms across different levels of government; democratisation; corruption control; local empowerment and capacity building. Improvements in all these domains will be crucial, in particular for closing the rural-urban gap. Rural areas are often left behind other regions due to the inability of governments to expand their control over them and manage local resources in efficient ways.

Closing the gender gap is both challenge and opportunity

Gender equality is another very pressing issue in the developing world, and especially rural areas. Despite the significant progress in achieving complete gender equality in the more advanced regions of the world, in the developing world women, and young girls in particular, are the "poorest of the poor". They are much more disadvantaged than men when it comes to decent and regular employment, hunger and malnutrition, and access to education and health. Following the usual patterns in household work distribution, rural women are more accountable for ensuring the basic needs of their families, e.g. producing food for household consumption and local markets, while men are more often employed in agricultural wage labour and cash crop production. Overall, women receive less education than men and have different time constraints due to their family obligations, both of which bring them to accept part-time and seasonal jobs and lower wages. In addition, granting women the same access to productive resources as men remains a pending issue in developing countries. If properly tackled it would have tangible and positive effects on agricultural production, rural incomes and poverty.

Conclusion

The data in this chapter reveal a widening gulf between rural and urban areas across the developing world in all indicators of development. In addition, rural areas themselves vary considerably, in particular in terms of poverty dynamics, economic roles, demography, governance and environmental sustainability. While Southeast Asia has made remarkable progress, sub-Saharan Africa still contains very high levels of poverty, is only beginning its demographic transition, and suffers from poor governance and high environmental vulnerability.

Achieving sustainable global development depends on a new approach to rural development that can tackle the specific challenges and harness emerging opportunities. This calls for a new rural development paradigm. The next chapter explores this challenge while reviewing the history of rural development approaches to date.

Note

[1] The Worldwide Governance Indicators are a research dataset summarising the views on the quality of governance gathered from a large number of survey institutes, think tanks, non-governmental organisations, international organisations, and private sector firms.

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Chapter 3
Why is a new rural development paradigm needed?

Despite six decades of attention to rural development, culminating in the Millennium Development Goals process of the 21st century, rural people in the developing world still struggle compared to their urban counterparts. This chapter reviews the shifting theories and approaches to the subject over the years, from rural areas being treated as "backwaters" in need of modernisation, to more nuanced approaches valuing rural knowledge and promoting local participation in policy making. The limited success of the old approaches, and changing international development contexts, call for a new rural development paradigm that takes advantage of the diverse and innovative roles rural areas can play while integrating specific economic, social and ecological concerns. A new paradigm for rural development will be crucial for achieving the new Sustainable Development Goals, which will strongly influence development practices in the 21st century.

The previous chapter has shown how rural areas in the developing world are still falling behind, while facing new challenges such as climate change and rapid population growth. This suggests that rural development approaches to date have not been sufficient and that a new paradigm is needed. To get a better understanding of what has to be done to develop more successful rural development strategies, this chapter reviews development theories and approaches targeting rural areas over the last six decades, culminating in a review of the rural gaps in the Millennium Development Goal process. Learning from past lessons is key for defining the rural development strategies required for reaching the new Sustainable Development Goals.

A brief history of rural development theories and approaches

Early development theories and rural development approaches were rather simplistic in their thinking: rural areas were falling behind and the solution was therefore rapid urbanisation and industrialisation alongside agricultural modernisation. Over time, realisation emerged of the need for an explicit focus on improving the quality of life, sustainable livelihoods, environmental sustainability, community development and gender equality (Table 3.1). Theories and approaches became broader, with more emphasis on poverty reduction, sustainable development and inclusiveness.

Bringing modernisation to "backward" rural areas: the 1950 and 1960s

Development economics theories formed during the 1950s and 1960s saw development as a linear process that followed a single, yet progressive, path. The industrial sector was considered the engine of growth, while agriculture was viewed as a backward sector. The shift from a traditional agricultural-based economy to an industrialised one was thought to be the fundamental driver of economic development, measured in terms of GDP growth rates. For instance, Rostow's five-stage growth model (Table 3.1) argued that all countries needed to go through a linear transition from traditional society, to preconditions to take off, take off, industrialisation and finally maturity. In this model, rural areas shift from stagnant areas to food providers through to higher agricultural productivity via technological innovations. In Lewis' dual sector model of the 1960s, rural areas are regarded as the main providers of surplus labour. Higher wages in the modern industrial sector attract the surplus labour, expanding until all the labour has been absorbed. For rural areas, the depletion of surplus labour triggers commercialisation of agriculture (Lewis, 1954; Rostow, 1960, cited in Goulet, 2003; Slee, 1993). These theories also assumed a rural-urban dichotomy. That is, urban areas were portrayed as modern and dynamic, while rural areas were typecast as underdeveloped, traditional places where the majority of the population resided and depended on subsistence farming.

These theories failed to conceive alternative roles for rural areas in the process of development. The prioritisation of the industrial sector was assumed to prompt migration from rural to urban areas where there are higher incomes and more employment opportunities. Eventually, rural areas would produce food for the largely rural and smaller urban populations, and provide surplus labour for the industrial sector. Moreover, the exposure to and integration of rural areas within urban areas would trigger attitudinal, behavioural and institutional changes in the rural population. However, these theories were

Table 3.1. **Development theories and approaches to rural areas, 1950s to present day**

1950s	1960s	1970s	1980s	1990s	2000s
Overarching development goals					
Income (Gross domestic product)		Equity income distribution (poverty, unemployment, inequality)		Quality of life (HDI, environment, health, education)	Sustainable development
Major economic development theories					
Linear growth theory (Rostow's 5-stage growth model)	Structural change theory (Lewis' dual sector model, Chenery's structural change and patterns of development)	International dependency theory	Neoclassical theory	Capabilities approach	
			Endogenous growth theory		
			Structural adjustment programme		
Main approaches influencing agricultural, community and rural development					
Agricultural modernisation	Green Revolution		(Agricultural) sector projects	(Agricultural) sector investment programmes	
Community development	*Animation Rurale* (mobilisation of local resources)	Integrated rural development	Community-based development	Sustainable livelihoods	Community-driven development
		Basic needs approach	Local economic development	Gender mainstreaming	Poverty Reduction Strategy Papers
		Women in development	Gender and development		Rural economic and enterprise development
					Rural territorial development
					Millennium Development Goals

top-down, one-size-fits-all in nature and did not acknowledge the potential innovative role played by rural areas. They also did not account for the possibility of change in the sequence of development (Goulet, 2003; Green and Zinda, 2013). Moreover, it should be noted that there is no such thing as a final "developed" stage. Rural areas may play different, and innovative roles, at any development stage. This is particularly relevant for developing countries today.

Rural development approaches during the 1950s and 1960s were of two types: some emphasised strengthening agricultural productivity while others prioritised the improvement of local governments and economies.

The push for better yields

The first approach, which was more in sync with the development economic theories of the time, involved methods to generate higher crop yields, advance agricultural technology and improve agricultural infrastructure, with the aim of generating economies of scale, increasing food production, and achieving food security. Examples include widespread agricultural modernisation in many developing countries during the 1950s, and partly successful Green Revolutions in parts of Asia and Latin America from the 1960s to the 1980s. In most countries, agricultural modernisation techniques were targeted at areas characterised by subsistence farming. Strategies entailed improving access to land, providing price supports and subsidised inputs, facilitating collective processing and marketing, and promoting co-operation across small farm holders (Saraceno, 2014).

The Green Revolution took place amid stagnating production and chronically rising grain prices in South Asia. Initiated by USAID, the Ford Foundation and the World Bank, it involved the promotion of agricultural technological advances, agricultural extension and credit systems, small-scale irrigation, moderate import substitution, training and economic incentives to farmers through price, market and trade policies. The Green Revolution contributed positively to economic growth and poverty reduction, especially when land ownership was secure. It had benefits for small farmers, increased rural income, decreased food prices, and added value to agricultural production. However, while it mainly succeeded in raising agricultural output, primarily in Asia and to some extent in Latin America, it failed to account for ecological and social issues. In addition, the Green Revolution was not very successful in sub-Saharan Africa because it was limited to a small group of large commercial farms in certain areas, neglected semi-commercialised small farms, and was implemented within an unfavourable agricultural policy environment (Brandt and Otzen, 2004).

The focus on community development

Efforts to improve local governments and economies were reflected in the community development and the *Animation rurale* approaches of the 1950s and late 1960s respectively. The community development approach was strongly supported by the United States in Asia, Africa and Latin America and was also picked up by other donors, including the United Nations and European agencies. *Animation rurale* was initiated by the French in Francophone Africa, and had more productive aims. Both approaches were not limited to agriculture, and tried to mobilise local participation and local initiative for mutual

co-operation, self-help, shared problem solving and socioeconomic development. However, both approaches waned in the late 1960s due to persistent low agricultural productivity, unequal local power structures that saw the benefits go primarily to local elites, lack of economic and social well-being improvement, and a sharp decline in donor support (Holdcroft, 1978; Machethe, 1995).

Equity and poverty come to the fore: the 1970s

In the 1970s, economic development was no longer solely about economic growth, but also about tackling poverty and inequality. Development theories began to focus on the negative impacts of developed country intervention in developing countries, while promoting the self-reliance of developing countries. As earlier growth-based approaches had failed to reduce poverty, rural development approaches focused directly on meeting people's basic needs.

The 1970s saw the rise of international dependency theory, which gained support particularly among developing country scholars. This theory explained underdevelopment in terms of institutional, political and economic rigidities and by the dominance of developed countries that was hindering the self-reliant and independent growth of less developed countries. The exploitative cycle of primary commodity exports from developing countries to manufacturing industries in the developed countries being re-sold in the poor countries was seen as harmful, with the value-added products tending to cost more. The solution was seen to be to promote industrialisation through import-substitution in developing countries (Ferraro, 2008; Goulet, 2003).

Like the linear growth and structural change models of the previous decades, the concept of rural development in the international dependency theory was also dependent on exogenous forces such as industrialisation, modernisation of technologies and provision of infrastructure (Slee, 1993). That is, as long as rural areas were engaged in the dependency relationship, they remained largely incapable of endogenous growth. Within individual nations, urban areas developed at the expense of rural areas, from which they extracted resources and low-cost labour. The dependency theory also considered weak institutions, traditional norms and stagnant rural lifestyles as obstacles to rural development. Furthermore, capitalistic development was expected to speed up urbanisation as rural populations migrated in hope of finding better jobs and livelihoods in cities. At the same time, urbanisation was thought to enlarge informal urban and service labour markets, further contributing to countries' underdevelopment. While this theory attributed great importance to policies to correct structural imbalances, some scholars argue that it lost momentum as the countries that promoted international trade achieved significant economic development (Bradshaw, 1987; Goulet, 2003; Green and Zinda, 2013; Slee 1993).

Rural development approaches became more complex in the 1970s and did not necessarily follow the mainstream of development economics theories. In most countries, the agricultural-growth-oriented programmes of the previous decades had done little to improve the welfare of the poor, and rapid economic growth had failed to guarantee equitable access to social services. Against this backdrop, the international community

came up with a package of multi-sectoral reinforcing activities targeted at rural well-being and basic needs:

- Integrated Rural Development (IRD) emerged in the early 1970s, pioneered by the Ford Foundation and the World Bank. IRD projects combined activities to increase agricultural productivity with needs-based social activities. A widely known pilot programme implemented in the Comilla District of Bangladesh (formerly Pakistan) was successful in diffusing productive agricultural technology, developing farmers' co-operatives and mobilising local resources for village improvement (Ruttan, 1984). However, the IRD approach began to decline in the 1980s. It had limited sustainable impact due to its top-down implementation, high costs, co-ordination problems, intensive management and skewed benefits favouring the rich over the poor (de Janvry and Sadoulet, 2007; Machethe, 1995). The African Development Bank's experience with IRD in Africa during the 1980s and 1990s also had mixed results. While areas with strong institutions and line ministries had positive outcomes, the complexity of integrating different components from health and infrastructure to investment caused considerable delays. Other elements included weak regional and local institutional capacity, high staff turn-over, inability to account for a wider spectrum of rural development activities aside from agriculture, and lack of private sector participation (AfDB, 2000).[1]
- The basic needs approach also emerged during the 1970s. It was first introduced by the US Congress in 1973 when it instructed USAID to take the basic needs of the poorest people in developing countries into account. The fundamental premise of this approach was that addressing a high level of basic needs is possible in areas with a relatively low level of per capita income. It requires government to intervene by redirecting both production and consumption to eliminate deprivation that arises from lack of basic goods and services and maximise the present value of welfare, as well as directing the efforts of foreign aid agencies. However, like Integrated Rural Development, targets were too ambitious and beyond the reach of existing technical and administrative capacity. Impact measurement was another challenge. The basic needs approach also failed to generate reliable food surpluses, and it was difficult to reconcile local mass mobilisation and to build institutions capable of mobilising local resources for development (Machethe, 1995; Streeten and Burki, 1978; Ruttan, 1984).

The liberalisation era: the 1980s and 1990s

While rural development approaches in the 1950s to 1970s had nation states as the main actors, in the 1980s the role of government was minimalised in favour of free market systems. In line with this trend, the rural development approaches of this period stressed pragmatic strategies that enhanced economic opportunities in rural areas, that were based on local contexts and that called for broad local participation going beyond the agricultural sector.

Neoclassical theory blamed heavy state intervention, corruption and lack of economic incentives for countries' continued underdevelopment. Poverty was blamed on policies that neglected the pivotal roles of markets, prices and incentives. The Structural Adjustment

Programmes, common in this period, also valued the principles of liberalisation, privatisation and deregulation. Initiated by the World Bank and the International Monetary Fund, structural adjustment was based on the idea that excessive government intervention disrupts the economy and hinders economic balance as well as rural development. Governments were advised to abolish subsidies, reduce public consumption, reschedule and cancel debt, privatise services, correct distorted price and deregulate markets (Brandt and Otzen, 2004).

Both the neoclassical theory and the Structural Adjustment Programme had a tendency to neglect rural areas as they were space-blind. However, their general principle meant that governments were to refrain from distorting agricultural commodity prices to support rural areas. Agricultural production was still the economic base for most rural communities. Government intervention in agricultural pricing was believed to have had adverse effects on the rural-urban income gap, incentives for food and export crop production, the government's capacity to establish food reserves, and employment opportunities in farming, processing and rural industries (Goulet, 2003; Meier, 2000).

In the mid-1980s, the endogenous growth theory (or the new growth theory) emerged. Although not strictly concerned with rural areas, this theory viewed local development as a bottom-up process based on contextual resources, accompanied by shared knowledge from different sectors and sources. It also encouraged local agents to determine development options and manage the implementation process, and thereby retain the resulting benefits (Slee, 1993). Local development processes occurred not only in small cities, but also in rural areas in both developed and developing countries. In this context, rural development was largely influenced by the local capacity to participate in diverse economic activities (Saraceno, 2014).

Most importantly, this theory placed great value on human capital, technology and knowledge investment. Knowledge acquisition was assumed to have spillover effects such as gains from a more productive labour force, learning by doing and higher wages; thus the increasing returns to the use of knowledge would result in economic growth (Saraceno, 2014). However, because technological change is not equal or exogenously transferred in most developing countries, policy intervention is necessary to influence growth in the long run. Government engagement was seen to be required to improve human capital and attract foreign investment in knowledge-intensive industries, all of which would promote national development (Dang and Pheng, 2015).

In line with this endogenous theory, rural development approaches in the 1980s and 1990s emphasised local participation in development. One example is the local economic development (LED) approach, which first appeared in the late 1960s in more advanced countries such as Italy, Spain and Germany as a spontaneous, endogenous process (see Nel and Rogerson, 2005). Initially a response to increasing competition among local governments to attract business and investment, it evolved into an explicit policy approach for developing countries in Asia, Africa and Latin America during the 1980s and 1990s for similar reasons. The aim of LED was to build local economic capacity to generate local employment, promote sustainable local economic growth and improve quality of life. It was multi-dimensional, multi-sectoral, participatory and inclusive in nature. Developing countries found it attractive, as it was less demanding than classical approaches to

industrialisation and could be expanded to other sectors such as tourism, crafts and services. In a sense, LED could be seen as a partial response to the failure of traditional top-down, supply-side, sectoral development strategies, which often proved costly and unsuccessful in achieving the overall development of rural areas. LED was also considered a means to reduce territorial disparities and income inequalities (Rodriguez-Pose and Tijmstra, 2007; Saraceno, 2014). However, it remained a relatively marginal strategy and had little relevance for countries with weak capacity and unsuitable conditions for LED. For instance, LED in Africa was more geared toward poverty alleviation than local economic development, and the poor state of physical infrastructure and human capital, weak local capacity, and lack of funding has made LED in sub-Saharan Africa more challenging than in Asia or Latin America (Rodriguez-Pose and Tijmstra, 2007; Saraceno, 2014).

A second example is community-based development (CBD). Although the history of CBD goes all the way back to the first wave of participatory approaches in the 1950s, it was not until the 1980s that interest in local participation in decision making was reawakened. Led by the World Bank, the CBD approach encouraged local beneficiaries to organise themselves and participate while incorporating their knowledge and social capital into the design and implementation of development projects. Local participation was expected to have the advantages of implementing activities that were better designed, better targeted, more cost effective, timely and equal. However, the CBD approach was found to be largely ineffective in targeting the poor, owing to factors such as weak institutional environments, elite domination, competing incentives among different stakeholders, lack of accountability and low capacity. Also, local knowledge was at times inadequate or shaped by local power and unequal gender relations (Mansuri and Rao, 2004).

In the late 1980s and early 1990s, the sustainable livelihoods approach emerged among rural development practitioners (see Ashley and Carney, 1999). This approach acknowledged the complexity of people's livelihoods and the diversity of their aspirations. It recognised the need for strategic intervention to enhance and support diverse livelihoods, and the key role of social capital in facilitating better access to economic opportunities and social protection for the poor and vulnerable. This required a good understanding of household economies and the links between policies at the local and central levels. However, apart from cases in which it was specifically integrated into area-based projects, this approach has been criticised for its tendency to neglect the spatial dimension of poor people's livelihoods and their relationships with social actors, political power networks, institutions, markets and the natural environment (Quan, Davis and Proctor, 2006).

Additional efforts were made to focus more on human and social development in the international development agenda, as well as to bring women and a gender perspective into the development project cycle.

Articulated in the 1980s, Amartya Sen's capabilities approach brought the issues of human capabilities and freedom into the centre of the development discourse in the 1990s. It also helped frame the UNDP Human Development Index (see next section). While Sen acknowledges the importance of wealth and better goods and services as necessary factors for human development, they are not end goals in themselves. Also, he emphasises that people and societies function differently in converting wealth into valuable achievements based on their capabilities. He adopts a broader definition of capabilities and refers to them

as "the alternative combination of functionings the person can achieve, from which he or she can choose one collection" (Sen, cited in Clark, 2005). The capabilities link resources to functioning which can lead to utility such as happiness. He also purposefully does not offer a specific set of capabilities, leaving the option for the capabilities approach to be developed and applied in different settings. Although not free from criticisms over its operationalisation and usefulness, the capabilities approach was well-received for conceiving humans as ends not means, acknowledging diversity and differences among people, cultures, societies, and values, and for highlighting discrimination based on gender, religion, age, class, etc. (Clark, 2005). The capabilities approach has been further developed by other scholars, including Nussbaum (see Nussbaum, 2000). Nussbaum categorised capabilities into three types: basic capabilities, internal capabilities and combined capabilities. Unlike Sen, Nussbaum values political principles and offers a number of central and universal human capabilities, including life, bodily health, emotions, play and control over one's environment. The list can also be developed further by local people. She focuses more on humanities and personal traits than economic inferences. Both scholars have led the development of capabilities approach, and also paid specific attention to the social norms and traditions that influence women's capabilities (Robeyns, 2005).

There were also efforts made during this era to incorporate the reality and needs of women into development approaches. Since the 1970s, the approaches on gender in development shifted from focusing on women to changing the gender relations across all development dimensions (Box 3.1).

Box 3.1. **The growing emphasis on women in development**

In 1970, Ester Boserup's book *Women's Role in Economic Development* was published (Boserup, 1970). Based on empirical observations in Asia, Africa and Latin America, she found women to be excluded from social and economic opportunities, to be mostly low-skilled subsistence producers, and to be largely unpaid in rural areas and under-paid in urban and non-farm sectors. This work prompted the UN-supported Women in Development (WID) approach, to address the economic exclusion of women. The WID approach tried to specifically target women by bringing them into projects and providing them with resources. However, its failure to change women's socio-economic power and status relative to men led to the rise of the gender and development (GAD) approach in the 1980s. The GAD approach shifted the focus from women to gender and called for the equalisation of power between genders in socioeconomic relations. This approach reaffirmed women's rights as human rights and gender inequality as a universal concern.

In 1995, at the Fourth World Conference on Women, the Beijing Declaration and Platform for Action adopted gender mainstreaming as the key strategy for addressing gender inequalities in all stages of development policies and programmes. This approach involves incorporating gender equality of both men and women into all policy spheres, from design, to implementation, to monitoring and evaluation, and into all aspects of the policy arena, including those that influence rural areas (Okali, 2011). While consistently stressing gender as a cross-cutting issue in all areas of development, the Millennium Development Goals selected gender equality and women's empowerment as Goal 3, and improvement of maternal health as Goal 5. Gender equality is also explicitly tied to the other goals on poverty reduction, child mortality, universal primary education and combatting diseases. Despite these steps, gender still tends to be marginalised in development assistance and most efforts are concentrated in health and education, while women's equal economic and political representation lags behind (UN, 2014).

A more nuanced picture emerges: the 1990s and 2000s

The more modern development economics theories address a range of complex issues and emphasise the roles of multiple actors. Likewise, rural development approaches now emphasise diversifying local economies and incomes through innovation, territorial strategies, and the participation of multiple local, national and international stakeholders.

During the 1990s, the scope of development expanded to embrace quality of life. Social issues such as education and health were incorporated into development approaches, and the roles of government and public policy once again became central to development. The United Nations Development Programme developed the Human Development Index to account for people's capabilities in health, education and income in assessing a country's level of development.

The sector investment programme emerged in the mid-1990s out of the recognition that development projects were lacking in a number of elements, including local ownership and commitment, sustainability, trickle-down effects, donor co-ordination and satisfactory results (Harrold and Associates, 1995). Led by the World Bank, this programme involved a comprehensive strategy that focused on a specific sector. In the case of the agricultural sector, it involved projects and measures for agricultural infrastructure, education, agricultural innovation and capacity building, among others. Preconditions for successful outcomes included donor co-ordination, the commitment of developing country stakeholders and the active involvement of domestic experts. These would minimise duplication efforts, create synergies and reduce possible failures by sharing experiences and lessons learned among a number of different stakeholders. Unfortunately, the agricultural sector in general was often neglected by both donor and partner countries, and most programmes were concentrated in urban areas (AfDB, 2000; Brandt and Otzen, 2004).

In the 2000s, the criteria that define development theories have both multiplied and become more complex, making it more challenging to define the mainstream theory or paradigm of development in the 21st century. In contrast to the top-down development approaches driven by developed countries in previous decades, the new era emphasises ownership by developing countries of the development agenda, with developed countries playing an assisting role. Modern development theory values the complementary roles of governments and markets, as well as both top-down and bottom-up approaches (Hopwood, Mellor and O'Brien, 2005; Proctor, 2002).

Environmental and socioeconomic issues have gained in importance with the emergence of sustainable development (from as early as the 1990s). Additionally, the World Bank and the International Monetary Fund's Comprehensive Development Framework (CDF) and Poverty Reduction Strategy Papers (PRSPs) represent efforts to construct a comprehensive development theory that addresses all issues relevant to poverty eradication and economic growth. CDFs and PRSPs are country-driven, result-oriented, comprehensive and long term. They cover a variety of elements, from economic, social and human to environment and governance. A PRSP is an operational document based on a CDF and is tailored to each country, addressing their specific context and needs. Rural development is often included as a cross-cutting thematic issue (Proctor, 2002). The Community-Driven Development (CDD) approach is a key part of the Comprehensive

Development Framework. It enables communities to have direct control over key project decisions, including management and use of funds. It is a more recent variant of the CBD approach with the aims of enhancing sustainability, efficiency, effectiveness, governance, scaling-up and inclusiveness of development efforts while complementing private and public sector activities. The CDD approach selects social issues as the entry point to development, believing that the construction of human and social capital can address poverty issues (Mansuri and Rao, 2004; Saraceno, 2014).

Major rural development approaches in the 2000s are also manifestations of approaches implemented in the previous decade. For instance, LED evolved into Rural Economic and Enterprise Development and Rural Territorial Development. While the former emphasised enterprise development, innovation and the economic diversification of rural economies, the latter is a process of simultaneous productive transformation and institutional change with the aim of reducing poverty and inequality in rural territories (Schejtman and Berdegué, 2004). Like LED, it emphasises strengthening local economies, is territorial-based, and takes note of local areas' distinctive features, comparative advantages, and stakeholders. However, unlike LED, which can be applied to both urban and rural areas, it intentionally targets rural areas (Quan, Davis and Proctor, 2006).

The Millennium Development Goals (MDGs), launched by the United Nations and major international development organisations in 2000, address the most pressing social development issues in developing countries while mobilising foreign development assistance from developed countries. The MDGs have been broadly supported by the international development community. Their poverty-specific targets, inclusion of social development themes and multidimensionality have guided global efforts to meet eight development goals by 2015 (Table 3.2).

Table 3.2. **The eight Millennium Development Goals**

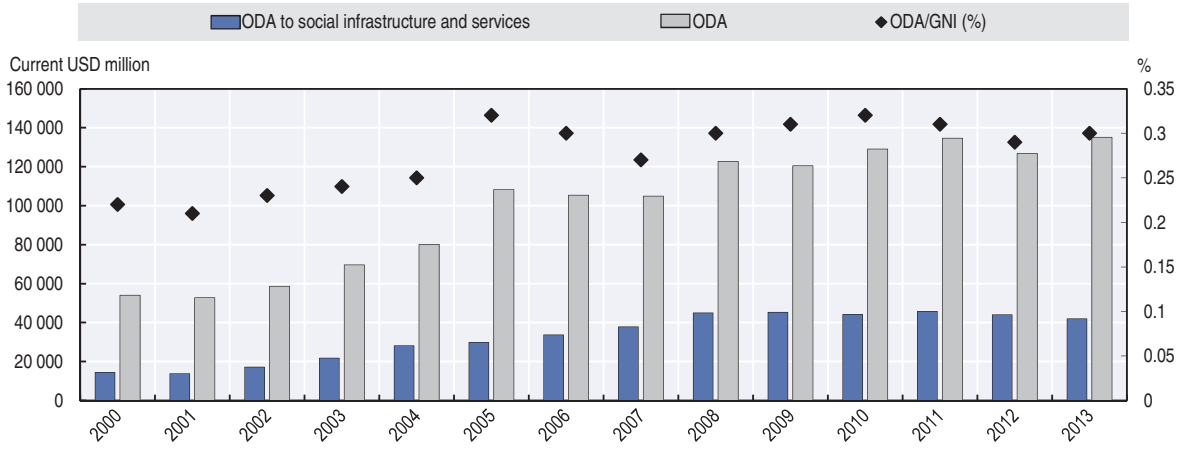
Goal 1	Eradicate extreme poverty and hunger
Goal 2	Achieve universal primary education
Goal 3	Promote gender equality and empower women
Goal 4	Reduce child mortality
Goal 5	Improve maternal health
Goal 6	Combat HIV/AIDS, malaria and other diseases
Goal 7	Ensure environmental sustainability
Goal 8	Develop a global partnership for development

Source: UNDP (n.d.), The Millennium Development Goals, webpage, www.undp.org/content/undp/en/home/mdgoverview/mdg_goals.html, accessed 10 November 2015.

The MDGs have been successful in putting poverty reduction at the centre of the international development discourse and have been widely implemented in policy documents such as Poverty Reduction Strategy Papers, national development strategies of developing countries and donors' aid strategy papers. Development priorities, research and aid evaluations have been aligned with the MDGs as well. They have mobilised better public awareness and support for foreign aid and comprehensive poverty eradication. In addition they have prompted an increase in official development assistance (ODA),

particularly for social development issues including health and education, as well as financial contributions from both the public and private sector of developed countries. Figure 3.1 shows the amount of ODA disbursed by the OECD Development Assistance Committee (DAC) members between 2000 and 2013. It has increased more than two-fold and the share of ODA in countries' gross national income (GNI) only fluctuated slightly in 2007 and 2012 in spite of the global financial crisis; however, it is still well short of the 0.7% target (Heeks, 2014; Manning, 2010).

Figure 3.1. **Official development assistance spending has risen steadily since 2000**



Note: The amount of ODA is based on current price.

Source: *OECD International Development Statistics*, http://stats.oecd.org/, accessed 4 August 2015.

The MDGs have been criticised for certain shortcomings. First, for some countries the goals were too ambitious; it was not feasible for many countries to attain them in time. The MDGs are often misinterpreted as a one-size-fits-all framework for all developing countries which leads to pessimism about African countries and little credit for their progress made to date. Second, they do not tackle poverty in developed countries, being solely focused on the developing world. Third, MDGs pay little attention to redistribution, inequality and empowerment of the poor, as well as disparities within regions and countries. MDGs do not delve into the actual root causes of poverty but instead addresses the symptoms. Extremely high levels of persisting inequality and accompanying exclusion are not reflected in goals, targets or indicators, and are also missing from the monitoring scheme. They are also more skewed towards social development and do not adequately address the need for economic empowerment or economic sustainability. Other criticisms include omission of key dimensions such as human rights, climate change and the contributions of the private sector; their insufficient conceptualisation of goals on gender empowerment and environment; their narrow targets, and data imperfections (Clemens, Kenny and Moss, 2007; Manning, 2010; Saith, 2006; Vandemoortele, 2009). In addition, the absence of a single, unified philosophy on sustainable development has resulted in more rhetoric than actual structured actions on sustainability issues.

Nevertheless, it is without doubt that the MDGs have mobilised the global community to eliminate poverty, form global partnerships, prioritised people and their needs, and reshaped the decision-making process during the last 15 years. The improvements have been significant. The extreme poverty rate (i.e. people living on under USD 1.25 a day) dropped from 47% in 1990 to 14% in 2015 with most progress made from 2000 onward. By 2011, all developing countries, except those in sub-Saharan Africa, had reached the target of halving the proportion of extreme poverty. The primary school enrolment rate in developing countries reached 91% in 2015, and sub-Saharan Africa improved the most, increasing from 60% in 2000 to 80% in 2015. The targets for enrolment and gender disparity in primary education, undernourishment, and child mortality are highly likely to be reached globally in coming years, Also, women are less engaged in vulnerable employment and more represented in the political sphere than before (UN, 2015a).

However, there is still large room for improvement. Uneven progress and persistent inequalities have resulted in failure to achieve all the MDGs. Gender inequality is still prevalent in developing countries. Women are more vulnerable to poverty, have less access to meeting basic needs, and face greater discrimination in the labour market. The gap between poorest and richest households in developing countries remains large. Because the MDGs are often measured at the global and national level, they fail to capture the disparity between rural and urban areas. Rural areas face systematic poverty; though urban areas face their own problems such as urban slums and environmental degradation, the incidence and depth of poverty is still higher in rural areas. As we saw in the previous chapter, rural areas are systematically falling behind urban areas in all dimensions of development, from education, gender equality, health including child mortality, maternal health, incidence of endemic disease, and environmental issues, all of which are related to MDGs 1 to 7. The gender, wealth and regional gaps are still pending issues to be addressed in the post-2015 development framework.

Effective rural development strategies are the key to achieving the new SDGs

As of 2016, the Millennium Development Goals are replaced by the Sustainable Development Goals (SDGs). These goals, which follow the principle of leaving no-one behind, involve a framework that includes 17 goals and 169 targets (Table 3.3). While the MDGs targeted developing countries, the SDGs will be a universal framework for both developed and developing countries. They will build on existing commitments to the social and economic pillars of the MDGs, including health and education, and commit to improving both quality and quantity of related services. They also take into account the systematic barriers to development, such as unsustainable consumption and production patterns, inadequate infrastructure and lack of decent jobs.

The SDGs are already attracting criticism, however, for being too ambiguous in the sense that they do not provide a clear vision of what the world will be like when the SDGs are achieved. They are also very broad, having a wide range of social, economic and environmental goals, but lack the linkages among goals and across different sectors. There are also conflicts among goals which are not adequately addressed. For example, increased use of agricultural land to help end hunger may trigger environmental degradation and biodiversity loss which could exacerbate food insecurity. Furthermore, the SDGs do not

articulate the different social agents beyond national governments and aid agencies that have to be mobilised to create change. In particular, the SDGs fail to include private sector perspectives and incentives for participation of private actors. Nonetheless, the SDGs will be used to guide and shape global partnerships for sustainable development over the next 15 years (ICSU and ISSC, 2015).

Table 3.3. **The 17 proposed Sustainable Development Goals**

Goal 1	End poverty in all its forms everywhere
Goal 2	End hunger, achieve food security and improved nutrition and promote sustainable agriculture
Goal 3	Ensure healthy lives and promote well-being for all at all ages
Goal 4	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
Goal 5	Achieve gender equality and empower all women and girls
Goal 6	Ensure availability and sustainable management of water and sanitation for all
Goal 7	Ensure access to affordable, reliable, sustainable and modern energy for all
Goal 8	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Goal 9	Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation
Goal 10	Reduce inequality within and among countries
Goal 11	Make cities and human settlements inclusive, safe, resilient and sustainable
Goal 12	Ensure sustainable consumption and production patterns
Goal 13	Take urgent action to combat climate change and its impacts
Goal 14	Conserve and sustainably use the oceans, seas and marine resources for sustainable development
Goal 15	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
Goal 16	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
Goal 17	Strengthen the means of implementation and revitalise the global partnership for sustainable development

Source: UN (2015b), *Zero Draft of the Outcome Document for the UN Summit to Adopt the Post-2015 Development Agenda*.

Like the MDGs, the SDGs will be highly relevant to rural development for both developed and developing countries. Similarly, promoting rural development will be crucial to achieving the goals and targets. For example, sustainable rural development will be essential for achieving the proposed goals on poverty elimination (Goal 1), food security and sustainable agriculture (Goal 2), people's well-being in rural areas (Goal 3), and sound economic growth at both local and national level (Goal 8). Concurrently, successful rural transformation and inclusive growth for the entire rural population, particularly the most vulnerable, will require investment in the rest of the goals on education, gender, water and sanitation, energy, infrastructure, industrialisation and innovation, inequalities, resiliency, climate change, global partnerships and so on.

The SDGs are also closely linked to addressing the new and remaining challenges for rural areas discussed in Chapter 2, such as demographic pressure, ecological side-effects and climate change, poor governance, gender inequality, along with negative effects imposed by lagging rural areas such as polarised regional development and urban slums. The SDGs indicate the need for a comprehensive rural development strategy to not only reach the goals, but also to improve rural livelihoods and national welfare in a sustainable

manner. To reiterate, the SDGs and rural development are mutually reinforcing and investment in both areas will have mutually beneficial impacts. This is why rural development should be put at the heart of national development strategies in all countries at all development stages to ensure equal, inclusive and sustainable development for all.

Conclusion

This chapter has reviewed the role, contributions and the limitations of the development theories and approaches surrounding rural development over the past 60 years. It has mapped the shift in emphasis from industrialisation, urbanisation and agricultural modernisation to a broader approach embracing sustainable livelihoods and social and governance dimensions. The limited success of the old approaches, and changing international development contexts, call for a new rural development paradigm that takes advantage of the diverse and innovative roles rural areas can play while integrating specific economic, social and ecological concerns. A new paradigm for rural development will be crucial for achieving the new Sustainable Development Goals, which will strongly influence development practices in the 21st century.

The OECD developed a new rural paradigm for developed countries in 2006. This has some lessons to share as we turn our attention to a new paradigm for the rural developing world, and is the subject of the next chapter.

Note

[1] While the IRD approach was abandoned by the World Bank due to problems faced during implementation, its focus on the full spectrum of rural enterprise activities and not just agriculture had an important impact on development theories.

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Chapter 4
Lessons from rural development in OECD countries

Despite the different challenges facing rural areas in developing countries, the experience of rural development in OECD countries has some relevant lessons to impart. This chapter outlines the evolution of rural areas in OECD countries. The transformation of OECD economies over the last few decades has resulted in a declining and ageing rural population and lower share of agriculture in gross domestic product (GDP). While cities are the main source of economic growth in OECD countries, however, a large rural population can coincide with a high GDP per capita. A new paradigm for rural development in OECD countries, in existence since 2006, sees rural areas in a new, more positive light: rather than being treated as lagging regions that need propping up with subsidies, it views them as sources of untapped potential that can contribute to national growth, with the right policies and investment. This requires local-level governance autonomy and capacity, and cohesion and co-ordination across multiple levels of government.

The role of rural regions in OECD countries has evolved as national economies have developed, which in turn has brought significant changes in the policy approaches addressing rural development. During the structural transformation of OECD economies, the roles and economic activities of rural areas have diversified. This diversity has eventually limited the capacity of central and national authorities to design one-size-fits-all strategies for rural development. In turn, an increasing number of OECD countries have recognised the need for bottom-up approaches to rural development that involve more active participation by sub-national governments (OECD, 2011a).

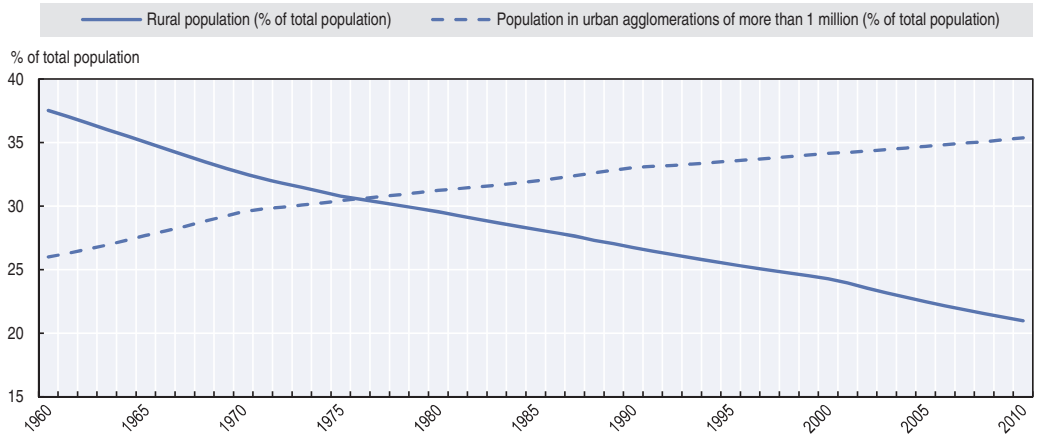
This chapter outlines the evolution of rural development theory and practice across the OECD; introduces the new rural paradigm, including the challenges and opportunities it presents; and summarises some important lessons for the new rural development paradigm required in developing countries.

The context of rural areas has changed

Over the last few decades, cities have become the main source of economic growth in OECD countries. In 2010 metropolitan areas in OECD countries accounted for 48% of the OECD population, 56% of the total gross domestic product (GDP) and 49% of employment (OECD, 2013).

As a consequence of the shift from rural-led to urban-led growth, rural regions today tend to play a relatively small role in national income and society, whereas in the past their role was much larger. Indeed, the transformation of OECD economies over the last few decades has resulted in a decreasing rural population and lower share of agriculture in gross domestic product (GDP). The rural population in the 1960s represented close to 40% of the total population in OECD countries; today it represents a little more than 20% (Figure 4.1).[1] This transition is also reflected in the share of population living in urban areas of more than 1 million inhabitants, which increased across the OECD from 25% to 35% between 1960 and 2010.

Figure 4.1. **Rural populations across the OECD have declined, while large cities have grown**



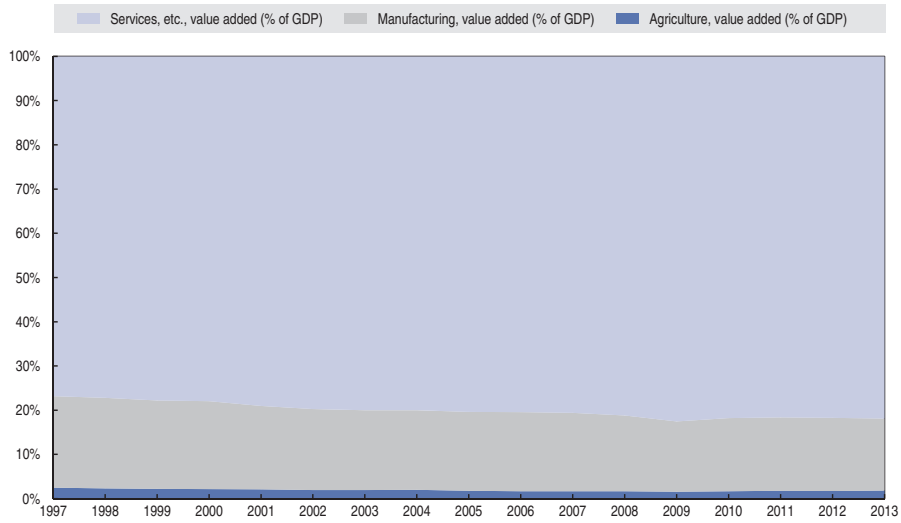
Source: World Bank (2015), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 18 June 2015.

Along with a decreasing rural population, OECD countries have reduced the share of agriculture in their economies, while consistently expanding the share of the service sector. Today agriculture represents less than 2% of the GDP in OECD countries, while the service sector accounts for almost 75%. Manufacturing stayed constant over the last twenty years and currently represents around 15% of the GDP (Figure 4.2).

An interesting feature of OECD countries is that the rural population does not necessarily have lower incomes, however. Some of the OECD countries with the highest average GDP per capita, like Finland, Sweden and Ireland, are also those with the highest shares of rural populations (Figure 4.3). This contravenes the idea that "rural" is synonymous with backwardness.

Figure 4.2. **The dominance of the service sector in OECD countries**

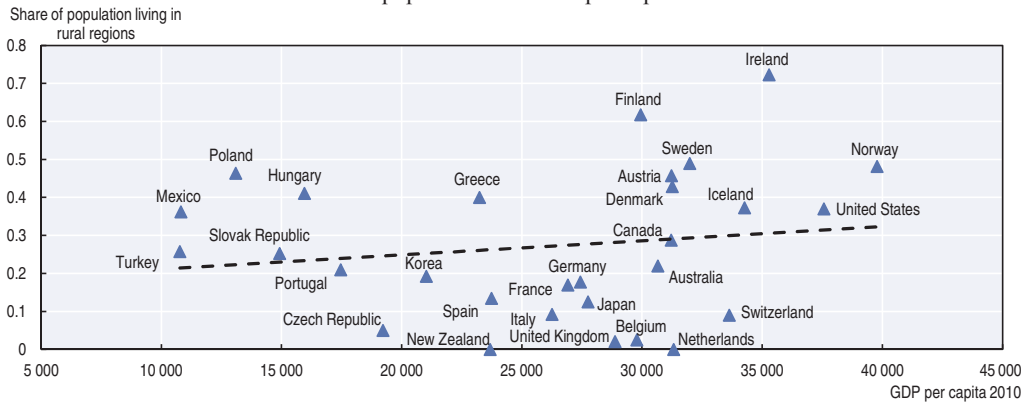
Gross value added (%) by sector



Source: World Bank (2015), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 18 June 2015.

Figure 4.3. **Rural regions can be wealthy**

Share of national rural population and GDP per capita in OECD countries



Source: OECD (2014a), *OECD Rural Policy Reviews: Chile 2014*, http://dx.doi.org/10.1787/9789264222892-en
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Over time, national government policy co-evolved along with the role of rural territories, sometimes in response to the changing role of rural areas and sometimes acting as a driver of these changes. The nature and pace of this evolution was highly differentiated in the various countries of the OECD. The varying national experiences show that rural conditions can be very diverse and that, consequently, rural policy must adjust in response to circumstances.

The structural transformation of OECD economies over the last century triggered an important population flow from rural to urban areas. Prior to the 1950s, in many OECD countries, rural areas accounted for the largest share of the national population and the economies of these regions were dominated by resource-based industries and first-stage processing. Nevertheless, higher wages and the promise of better opportunities in cities drew people from rural to urban regions. At the same time, the adoption of technologies that improved productivity in resource-based industries reduced the demand for rural workers and also caused a decline in the relative price of natural resources, which further fuelled urban growth. As a result, rural output increased in absolute terms, but the relative share of the rural population in the national population and the share of rural output in national output declined steadily.

By the 1960s, many rural economies experienced a steady development process. This was particularly the case for those rural areas that were relatively close to an urban centre (especially if there were good transport links). Rural manufacturing expanded rapidly, mainly due to the relocation of firms from urban areas to rural regions to take advantage of lower labour costs and cheaper locations. These relocating firms mainly used well-understood technologies that required relatively unskilled labour to produce standardised products for national and global markets. Similarly, there was parallel growth in rural service sectors as government services expanded in rural regions and as various private retail services became more common. Despite this relative prosperity, when compared to most urban regions, rural regions were underperforming.

Starting in the 1970s, rural regions in the most industrialised countries of the OECD began to face increasing challenges. More open trade regimes led to a relocation of much of the rural manufacturing base to developing countries where labour costs were lower. Resource-based sectors continued to reduce their demand for labour (also because of increasing surplus production in the agricultural sector), and in some cases shrank because they too faced competition from new sources of supply in developing countries. Moreover, the opportunities for rural workers to migrate to urban regions declined as firms began to demand higher levels of formal qualifications. Rural regions were increasingly perceived as lagging and largely unable to compete in national and international economies. Governments began to view economic development programmes targeted at rural regions as a form of subsidy rather than as a true development initiative. Transfer payments became a larger share of household income, especially among farm households, and income gaps between urban and rural households increased.

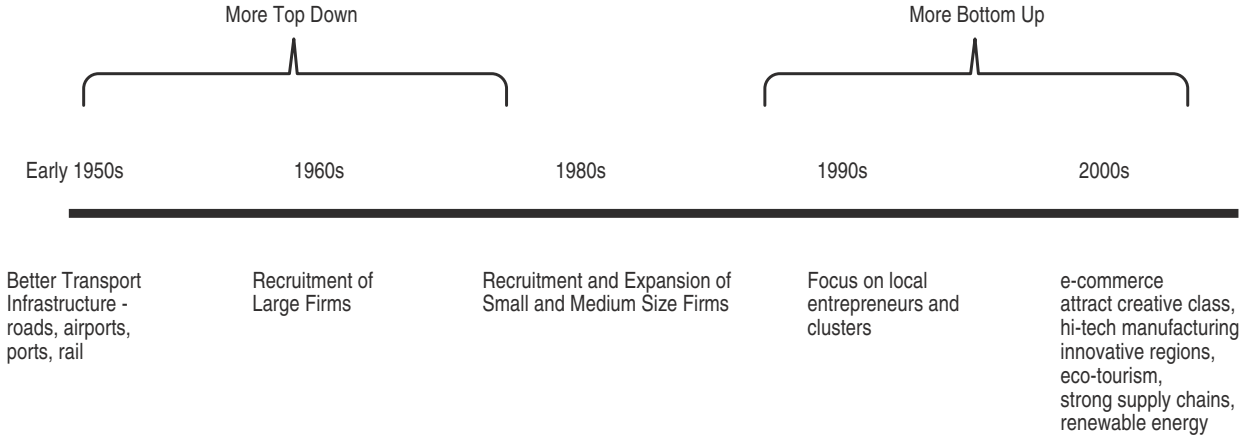
Over the following decades, market liberalisation, the increasing participation of the service sector in national economies and globalisation all posed major challenges for rural areas. Indeed, due to weak human capital and the lack of both agglomeration and scale potential, many rural regions were largely unable to compete with their urban counterparts in their home country. Moreover, some of them also proved unable to compete with developing countries in low-wage, low-skill industrial sectors.

Rural policy in OECD countries is evolving from top-down to bottom-up

Rural policy is a relatively recent phenomenon in OECD countries, dating back to the mid-20th century, once most member countries had reached a fairly advanced stage of economic development (Figure 4.4). Prior to this, national governments did not differentiate between rural and urban regions when formulating policy. In most countries there was a recognition that natural resources were concentrated in the countryside and that it was in the national interest to exploit these resources. In addition most national governments had concerns about food security, especially in periods when conflicts among nations were common, and protected farming in response. More generally, an explicit policy concern with rural regions seems to occur after a country has completed the transition to being a predominantly urban society and economy.

In the 1950s, in most OECD countries, rural development focused on addressing problems related to agriculture. This reflected the dominance of farming in rural territories, the shortage of food in Europe following the Second World War, and the importance of increasing agricultural production while continuing to release labour from farming. In the 1950s and 1960s, some countries initiated a first set of national policies to support rural economic development. Much of this investment strategy was directed towards improving transport infrastructure, modernising farming, completing electrification and providing rural access to basic public services.

Figure 4.4. **The phases of rural development policy in OECD countries**



Source: OECD (2014b), "The Evolution of Rural Policy across OECD Member Countries", unpublished paper.

During the 1960s and 1970s, a considerable number of national governments also established policies that introduced large-scale manufacturing firms into rural regions to jump-start the economy. These top-down initiatives aimed to create growth-poles in rural areas by subsidising the introduction of large manufacturing firms to modernise their economies. Unfortunately, many of the firms depended on high levels of continuing subsidies to survive. While some countries continued to provide these subsidies over lengthy periods, many ceased their support relatively quickly, leading to rapid closure of

the firms. A second, and still common, phase of the effort to introduce manufacturing is by regional governments (instead of national authorities) investing on capital goods and providing financial incentives to private firms to locate in their territory.

By the 1980s a slow shift away from top-down policies had begun in some OECD countries, especially those with a more decentralised government structure. Some rural regions in these countries recognised that small and medium-sized firms were more likely to be successful over the long run, either because of lower input requirements, tacit productive knowledge or simply because of the personal attachment of the owner to the region. Efforts to retain or expand existing local businesses were also introduced with considerable success.

Throughout the 1990s, local governments, particularly in more progressive rural regions, started to recognise the importance of local stakeholders in defining a specific development strategy for their region that would reflect its unique situation and address its distinct problems (OECD, 2006). However, this approach was challenging for those national governments that resisted demands for the greater devolution of resources and decision-making capacity, fearing the resulting loss of oversight and control. Through the 1990s and into the 21st century, as national economies evolved in response to new technologies and greater economic openness, the opportunities in rural regions also multiplied.

Rural policy in OECD countries has often tended to focus on the more remote rural regions where urban influence is limited. These are the quintessential rural regions, where both enhancing development and providing public services are most challenging. Conversely, in rural regions that are close to urban centres the problems of distance, density and critical mass are much smaller, and in some cases non-existent, because of their high degree of integration. In these adjacent regions a more relevant policy problem is managing the pace of urbanisation to limit the adverse effects of too-rapid conversion of rural territory to urban uses.

As the rural situation has become more complex, national governments have been less able to define rural development policies that are generally applicable. Increasingly national governments have recognised the need for a micro-regional, bottom-up approach, in which national government provides support for local strategies. While national governments continue to set the boundaries for acceptable strategies and conditions within which they will provide support, there is now a greater acceptance in many OECD countries that the principles of decentralisation apply to rural development policy. Even so, although the merits of bottom-up approaches are now generally recognised, there are limits to decentralisation. Its success depends on the opportunities and capacity of each rural territory.

Seeing rural areas in a fresh light: A new rural paradigm for the OECD

The New Rural Paradigm (NRP) is an analytical framework for rural development created by the OECD (Table 4.1). Published in 2006, it drew on evidence from OECD countries and policy dialogue with national and sub-national authorities to outline a positive policy for rural areas. It was positive in two senses:

- it asserted that rural areas could be independently prosperous and that they were not necessarily destined to fall behind economically, or depend on an adjacent urban region for prosperity.
- it recommended proactive rural policy based on strategic investments.

The main philosophy of the NRP is set out and contrasted with the "old rural paradigm" in Table 4.1. While the description of the old rural paradigm is a caricature of traditional rural policy approaches, it captures the core of rural policy trends in many OECD member countries that are still present today. In particular, the NRP suggested moving away from compensatory policies such as subsidies, towards a more strategic approach that takes into account local assets and relies on investment for improving the competitiveness of rural areas. For example, agricultural subsidies are often given to a small segment of the rural population, do not necessarily target rural development, and have uneven impacts across rural territory. In contrast, bottom-up investment-oriented approaches can enhance the competitiveness of rural areas in the global economy (OECD, 2006). This new approach implies the need for co-ordination mechanisms across various economic sectors and levels of government, while considering key stakeholders in rural areas.

Table 4.1. **The OECD's New Rural Paradigm**

	Old paradigm	New paradigm
Objectives	Equalisation, farm income, farm competitiveness	Competitiveness of rural areas, valorisation of local assets, exploitation of unused resources
Key target sector	Agriculture	Various sectors of rural economies (e.g. rural tourism, manufacturing, ICT industry, etc.)
Main tools	Subsidies	Investments
Key actors	National governments, farmers	All levels of government (supranational, national, regional and local), various local stakeholders (public, private, NGOs)

Source: OECD (2006), *The New Rural Paradigm: Policies and Governance*.

The NRP provided a theoretical framework for empirical country-level reviews that assess factors of regional growth and highlight the contribution of rural regions to national growth. Between 2006 and 2014, the OECD Rural Programme conducted national-level reviews of rural policy in Germany, Mexico, Scotland, Finland, the Netherlands, Spain, Italy, China, Quebec, England and Chile (OECD, 2007a, 2007b, 2014a, 2008a, 2008b, 2008c, 2009a, 2009b, 2009c, 2010a, 2011b). Each review was commissioned by the national government, and was conducted using the NRP as the metric for comparing current rural policy with an ideal-type approach.

Rural concerns in OECD countries differ from those in developing countries

Table 4.2 provides a synopsis of the key domains for rural policy identified in the OECD rural reviews. Overall, these reviews have shown that general regional policy often has different impacts in rural and urban areas, and that in many countries rural policy is still dominated by agricultural policy.

In all countries reviewed, other than Mexico and Chile, the ageing of the rural population is a major concern. Even in those countries where the rural population is increasing, as for example England, Italy and the Netherlands, it is still ageing. This has important implications for future workforce numbers, the demand for public services and community viability (Brown, 2009). In Finland and Quebec, these declines are important enough that the abandonment of national territory is becoming a real fear. In Germany, rural areas of the eastern *Länder* (states) are experiencing a similar pattern of rapid decline, although depopulation is not a major issue. In other countries, concerns over farm abandonment can be significant, largely driven by a concern with agro-environmental impacts due to ecosystem changes. In contrast, countries like England, Scotland and the Netherlands are experiencing the opposite situation – facing significant shortages in rural housing. England and the Netherlands are both small, densely populated places where there is a premium on maintaining the rural landscape. In addition, they are both wealthy countries with a population that wishes to have a rural residence. The combination of restrictions on new rural housing and urban outmigration to rural areas creates upward pressure on housing prices and supply shortages. The situation in Scotland is more complicated. It also has a restrictive planning system but rural space is not scarce. Rather, the majority of rural Scotland is held in ancestral estates and very little of this land is available for housing.

Table 4.2. **Key domains for rural policy**

Issues	Chile	England	Finland	Germany	Italy	Mexico	Netherlands	Quebec	Scotland	Spain
Service delivery	X	X	X	X	X	X	X	X	X	X
Ageing		X	X	X	X		X	X	X	X
Agri-environment		X		X			X		X	
Population decline			X	X				X		
Housing		X					X		X	
Poverty	X					X				X
Tourism	X	X	X	X	X	X	X	X	X	X
Renewable energy	X	X	X	X	X	X	X	X	X	X
Peri-urban included		X					X			
Broad economic growth focus			X							

Source: OECD (2014b), "The Evolution of Rural Policy across OECD Member Countries", unpublished paper.

Poverty alleviation is a concern for rural policy in Mexico, Chile and Spain. In some of these countries, poverty reduction programmes have rural areas as their main intervention targets, but they are not explicitly recognised as rural policies. In other countries, while there is some rural poverty, the general socio-economic condition of the rural population is at the same level as the urban population, or in some cases better. In all countries there is a growing concern with the availability and mix of public and private services. In particular, an ageing rural population increases the demand for medical care and assisted living, while a shrinking work force makes it more difficult to supply these services. Moreover, rural services are more expensive to provide (OECD, 2010b), compounded by budget shortfalls in all OECD countries.

Countries that are wealthier and that have larger populations tend to focus on agro-environmental measures in their rural policy. This may suggest that concern for the rural environment increases with income and population density. In many cases the focus is on maintaining the traditional rural landscape to bolster rural tourism and a high quality rural environment for second homes and retirement homes. As might be expected, in England and the Netherlands the concern with preserving an environmentally sound agricultural landscape is a critical part of rural policy.

Surprisingly, despite a widespread belief in OECD countries that rural areas typically lag behind urban areas in terms of economic performance, current rural policy pays little attention to increasing economic competitiveness. The main exception to this remains agriculture, as all countries maintain support for agricultural investments and modernisation. Other than agriculture, the two main sectors targeted for investment in rural areas are renewable energy and tourism. All the countries reviewed see these two industries as the main drivers of the rural economy in the future. However, there are few concrete ideas in any of the countries of how precisely to increase the role of renewables and tourism in their rural economies, or of the specific opportunities and constraints in these two industries.

While all countries have embraced parts of the New Rural Paradigm, no country can be said to have completely adopted all these ideas. In general all countries see that rural policy has moved beyond farming and now see a broader set of issues and activities as being central to rural development. In addition, most countries have adopted aspects of multi-level governance in their rural policy. Those countries where there are constitutionally distinct levels of government, each with autonomous powers, are more naturally compelled to follow this approach, but some unitary states have also strong traditions of tiers of government. Within this context all countries see the benefits of better co-ordination across national government departments or ministries, but struggle with finding effective ways to achieve this. Germany, Italy, Mexico and Spain have all introduced new administrative structures to improve co-ordination.

While there are multiple levels of government involvement in all the countries reviewed, it is clear that the idea of a bottom-up approach is not something that comes easily to national governments. Most national governments continue to play the dominant role in rural development. Local governments may be allowed to choose among a set of policy options, but their decision-making power is limited to these alternatives. Moreover, in many countries, funding for local governments is constrained to specific purposes and

their ability to raise additional revenue is limited, especially in the current crisis. For the European Union (EU) countries, one source of more flexible funding is the EU regional and rural development support. While it has its own limitations, it is not subject to national policy priorities.

A key aspect of the NRP is the recognition that rural areas can be competitive in national and international economies. Yet, rural policy does not currently appear to focus on enhancing economic competitiveness, and there has been limited progress in shifting from an emphasis on subsidies to investment and policies. Indeed, OECD countries still heavily subsidise agriculture, which discriminates against agricultural exports and hence rural development in developing countries. In 2014, the transfers to support agriculture across OECD countries represented USD 258 billion, equivalent to 17.3% of the total value of farm production (at farm gate prices and including budgetary support) (OECD, 2015a). Moreover, support based on commodity output (interventions that create a market price differential between domestic and border prices as well as direct payments to producers), one of the most potentially production and trade distorting forms of support, still accounts for nearly 50% of the Producer Support Estimate (PSE)[2] (OECD, 2015b).

The persistence of subsidies reflects the importance of improving basic infrastructure and public services to meet minimum national standards and the limited role that investment-oriented decisions now play. There are important social cohesion benefits from improving public service delivery in rural regions. Nations either explicitly or implicitly establish minimum sets of public services that should be available to all citizens as part of their basic rights. While it is typically more expensive to deliver these services in rural regions, because of the problems inherent in low density, long distances and lack of critical mass, there is still a responsibility to provide some minimal set of services, although perhaps in a different manner. This problem is particularly acute in the most remote and least densely populated regions where development is the least advanced. However, without a stronger interest in strengthening rural economies, the well-being of rural areas will continue to rely on transfers of income and wealth from urban centres.

There are several challenges and opportunities for rural development in OECD countries

The diversity of rural areas imposes challenges for the formulation of robust policy frameworks. From a national perspective, the differences between “urban” and “rural” are no longer that great in terms of employment and economic structure. However, this average situation masks a high degree of variability among the rural regions in a country. The combination of spatial differences and economic diversity creates a major challenge for national governments in framing an effective rural development policy. This problem is exacerbated by considerable differences in economic performance among rural regions.

Considerable differences in local capacity also challenge the ability of national policies to lead development efforts. The idea of the New Rural Paradigm is that local stakeholders should identify a specific development strategy that they then embrace and implement with support from national and other levels of government. However, in many rural regions capacity is too limited to carry out this task. In this situation, a necessary first step is to

create greater cohesion and to improve leadership capabilities. Without this, bottom-up development cannot succeed.

For national policy to be effective it has to recognise the diversity of rural regions, in terms of territory and people. For example, some people live within metropolitan regions, or within rural regions that are adjacent to metropolitan regions but not part of them, or in remote rural regions. This diversity of course encompasses diversity in specialisation and economic opportunity. But it also covers economic conditions, such as lagging or weak rural regions that have low performance and which may need significant help in identifying and achieving a viable development strategy.

Perhaps the most important challenge is the need to recognise the continual evolution of rural regions and their changing role in national economies. While rural regions are often seen as static, this is not the case. Policy needs to evolve alongside the evolution of rural economies. Similarly, rural policy recommendations by the OECD will continue to evolve as the organisation conducts additional research into rural conditions and evaluates the success of various national policies.

Conclusion: What are the lessons from rural development policies in OECD countries?

Rural development in OECD countries has occurred in a different context to that of developing countries today. OECD countries do not have to deal with a demographic boom, unlike many developing countries; instead their challenge is how to deal with a shrinking and ageing rural population. A large share of labour force coming from rural areas in OECD countries was absorbed by manufacturing and services in urban areas. OECD countries are less challenged by immediate environmental sustainability and climate change. Moreover, explicit rural policies were only formed once OECD countries completed the transition to a predominantly urban and service-based economy, and were supported by stronger institutional capacity than generally exists in developing countries.

Nonetheless, there are a number of valuable lessons to be drawn from the OECD experience:

- National economic growth objectives can be best achieved through enabling all regions to realise their potential. The fact that rural regions are lagging behind might represent an incentive to encourage outflows of labour to be directed to the much faster-growing urban areas. However, there may be other considerations for investing in lagging regions. For instance, improving public services delivery can improve both welfare and social cohesion, which in turn can contribute to better outcomes in terms of education, health, and income across the population of lagging regions.
- Rural policy that increases rural employment opportunities through investment-based mechanisms rather than subsidies can be a valuable way of reducing spatial inequality. Migration of low-income households from rural to urban regions may lower the rural rate of poverty, but it will increase the urban rate and may leave these people worse off since their skills are less likely to be relevant in an urban setting.

- Rural areas are not homogenous; their roles and economic activities have diversified along with national economic development. Making the most of this diversity requires shifting away from a top-down approach to a multi-level governance approach, which requires co-ordination mechanisms across different sectors and levels of government.
- Local governments and stakeholders have an important role in defining rural development policy. This ensures that policies account for the unique situation and distinct problems of specific rural areas, while making a better use of local assets. However, limited capacity at the local level is often a key constraint for bottom-up rural development, prompting the need for greater cohesion and improvements in local leadership capabilities.

These key lessons are still valid today, and should be considered in the design and implementation of rural development strategies in developing countries.

Notes

[1] However, it is important to note that the share of rural population varies across OECD countries. Northern countries like Finland and Sweden have almost half of their population living in rural areas, while in countries like the Netherlands and Belgium, the share of the rural population is less than 5%.

[2] Transfers measured through the Producer Support Estimate (PSE). The PSE is an indicator of the annual monetary value of gross transfers from consumers and taxpayers to support agricultural producers, measured at farm gate level, arising from policy measures, regardless of their nature, objectives or impacts on farm production or income. Source: Glossary of Statistical Terms of the OECD.

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Chapter 5
The rural development experience of the Republic of Korea

The Republic of Korea's rapid rise from a mainly agricultural nation and food-aid recipient to one of the fastest-growing OECD economies is inspirational. This chapter explores the factors behind this transition, focusing in on the role of rural development policy from the 1950s onwards. Of particular interest is the national programme for rural development known as Saemaul Undong*, or new village movement, which used incentives and competition to encourage villagers to improve their communities. Korea's fast and successful industrialisation process involved large-scale migration from rural to urban areas, as well as an increasing rural-urban income gap.* Saemaul Undong *acted as a buffer during this transformation, redistributing wealth through subsidies for agriculture, increasing agricultural productivity, and providing infrastructure in rural areas. While Korea's set up is unique, there are specific components of its rural development approach that could offer inspiration to policy makers in developing countries. These include: (1) early establishment of the preconditions required for rural development and rapid industrialisation (low socio-economic disparities, strong human and social capital and effective rural institutions); (2) multi-sectoral approaches and effective governance; and (3) sequential policy implementation enhanced through incentives and monitoring.*

The Republic of Korea (from now on referred to as Korea) has achieved one of the most successful economic transformations of the last century. In the early 1950s, Korea was an agrarian society recovering from the Korean War. The conflict had not only resulted in a large number of casualties, but it had also severely affected major infrastructure and the overall productive capacity of the economy, leaving an important share of the population in chronic poverty. During this time, industry was meagre and agriculture accounted for an important share of the economy as well as for most of the employed population. Nonetheless, today Korea is a dynamic service-based economy, with a highly educated population and high living standards. This chapter traces the path Korea has taken to achieve this dramatic recovery, and draws out some key lessons for rural development in other regions.

Korea's national development path paved the way for rural development

Rural areas are not only influenced by actions and events taking place at the local level, but also by policies, regulations and the overall economic performance of national and international actors. The interconnections among rural areas and with their urban counterparts are manifold – and include labour, trade and information flows. Thus changes taking place in urban areas and at the national and international level may influence both the livelihoods and economies of rural regions. Rural development policies need to be analysed within the national development context in which they evolved.

The structural transformation of the Korean economy in the early 1960s was triggered by a government-led industrialisation process that focused on the development of an export sector. The role of the government was key in redirecting resources into sectors that could provide long-term benefits for the country as a whole, rather than towards short-term profits. This implied strategic planning for addressing development challenges, making the most of existing assets, and a drastic reform of government institutions as well as of the dynamics between the state and the private sector.

Institutional reform laid the foundations for development

Reforming institutions, along with the leading role of the state, were key for laying the foundations for Korea's long-term economic development. Although previous Korean governments had defined plans and implemented policy actions targeting development, before the 1960s Korea did not manage to achieve sustained economic growth. Korea's government-led development process relied on a structural change of both government institutions and the dynamics towards the private sector. Korea's institutions were reformed at the beginning of 1960s in order to reduce poverty and achieve economic development by developing an industrial-based economy capable of competing in international markets. To this end, and only a few months into its administration, the new government created the Economic Planning Board (EPB). The EPB was put in charge of planning and co-ordinating the various ministries. The EPB worked especially closely with the Ministry of Finance and the Ministry of Trade and Industry; together, these three bodies led the subsequent stages of Korea's development process. In addition to planning and implementing economic development strategies, the EPB also controlled both domestic and foreign capital. This was possible thanks to the nationalisation of banks that took place at the beginning of Park Chung Hee's government, and to the strict controls on foreign direct investment established by authorities.

Korea's economic development relied on a shift in the relationship between the state and the private sector away from one based on personal interests to the shared pursuit of economic development. This meant that the Korean government had to engage in a different type of interaction with the private sector, and in particular with the *chaebol.*[1] During the 1960s and 1970s, the government maintained its dominant role in setting direction and pace for the *chaebol*. With time the Korean economy evolved and the *chaebol* became bigger and better connected to international actors and institutions. These changes further affected the partnership between the Korean government and the *chaebol*, slowly shifting the role of the state from direct intervention to creating an enabling and adequate environment for economic development.

The combination of a series of economic development plans with the consolidation of the institutions capable of effectively implementing these plans has been key for Korea's success. Indeed, compared to previous regimes and other countries, the institutional change that took place during Park Chung Hee's government, and in particular the creation of the EPB, created an effective vehicle to implement the economic development plans (E. M. Kim, 1997); in practice, this was possible due to the control of the state over the economy, in particular with regard to foreign and domestic capital.

Strategic planning targeted economic transformation

Economic development goals were achieved through a series of five-year economic development plans led by the EPB and implemented from the 1960s to the 1990s (see Table 5.1 below). These plans began the transformation of Korea's economy by actively promoting export-oriented industrialisation. By the end of the 1990s, once Korea's structural transformation was complete, strategic planning focused on developing an economy founded on knowledge and innovation and characterised by inclusiveness and sustainability. The plans were major policy instruments that set the blueprint for national growth. Based on both domestic and international circumstances, the government would identify key objectives, define conducive policies, and allocate human and financial resources accordingly.

The first series of plans focused on creating an export-led industry:

- The first plan (1962-1967) was mainly focused on promoting labour-intensive light industry and increasing exports. Through this plan the government further sought to increase foreign capital inflow and government savings, which would be re-invested to promote industrialisation.
- The second plan (1967-1972) aimed to establish the basis for the development of heavy and chemical industries (HCIs). During this period, the government increased its investment in research and development (R&D), and built hard infrastructure in order to strengthen domestic manufacturing capabilities.
- HCIs officially emerged as the top priority in the third plan (1972-1976). HCIs were deemed important for strengthening the national defence capacity, particularly against North Korea, improving industrial structure, and as a new source of growth for sustaining a safe lead over other newly industrialised countries. Export of HCIs was heavily emphasised and large-scale industrial

complexes were built to ensure economies of scale. In parallel, the government also invested in fostering appropriate human and technological resources to drive HCIs forward. Long-term credit at low interest rate and tax incentives were provided to *chaebols* engaged in the key sectors.

- HCIs remained at the core of the fourth plan (1977-1981). This plan aimed to restructure and strengthen HCIs and lay the foundations for investment in endogenous scientific and technological capabilities (OECD, 2012). However, the HCI-oriented policies also had the downsides of strong government market intervention that led to economic power being concentrated in the *chaebols*, uneven distribution of wealth, chronic inflation due to excessive monetary expansion, and inefficiency and distortions in the financial sector (Suh, 2007; SaKong and Koh, 2010).
- The 1980s ushered in an era of economic stability and the enhancement of autonomy and competition among private enterprises. It was a transitional period for Korea in the sense that the values of democratisation, liberalisation and stabilisation were prioritised. The fifth plan (1982-1986) strived to stabilise the economy by curbing inflation, while promoting market liberalisation and economic deregulation.
- The sixth plan (1987-1991) went one step further by introducing regulatory and deregulatory reforms, while continuing to open up the economy. Manufactured imports were almost completely liberalised during this period. In order to increase the international competitiveness and self-reliance of domestic companies, the government supported R&D, invested in technological innovation, expanded the higher education system and also promoted technology-intensive industries (OECD, 2012). The country shifted focus from HCIs to more technology-intensive industries.
- The main objective of the seventh plan (1992-1996), also known as the Five-Year New Economy Plan, was to revitalise the economy. The new government took a more democratic stance, devising the plan in co-operation with the private sector and including social dimensions for economic development. High-value technology innovation was still prioritised and was supported by technological development and information infrastructure. This was the last five-year plan, as the outbreak of the Asian Financial Crisis in 1997 forced the government to take immediate action to tackle the economic downturn.

In response to the Asian Financial Crisis in 1997, the government led a series of reforms in the corporate and financial sector. The public-private risk partnership disappeared, and firms that could not repay their debts were restructured. To facilitate a fast restructuring, the government swapped business lines between *chaebols* and also implemented programmes through which a firm and its creditors negotiated with more flexibility outside of court. The government also restructured financial institutions to normalise the financial system in a timely manner and introduced a consolidated regulatory agency to oversee banking, securities and insurance industries to rebuild the financial safety net. In addition, principles such as corporate transparency and accountability were strengthened to prevent

future crises. Moreover, the government carried out reforms in the labour market – such as legalising layoffs for managerial reasons and reducing restrictions on temporary workers – while strengthening welfare policies, including the provision of benefits to households below the poverty line to guarantee minimum living standards (Sakong and Koh, 2010).

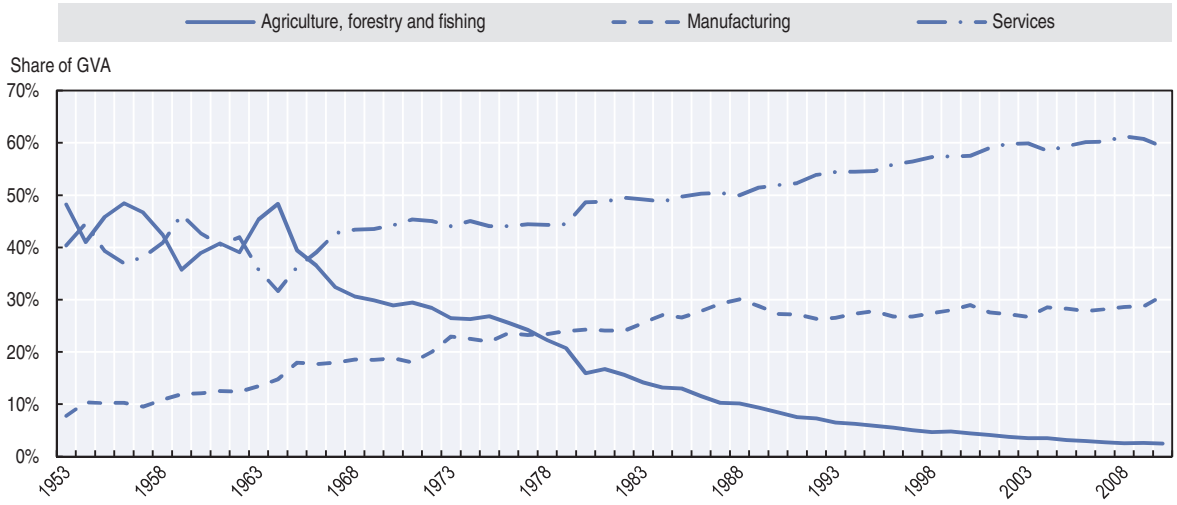
Since 2000, Korea's development strategy has focused on finding new sources of growth and paying more attention to local and regional innovation systems. Under the Knowledge-based Economy Development Plan, the main role of the government has been to foster an adequate environment for innovative and new technology-centred industries, assist in reforms and expand welfare spending. In 2008, the government proclaimed green growth as the new vision for national development. This national strategy is founded on dealing with climate change and achieving energy independence, creating new engines of growth and improving overall quality of life through better environmental conditions.

Korea's economic trends reflect its development strategies

The government-led industrialisation process is reflected in the changing share of nominal gross value added (GVA) across sectors (Figure 5.1). During the 1950s, agriculture accounted for the biggest share of Korea's economy; by the late 1970s its contribution was less than manufacturing and services; by 2010 it only represented 2% of total GVA. Although the share of GVA in the service sector was higher than the share of GVA in agriculture at the end of the 1960s, agriculture still accounted for more than 50% of all jobs (Korean Statistical Information Services, KOSIS). The agricultural sector accounted for the biggest share of employment in the economy until the late 1970s.

Figure 5.1. **The declining share of agriculture in Korea's national economy, 1953-2010**

% of gross value added by economic activity

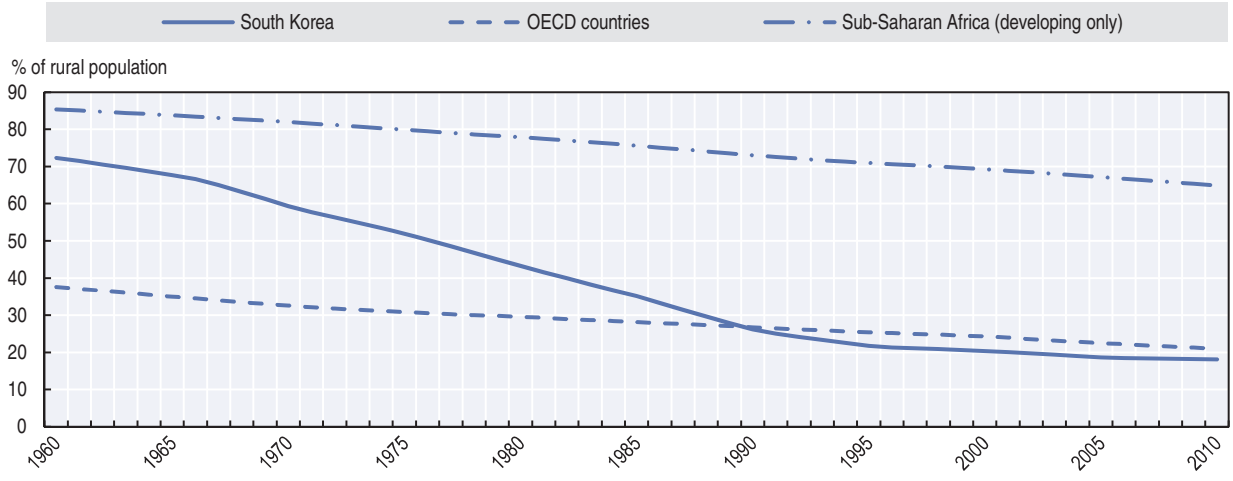


Source: Bank of Korea (2015), *ECOS Economic Statistics System* (database), http://ecos.bok.or.kr/EIndex_en.jsp, accessed 3 March 2015.

Along with the changes in economic activities, the rates of savings and gross capital formation increased during the 1970s and 1980s,[2] reaching levels close to 40% by 1990. These trends reflected the changes in Korea's development strategies. The increase in gross capital investment during the 1970s was the result of the government push for industrialisation, and in particular the policies promoting the HCIs (Suh and Chen, 2007). The change to Korea's development strategy during the 1980s, implying a less active role for the state, may explain the trend of gross capital investment that eventually led to an overall decrease after 1990. Moreover, the policy actions embedded in the first series of five-year plans are reflected in the ratio of exports of goods and services to GDP, which rose from 3% in 1960, to 25% in the late 1970s, and to almost 50% by 2010 (World Bank, 2015). In addition to increasing exports, and due to the changing industrialisation strategy that shifted the promotion of light industries to HCI, Korea managed to move from exporting manufactured articles to machinery and equipment. In the late 1970s, more than 60% of Korean exports were manufactured goods, while machinery and transport represented less than 20% of all exports. However, by the mid-1990s machinery and transport equipment had taken over manufactured goods, and by the end of the decade they represented more than 50% of all exports (Bank of Korea, 2015).

Figure 5.2. **The rapid decline in Korea's rural population, 1960-2010**

Share of rural population



Source: World Bank (2015), *World Development Indicators* (database), http://data.Worldbank.org/data-catalog/world-development-indicators, accessed 5 June 2015.

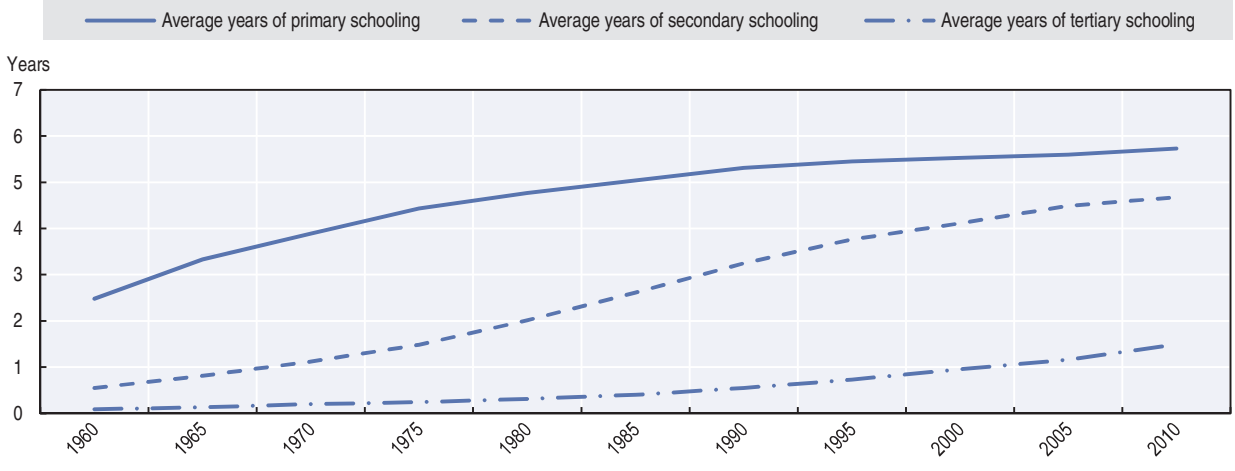
Important demographic changes took place in parallel to Korea's structural transformation. During the last 50 years, the share of the population living in rural areas has continuously decreased, from 72% in 1960 to 17% in 2010 (Figure 5.2). The overall reduction of Korea's rural population is particularly remarkable when considering that the rural share of the population has gone from a level similar to some African countries in 1960, to one lower than those of OECD economies in 2010. The rapid decrease in Korea's rural population is the result of an important migration flow from rural to urban areas. Between 1965 and 1970, 40% of migration was rural-urban. After this period, rural-urban

migration slowed, while urban-urban migration became the most important flow in the country, reaching 65% of all migration between 1985 and 1990. Migration out of rural areas was driven by the wider range of economic opportunities available in urban centres following the industrialisation process (Sooyoung Park, 2009; Reed, 2010), as well as by better urban amenities and educational prospects (Yoo, 1991). The transition of a rural to an urban society was accompanied by a sharp decrease in fertility rates, from an average of more than 6 births per woman in 1960 to less than 2 in 2010. A decrease in mortality rates, along with improvements in the health system, also saw life expectancy increase. Between 1960 and 2010, life expectancy at birth increased from 53 years to almost 76 years (World Bank, 2015).

Educational outcomes kept pace with economic development. Korea's development strategy effectively co-ordinated the goals of the series of five-year plans with the corresponding educational requirements for the labour force to achieve these goals. This implied focusing on extending primary education during the development of light manufacturing industry, and investing more heavily in secondary education and technical training to achieve the skills required for the development of HCIs, and eventually shifting to higher education when Korea's development strategy focused on knowledge-intensive industries. This well-timed process ensured a labour force endowed with the required capacities at each stage, easing the transfer of capabilities already exploited in existing industries to new ones with higher value added. Since the 1960s, average years of schooling have increased at all levels of education. The biggest improvement has been achieved in the average years of schooling in secondary education (from 0.55 in 1960 to 4.68 in 2010), followed by tertiary education (Figure 5.3).

Figure 5.3. **Koreans are receiving more years of schooling, 1960-2010**

Average years of schooling by level of education in Korea, people aged 25+



Source: Barro and Lee (2014), *Barro-Lee Educational Attainment Database*, www.barrolee.com/, accessed 6 May 2015.

Rural development policies evolved in tandem with national development

The evolution of rural development policy has been strongly linked to Korea's overall economic process. The country's rural development policies were set in a very particular context, characterised by a fast and successful industrialisation process, high rural-urban migration, a sharp decrease in fertility rates and a steady process of human capital accumulation. Moreover, rural development policies interacted with a wide range of other policy actions at the time (Table 5.1). As we discuss in the following sections, during the early stages of development, rural policies aimed to address rural-urban disparities, acting as a buffer during the structural transformation of the economy. As the economy and society evolved, the goals of rural policies also evolved until eventually reaching objectives similar to those of OECD economies. An important point to consider is that the transformation of rural areas in Korea could not have occurred without the overall successful development of the national economy.

Land reform, food aid and debt relief characterised early rural development policy

Until the 1960s, Korea was a predominantly agrarian society. During Japan's colonial rule (1910-1945) rice production was promoted in the south of the Korean peninsula, while industrial activities were developed in the north. The northern part of the peninsula was rich in mineral resources, making it suited to the development of industry, such as chemical-fertiliser plants, steel mills, and hydroelectric power stations. In contrast, irrigation facilities, agricultural experimental stations and schools were built in the south, helping agriculture to become the main economic activity in Korea until the late 1960s. Since most of the rice consumed nationally was produced domestically, and the share of imported rice remained very small, the main role of rural areas was the provision of food supplies.[3] Low productivity in agriculture, the lack of non-farm employment opportunities, along with the destruction of basic infrastructure following the Korean War (1950-1953) exacerbated poverty and limited economic development in rural areas during the 1950s and 1960s.

Although policies promoting rural development before the 1970s were fragmented and lacked a comprehensive strategy, some did lay the foundations for the effective implementation of rural policies in the decades which followed. This was particularly true for land reform (discussed below), which helped to reduce socio-economic disparities and promoted local cohesion, the implementation of the dual-price rice (grain) policy which had important redistributive effects, as well as the creation of rural institutions that promoted the adoption of the green revolution and improved access to inputs and financial services. The following paragraphs discuss these policies, as well as other actions that directly targeted the rural economy or rural livelihoods prior to the 1970s.

Table 5.1. **A summary of Korea's main development strategies, 1960 to 2013**

		1960s	1970s	1980s	1990-1997	1998-2003	2003-2008	2008-2013
Development vision		Industrial competitiveness (government-led). Preparation of the legal and institutional bases to support industrialisation. Government intervention in the markets and expansion of policy loans		Economic stabilisation (government-led) and enhancement of private autonomy and competition	Industrial competitiveness and liberalisation	Globalisation	Balanced growth	Green growth
National multi-annual planning		Five-Year Economic Development Plans				Knowledge-Based Economy Development Plan	Five Year Plan for Balanced National Development (2004-08)	Five Year Plan for Green Growth (2009-13)
Target		First (1962-66) and Second (1967-72) Plans Creation of domestic capabilities: light industry. Creation of a production base for export-oriented industrialisation	Third (1972-76) and Fourth (1977-81) Plans Creation of domestic capabilities: heavy and chemical industry	Fifth (1982-86) and Sixth (1987-91) Plans Creation of self-reliant domestic technological capabilities and global exports, promoting technology-intensive industries development	Seventh Plan (1992-96) Consolidation of technological leadership and promotion of technology innovation	Re-launching of the economy productivity growth and starting the transition to knowledge-based economy	Diffusion of industrial and technological capabilities and continuation of the knowledge-based economy	Green growth as the new growth engine
Structure of the economy*		Agriculture: 39% Industry:18.4% Services: 42%	Agriculture: 28.9% Industry:44.3% Services:26.9%	Agriculture: 15.9% Industry: 35.4% Services: 48.7%	Agriculture: 8.4% Industry: 39.6% Services: 51.9%	Agriculture: 4.7% Industry: 38% Services:57.3%	Agriculture: 3.5% Industry: 36.6% Services: 59.9%	Agriculture: 2.5% Industry: 36.3% Services: 61.2%
Policy Leverage	Industry	Support to targeted light industry. Imports restrictions conditioned to export-orientation. Infrastructure building.	Building of industrial complexes in heavy and chemical industries. Imports restrictions conditioned to export-orientation.	Focus on high-tech sectors. Gradual trade and financial liberalisation. Decrease of export subsidies and expansion of import liberalisation as well.	Gradual trade and capital liberalisation. Regulatory reforms in the financial, corporate, private sector and labour markets. Stronger welfare policies. Building of information infrastructure	Support to venture business and to industrial R&D in high tech sectors.	Private-sector development and support to SMEs (Techno Parks). Government start being market supporter. Continue promoting venture businesses and SMEs.	Regional Industrial Promotion Programmes Support to green clusters/green cities.
	Human Capital	Building scientific institutions: legal and administrative framework. Promotion of literacy (primary and secondary education)	Technical and vocational training improvement. Enhancement of overall teaching quality and rise in the number of college graduates in engineering and science majors	Expansion of higher education system (Masters and PhDs) and development of semi-skilled human resources. At the same time, promote high-skilled human resources in strategic fields, such as IT, biotechnology, etc		Development of life-long learning systems	Increasing research productivity and the quality of university education. Continuous support to higher education	Focus on quality of the education system
	Rural Development	Local community development movements. Government providing funding and technology for the realisation of projects designed at local level	Launch of the *Saemaul Undong* to modernise rural areas and increase rural income. Green revolution to achieve food self-sufficiency and better agricultural productivity	Rural development led by the Central Government, with the goal of improving living conditions in rural regions. Reorganisation of rural infrastructure and creation of farm and non-farm activities to increase rural income. Creation of rural industrial complexes and movement of factories to rural areas to provide new jobs and additional non-farm income to rural residents.			Expansion of rural development policies. Enhancement of the public functions of agriculture and rural areas and preservation of the amenity functions of rural regions, protection the natural environment and emphasis of the role of agriculture in preserving national land. Village-level tourism development projects and resettlement of urban residents in rural areas	

Note: * Data refers to the share of gross value added by sector of the economy for the first year of the period considered.

Sources: Adapted from OECD (2012), *Industrial Policy and Territorial Development: Lessons from Korea*, Development Centre Studies, http://dx.doi.org/10.1787/9789264173897-en; Bank of Korea (2015), *ECOS Economic Statistics System*, database, http://ecos.bok.or.kr/EIndex_en.jsp.

The Korean land reform

Land reform played a key role in creating a favourable environment for future rural development policies. During the colonial period Japan introduced a strong landlord system that endowed only a few people with ownership rights. By 1939, only 19% of farm households were landowners, while 56% were pure tenants. The remaining 25% were both landowners and tenants at the same time (Salem, 1981). Moreover, the limited employment opportunities in non-agricultural sectors in the south further contributed to an increase in tenant farmers and the landless population. To move away from this tenant-based system towards individual land ownership, in 1949 the Korean government implemented a major land reform that transformed rural areas. This land reform law put a ceiling on ownership at 3 hectares per household, prohibiting tenant farming, free trade, gifts and rental of the distributed land. The government compensated the landlords with cash equivalent to 150% of rice production on the land that was to be redistributed (J.-H. Park, 1998).

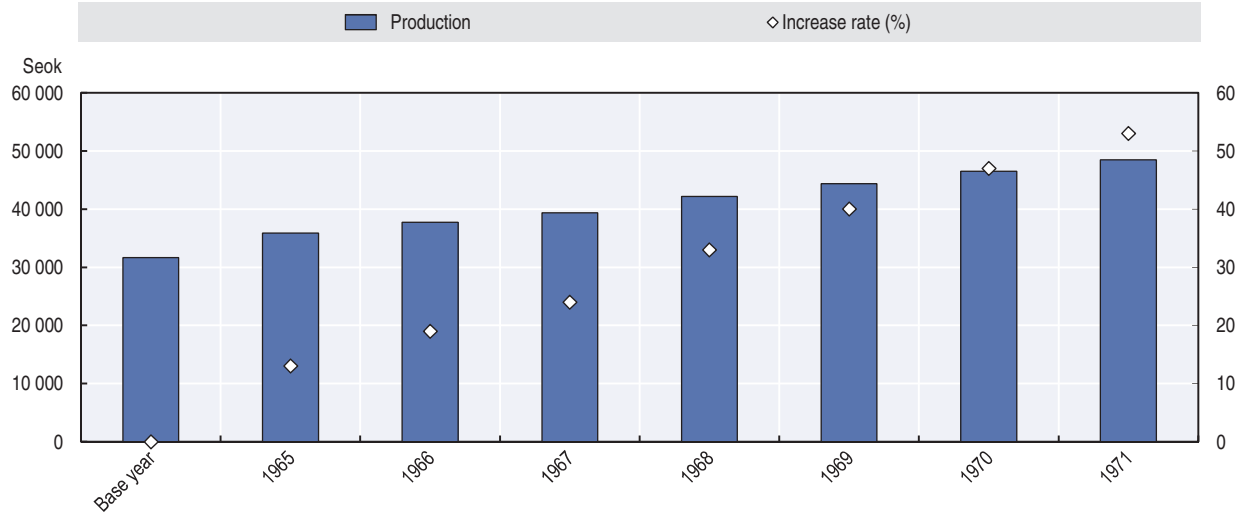
The land reform in Korea dissolved large landlord holdings and brought important changes to rural areas. In the first place, the power structure changed. Since most households acquired a similar amount of land, there was homogeneity in terms of economic status among farmers. In the second place, income increased. While the revenue of former landlords drastically decreased, that of former tenants rose due to a reduction in rent payments in the late 1950s; however, they still remained poor (Salem, 1981). Finally, new local leaders emerged, taking the place of the former landlords who had acted as local administrators and thus community leaders during the colonial era. These new leaders were commonly involved in anti-communist activities and had military experience (Hong, 2013).

Despite its positive social effects, the land reform did not improve agricultural productivity. Farmers did not have enough financial resources to invest in agriculture and the limit on land size prevented a change in the small-size farming structure. Land reform was based more on equity than on efficiency and the majority of the farm households operated with one hectare of land (Ban et al. 1980; J.H. Park, 1998). Nevertheless, certain scholars argue that land reform increased the labour productivity of farmers by removing the mismatch between surplus farmland and excessive labour (Hong, 2013).

Policy actions for food security

Korea faced severe food shortages during the 1950s and to a lesser extent during the 1960s. Food shortages were mainly caused by a lack of key production inputs including infrastructure, technology and farming equipment, as well as fertilisers and pesticides. Moreover, the problem was worsened by the Korean War and by a series of poor harvests during the early 1960s that diminished grain productivity and increased grain prices. As the problem of food shortages worsened, in 1964 the government established a seven-year plan for expanding food production. This set grain production targets to be achieved by 1971. Starting in 1964 (i.e. the base year), farmers were to gradually increase grain production by a total of 150% by 1971 (Figure 5.4). In terms of volume, the total amount of grain production was to increase from 31 680 *Seok* in 1964 to 48 510 *Seok* in 1971.[4] Within this overall target, specific targets were further defined for different types of grain. For instance, rice production was to be augmented by 29.7% and barley by 43.1% over the same time period.

Figure 5.4. **Annual grain production target, 1965-1971**



Note: The unit for grain production is *Seok*. *Seok* is based on volume and not weight. Hence, the amount may differ by grain. For instance, one *Seok* of rice is 144kg, barley is 138kg and bean is 135kg. This unit was used until the 1980s.

Source: National Archives of Korea (2015), *Food Production: Policies and Characteristics of the 1960s*, http://theme.archives.go.kr/next/foodProduct/policy1960.do, accessed 18 June 2015.

Additional actions adopted to achieve these goals included technological development, new seed varieties, land maintenance, expansion of arable land, preventative actions to mitigate natural calamities, etc. However, the government failed to meet the target in 1971; grain production actually decreased compared to 1966 by 3.5%. While production of rice and beans increased by 1.0% and 34.8% respectively, that of barley dropped by 71% between 1966 and 1971 due to bad weather and a reduction in planting area (National Archives of Korea, 2015).

The actions carried out by Korean authorities were complemented with a food aid programme sponsored by the United States under Public Law 480 (known as PL480 or Food for Peace) (Korea Rural Economic Institute, 2010). PL480 began in 1954 with the intention of combatting hunger and fostering economic development in developing countries, among others.[5] It enabled the shipment of surplus commodities to friendly nations, either in grant or concessional forms or as a donation to third-party organisations (e.g. religious or voluntary) for international humanitarian purposes. Korea was one of the main recipients along with Pakistan, South Viet Nam, Egypt, Indonesia and Yugoslavia. Korea received a total of USD 1 655 million worth of food aid between 1955 and 1976. Between 1965 and 1974, PL480 aid to Korea was approximately 9% of all the aid given by the United States government worldwide (Table 5.2). The amount received from 1956 to 1966 accounted for 12.7% of the national grain production (Jang, 2006).

While PL480 helped combat food shortages, it had adverse impacts on farm households. The aid surpassed actual demand and lowered the grain price. While most of the aid was in the form of wheat and barley, it reduced the price of rice as well. This ultimately lowered farmers' income and negatively influenced long-term grain production by reducing price competition (Boyer and Ahn, 1991; Jang, 2006; Korea Rural Economic Institute, 2010).

Table 5.2. **Amount of PL480 aid received by Korea from the United States**

USD millions

Country	1955-64	1965-74	1975-76	Total
Korea	493	1 034	128	1 655
World	11 692	11 463	1 932	25 087
Korea/World (%)	4.22	9.02	6.63	6.60

Source: Cited in Verllianitis-Fidas and Manfredi (1977).

Reducing farm household debt

Farmers' debt gradually increased during the 1950s due to miscellaneous fees, utility bills and additional taxes. By 1960, around 90% of farm households reported to have resorted to high-interest loans, with rates of up to 20% (M. Lee, 2010). To release some pressure from households' fiscal burden, the government enacted a law on usurious loans in 1961. Under this law, the Agricultural Bank would issue the creditor 20% interest while only receiving 12% interest from the debtor. The bank would pay the creditor within four years and the debtor would have to repay the bank in five years. The government would absorb the remaining 8%. In 1961, the government replaced more than half of the usurious loans with low-interest rate (12%) loans.

This debt relief policy lasted for a decade and relieved pressure in rural areas, particularly for the poorest group of households, but its impact was not as far-reaching as expected for a number of reasons. The first was that farm households were not responsive to the policy and the reported number of usurious loans was lower than the actual number of loans taken out by the farm households. Farmers (debtors) found it emotionally difficult to report the use of usurious loans to the bank since the creditor-debtor relationship was more based on kinship and regionalism. Reporting also meant creditors would lose the value of the loan, which may prevent debtors from receiving future loans. In addition, it was difficult for farmers to get loans from banks in a short period of time, especially if they had low credit. In such cases, usurious loans were an easier means for the poor to access money.

The second reason was that the supply of public funds did not meet the demand and not all debt was cleared. An average of 60% of the loans was cleared, but some regions (e.g. Jeollanam-do, Gyeongsangnam-do, and Gangwon-do) had only around 50% of the loans cleared. When coupled with the fact that the reporting ratio of usurious loans was lower than the actual amount of loans, the debt relief was not as effective as expected.

Price controls and a dual grain price policy

The government exercised control over certain agricultural products during the 1960s with the overall objective of stabilising the rural economy. In 1961, the Price Maintenance of Agricultural Products Act established price controls over a set of commodities – mainly rice, barley, potatoes and cotton. This act also allowed the Korean government to purchase agricultural products in order to maintain the selling price in the market.

In order to increase grain production and ensure a stable food supply, the government adopted a dual price policy for the two staple grains: rice and barley. Starting in 1968, the government increased the purchasing price of rice from farmers by 25.1% every year until 1971. This created a gap between the government's purchasing price of rice and the actually selling price of rice in the market. The same was done for barley, for which the government set the selling price of the grain in the market at a lower level than the purchasing price the government paid to the farmers in order to boost production and consumption. This policy continued throughout the 1970s.

Institutions supporting agricultural and rural development

Two key organisations for agricultural development were established during the 1960s: the National Agricultural Cooperative Federation and the Office of Rural Development. Under the direct control of the government, both implemented agricultural policies during the 1960s and played a key role in rural development during the 1970s.

The Office of Rural Development (ORD),[6] established in 1962, was placed under the Ministry of Agriculture and Fisheries[7] as a semi-autonomous agency focusing on agricultural research and operations. The top priority for ORD was to research, develop and disseminate new high-yielding rice varieties suitable for Korea's environment. It developed a high-yielding variety named Tong-il, which it distributed to rural farm households. In order to diffuse this new variety, the government set production quotas for Tong-il rice. Additionally, ORD published educational materials on Tong-il rice and its cultivation methods for both farmers as well as government officials. In co-operation with other organisations, including the Ministry of Home Affairs and the National Agricultural Co-operative Federation, ORD also monitored progress on the ground on the cultivation of Tong-il rice and provided cultivation support (Burmeister, 1990; T. Kim, 2009). The ORD also partnered with the National Agricultural Cooperative Federation in educating farmers on the use of fertilisers (H. Lee, 2013).

The National Agricultural Cooperative Federation (NACF) resulted from the merger of the Agricultural Cooperative Federation and the Agricultural Bank in 1961. Its major areas of intervention included the fertiliser industry, provision of credits and loans, the rice market, and training of farmers. The NACF had local branches in rural areas and was heavily managed by the central government (Bae, 1995), leaving little or no room for farmers to participate in the decision-making process.

The Korean government gave NACF monopolistic rights to sell and distribute domestically produced fertiliser. NACF offered credit to farmers for fertilisers and pesticides, aiming to increase both domestic consumption and production in Korean fertiliser factories. It was also a means to promote cultivation of Tong-il rice, which required more fertiliser than the traditional variety (Burmeister, 1990).

NACF also provided credit and loans for other farming items, such as agricultural machinery. It offered a lower interest rate on agricultural credit than commercial banks. It also offered medium to long-term credit which gave more stability for farmers to use their money. Domestic companies producing such items also benefited from NACF marketing and supplying their products (Burmeister, 1990; Sigurdson and Kim, 1981).

NACF was also deeply engaged in the rice market and especially in promoting Tong-il rice. NACF was the main agent purchasing rice from farmers, which was then sold to customers in urban areas following the dual rice price policy. At the same time, it excluded households who did not plant the new variety from receiving favourable agricultural credits and materials (Bae, 1995).

Korea's Rural Development Strategy, *Saemaul Undong*, improved rural living standards

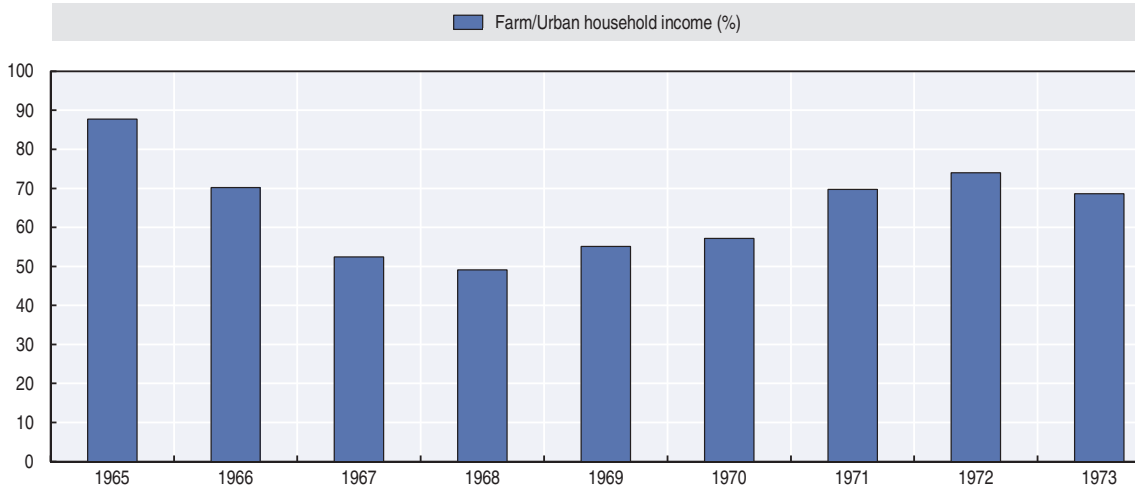
In spite of government efforts during the 1950s and 1960s, rural areas were falling behind. Government investment in the agricultural sector was marginalised, and policies such as the dual grain price policy kept the grain price, and subsequently rural incomes, low (Chung, 2003; Oh, 2003). Driven by the industrialisation process taking place in urban areas, the disparities between urban and rural areas in terms of income, population, and living standards began to widen rapidly from the mid-1960s. On one hand, it was crucial for the government to prioritise industrialisation to alleviate poverty, promote national growth and modernise the national economy. On the other hand, it was equally important for the government to mitigate the growing discontent of rural population for socio-economic reasons.

A key factor promoting rural development was the increasing urban-rural disparities following Korea's rapid industrialisation process. Economy-wise, the growth rate of the agricultural sector was lagging behind the other economic sectors. The series of five-year Economic Development Plans implemented by Park's administration translated into an average GDP growth rate of 9% during the 1960s.[8] However, the manufacturing industry grew steadily from 1953 onwards, reaching an annual growth rate of 20% by 1970; while the service sector was growing at over 12% by the same year. In contrast, the agricultural sector experienced important fluctuations, and even a negative growth rate at times. Agriculture's average growth rate during the 1960s was 4.6%, compared to 15.8% and 7.7% for the manufacturing and service sectors, respectively (Bank of Korea, 2015).

Farm household income slightly increased in the late 1960s, but socio-economic differences between urban and rural areas continued to widen (Figure 5.5). In 1965, the income of farm households was close to that of urban households, but it began to decline thereafter. Although it rose slightly after dropping to 49% in 1968, the ratio was still below 70% in 1973. Moreover, national development policies and investments were geared towards industrialisation, *Chaebols*, and export-orientation, leaving little resources for rural development (Y. Hwang, 2006; Koh, 2006). Government subsidies to agriculture were less than during the liberation period (1945-48) and the price of agricultural products remained low due to PL480 (Park and Lee, 1997).

The Korean economy faced both internal and external challenges. Since the late 1960s, developed countries had begun to adopt protectionism due to the global economic recession, which burdened the export-dependent Korean economy. It brought about inflation, a balance of payments deficit, and stagnation in the domestic economy which called for stabilisation and a stimulation of economic growth (Y. Hwang, 2006). A fluctuating exchange rate also made imports of agricultural materials unstable, which led to higher production costs (to which the government responded by domestically producing the items as mentioned before) (H. Lee, 2013).

Figure 5.5. **Trends in farm-to-urban households' annual income, 1965-1973**



Note: Income for farm and urban household is based on the per capita annual average real income. Real incomes were deflated by the Seoul consumer price index, 1975 constant prices.

Source: Cited in Kada, R. (1981), "Employment creation in rural areas: the achievement of the Saemaul Undong and further development".

Another event that negatively affected the economy was the deteriorating food supply due to a change in the United States' position on PL480 in 1971. Prior to 1971, PL480 was given in the form of grant. However, from 1971 Korea received PL480 as a concessional loan, which put increasing pressure on the Korean government to pay a large sum in foreign exchange to cover the food shortage. Expanding the food supply was vital both for self-sufficiency and for balance of trade (Y. K. Chung, 2003).

There were social factors as well. Park saw the lack of a strong sense of self-reliance, diligence, voluntary effort, co-operation, leadership and determination as some of the root causes of failure in previous rural development policies. He viewed government subsidies to be useless without a fundamental shift in the minds of people. For instance, an anecdote in one of his speeches described how an idle farmer "does not deserve to be helped, and should not be helped by the government". His view was that those who utterly depend on government aid without any effort on his/her part will not have a successful outcome. He then stressed that such a mentality would not be condoned in either government officials or farmers (C. H. Park, 1979) and called for voluntary effort and determination by local farmers as the fundamental solution for rural development (C. H. Park, 1979).

This philosophy underpinned *Saemaul Undong* – new village movement – introduced by President Park in April 1970 as the national programme for rural development. It represented "the beginning of a new national movement for rural modernisation, food self-sufficiency, and increase in farmers' income based on cooperation, coordination and diligence" (C. H. Park, 1979). Overall, *Saemaul Undong* was conceived as a means to transition away from a traditional agricultural society – commonly portrayed as poor, lazy, lethargic and unsuccessful – to a modernised and transformed rural society.

From October 1970 to June 1971, the government piloted the *Saemaul Undong* concept (through the *Saemaul* Cultivation Project) in villages all over the country. Based on the success of the pilot project, the following year the Park administration scaled up *Saemaul Undong*. In 1972, the programme and related activities were placed under the Ministry of Home Affairs. For instance, the provision of training for village leaders and reforestation activities, originally managed by the Ministry of Agriculture and the Forestry Office respectively, were also transferred to the Ministry of Home Affairs and became part of *Saemaul Undong*. This allowed the Ministry of Home Affairs to co-ordinate rural development actions across ministries and levels of government.

Saemaul Undong was composed of a number of goals and a series of strategies (Table 5.3). Its main objectives in the 1970s included improving the rural environment, spiritual transformation, achieving food self-sufficiency through increases in agricultural production, and higher rural incomes. To achieve these goals, and avoid repeating the failures of previous rural development policies, *Saemaul Undong* adopted three main strategies: modernisation of the rural mind set, community mobilisation combined with incentives and competition, and a multi-level governance system.

Changing mind sets to transform rural communities

The Saemaul spirit of diligence, self-help and co-operation offered a code of conduct that aimed to heighten work ethics, responsibility, participation and co-operation. The goal was to engender a sense of community and efficiency in *Saemaul Undong* activities.

Mind sets were to be transformed mainly through public campaigns and education. Public campaigns involved the distribution of public relations materials, as well as the President himself acting as a catalyst for diffusing the Saemaul Spirit. Park emphasised the importance of the three spiritual values in many of his statements, publicly claiming that the old mind set was hindering rural communities from moving forward.

Spiritual education was also included in *Saemaul Undong* training programmes. The government established the Saemaul Leaders Training Institute and NACF took the lead in training Saemaul leaders. The training programmes included sessions specifically dedicated to the Saemaul spirit, in which success stories of outstanding villages and Saemaul leaders were used as positive examples. There were also Saemaul Schools set up in local school buildings to educate farmers. Small *Saemaul Undong* libraries were also set up to disseminate knowledge and agricultural skills. In 1972 alone, 167 012 people were trained (Boyer and Ahn, 1991; K. J. Chung, 2008). The scope of this spiritual training broadened to also include high-level government officials, National Assembly members, bankers, businessmen, military officers, and even children (Han, 2004).

Strengthening local participation and promoting community mobilisation

Saemaul Undong was also a community-based movement, with villages being the main unit of intervention since a culture of co-operation was already present (K. J. Chung, 2008). Most, if not all, villages participated in *Saemaul Undong* for the entire decade, from 33 267 villages in 1971 to 35 695 villages in 1980. Villages were to implement different projects related to agricultural production, revitalising local infrastructure, and income

generation. The fact that *Saemaul Undong* was village-based also led to greater participation by villagers, who found themselves to be the main agents of change (see survey results from Choe et al., 1978). While community-based projects were not unprecedented, previous ones were smaller in scale and included only a certain group of people. For example, the Special Income Project for Farmers and Fishermen (mentioned before) only targeted a cluster of farming and fishing villages.

The government categorised villages as "basic", "self-help" or "self-reliant" according to their level of development, and the existence of village organisation, leadership, resources and infrastructure. Basic villages, i.e. the most underdeveloped, could be upgraded to "self-help" or "self-reliant" if they met the required standards. Categorising villages by their degree of development was a way of measuring the outcome of projects while promoting competition between communities (Boyer and Ahn, 1991). While there were 18 415 basic villages in 1972, by 1977 there were none. Meanwhile the number of self-reliant villages increased from 2 307 in 1972 to 33 893 in 1979, leaving only 976 self-help villages (Ministry of Home Affairs, 1980).

The government provided various incentives for villages to participate in *Saemaul Undong* while competing with other villages. These ranged from the provision of in-kind and financial resources, to direct recognition by the President. All villages were given equal opportunity in the initial stage of the pilot project to receive in-kind transfers, but only half (those with outstanding accomplishments) were chosen for the following year. During the pilot project the government had distributed 335 bags of cement[9] to each of 33 267 villages nationally. The amount of cement was equivalent to four bags per household, to be used for government-designated village projects. The result exceeded expectations (Boyer and Ahn, 1991). The government then rewarded half of the villages (16 600 villages) that scored high in performance, co-operation, and the capability of their *Saemaul Undong* Leaders with 500 additional bags of cement, and one ton of steel (Boyer and Ahn, 1991; Oh, 2003).

Subsequently, financial aid in the form of rice subsidies, tax exemptions and financial transfers were given to certain villages (e.g. outstanding villages, low-income villages, roadside villages). Every month a couple of outstanding villages could present their experiences to the President. This incentive system for rewarding top performing villages was sustained throughout the programme.

While national and local governments contributed financially to *Saemaul Undong* activities, villagers put in around half of the total budget. In fact, investment by the local population was higher than government transfers during the first half of the 1970s (Figure 5.6). While their share remained around 40% to 50% during the mid to late 1970s, their absolute contribution grew, from KRW 8 100 million in 1971 to KRW 338 800 million in 1980. This suggests that despite *Saemaul Undong* being devised from the top, there was such willingness to invest in the project on the ground that people used their personal funds to do so.

Figure 5.6. **Villagers invested heavily in *Saemaul Undong***

Note: The ratio refers to the amount of investment made by villages (categorised as self-support) out of the total budget of *Saemaul Undong* activities. The total budget includes that of central and local government, loans from third parties, etc. It is unclear what the local contribution indicates, as the rural population also dedicated their labour and land to *Saemaul Undong*.

Source: Ministry of Home Affairs (1980), 10 Year History of Saemaul Undong: Data, p. 18.

Multi-level governance constantly monitored and evaluated progress at the local and national levels

Saemaul Undong was administered through a multi-level governance system. There was strong leadership at the national level, primarily by the Ministry of Home Affairs. Its chain of command extended down to cities, counties and villages. The government also created the Central Government Council for *Saemaul Undong*, a co-ordinating body comprised of deputy ministers of relevant ministries such as the Ministry of Agriculture and Fisheries, Ministry of Health and Social Welfare and the Ministry of Education. Not only did each ministry have *Saemaul Undong*-related divisions, some ministries had affiliated agencies, like ORD and NACF, present on the ground. As the movement gained momentum, exemplary government officials were assigned to related desks and higher budgets were allocated to *Saemaul Undong* projects (K. J. Chung, 2008). Local offices were also established to disseminate the projects and to monitor progress.[10] Although hierarchical, this system made it possible to avoid inter-ministerial conflicts, enabled co-ordination and co-operation at all levels, integrated a wide array of projects, enhanced government efficiency, and facilitated the monitoring and evaluation of outcomes at the local and national levels (Boyer & Ahn, 1991; Douglass, 2013).

Management at the local level relied on a village committee. The committee was composed of two Saemaul Leaders (one male and one female in principle), a village chief (called *Ri Jang*), and five influential figures from the village, who were mainly tasked with co-ordinating village development activities (Y. Hwang, 2006). Each village had the freedom to appoint their own Saemaul Leaders, who played a key role in commissioning and managing projects (K. J. Chung, 2008). They were either selected through nomination

by an administrative agency, village elections, volunteering, or on the advice of others.[11] There was no significant financial incentive for Saemaul Leaders, but they had the chance to receive training and become village educators, and receive priority for scholarships for their children, agricultural funds, installation of private telephones and even promotion to public posts. Model leaders were also given opportunities to present their success stories to the President (Choe et al., 1978).

Sequential policy implementation

Saemaul Undong began as a rural development programme mainly aiming to improve local infrastructure. As time progressed, its scope was enlarged to include other activities, such as the Green Revolution, reforestation and family planning. The Ministry of Home Affairs categorised *Saemaul Undong* during the 1970s into the following three stages:

1. 1971-1973: the first stage laid the foundations for Saemaul Undong by focusing on cultivating the rural environment, expanding production infrastructure, and establishing a governance structure from top to bottom.
2. 1974 and 1976: this stage expanded the programme across rural areas, and introduced Saemaul Undong in urban areas.
3. 1977-1981: the final stage targeted self-reliance in rural villages, community building in urban areas and productivity improvement in factories.

While certain scholars categorise *Saemaul Undong* phases differently and sometimes the phases overlap, for simplicity in this section we focus on the two broad phases of implementation of rural *Saemaul Undong* activities and policy actions. A stylised version of these two phases is shown in Table 5.3. While in practice the phases presented in this table overlapped, there was a policy sequence that required different policy tools to address different development constraints.

Table 5.3. ***Saemaul Undong*'s sequential strategy**

	First phase	Second phase
Goal	*Modernise rural villages*	*Create income-generating activities*
Strategy	Top-down actions to mobilise communities in order to identify local priorities and carry out projects to build or improve infrastructure.	Improve agriculture productivity and promote non-farm employment in rural areas
Tools	Combination of top-down and bottom-up planning and co-ordination mechanisms In-kind transfers from central government Incentive-based mechanisms promoting competition across villages Massive training of community leaders	Subsidies to agriculture Investment in infrastructure Introduction of high-yielding crop varieties Fiscal incentives to promote delocalisation of firms from urban to rural areas
Actors	All levels of government and village leaders	All levels of government; private sector; and village leaders

The first phase (1970-1973) concentrated on improving rural living standards through the modernisation of villages. To achieve this goal, and under the overall guidance of central authorities, communities were mobilised in order to identify local priorities and

carry out projects to build or improve infrastructure. Projects were largely focused on renovating rural environments, including paving roads, repairing river banks, and making compost. However, although income-generating projects gained momentum from the mid-1970s, village renovation projects continued until 1980. Most villages continued to participate in cultivation projects and the government provided consistent support. The main policy tool for these actions was an incentives framework that promoted competition across villages and provided in-kind transfers to the best performers. This strategy included all levels of government as well as village leaders.

Most villages reached initial targets and sometimes even exceeded the original objectives set in 1971. For instance, the expansion of village roads outperformed the initial objective by 165%, as did the construction of small reservoirs, dikes, waterways and sewage systems. On the other hand, building workspaces and animal stalls fell significantly short of the target by less than 20% (K. J. Chung, 2008).

The second phase (from 1974 onwards) focused on income generation and the Green Revolution. The programme gradually evolved to include projects that could create a virtuous cycle of enhancing productivity, generating more farm and non-farm income for farmers, and increasing village funding for new projects (K. J. Chung, 2008). This required a different series of policy tools, such as subsidies to agriculture, the distribution of agricultural production materials and technology, investment in infrastructure, introduction of high-yielding crop varieties (e.g. Tong-il rice, see below), fiscal incentives to promote the delocalisation of firms from urban to rural areas and the appointment of Saemaul factories. This new strategy included the private sector as an additional actor.

The Tong-il rice story

The Office of Rural Development was in charge of developing the Tong-il rice variety. This new variety was immediately disseminated to rural areas with hopes of achieving food self-sufficiency and increasing farmers' income. The share of rice fields planted with Tong-il rice jumped from 15.9% in 1972 to 54.6% in 1977 (Table 5.4). Tong-il rice produced increasingly higher yields and farm household incomes also gradually increased.

Table 5.4. **Increases in Tong-il rice yields, area and farm incomes**

Year	Yield in polished Tong-il rice (ton/ha)	Planted area (%)	Farm income (USD)
1970	3.30	-	824
1971	3.37	-	1 025
1972	3.34	15.9	1 075
1973	3.58	10.4	1 209
1974	3.71	15.2	1 393
1975	3.86	22.9	1 804
1976	4.33	43.9	2 389
1977	4.94	54.6	2 961

Note: The data is national average. Farm incomes were converted to USD using official exchange rates. The planted area (%) is the share of Tong-il rice planted area in total rice plantation area.
Source: Cited in Park (1998), p.123.

However, Tong-il rice was not widely accepted at first. Minimal experimental testing was done, and neither taste nor quality reached expectations. It was also not particularly well-suited to Korea's soil or climate. Production costs were also higher than for traditional rice, and Tong-il rice was sold at a lower price than traditional rice grains (over 10% less to start with). This gap expanded and in 1979, the price of Tong-il rice was half the price of normal rice. Despite farmers' opposition to this type of rice, the government enforced production during the 1970s (T. Kim, 2009).

The dual rice price policy adopted in 1968 continued in the 1970s. Figure 5.7 shows the gap between the purchasing price of rice by the government and the price of rice purchase in the consumer market. Although the gap was insignificant, and even negative in the early 1970s, it opened up in 1975 and steadily widened until 1980. This large gap between the two prices indicates the increasing financial burden on the government in maintaining this policy.

Figure 5.7. **Government price support to rice became increasingly costly, 1971-1980**

Gap between the purchase and consumer prices of rice

Note: Unit is KRW per 80 kg of rice. The 1971 rice year is from November 1970 to 31 October 1971.

Source: Cited in Kim, D-H. and Y.J Joo (1982), *The Food Situation and Policies in the Republic of Korea*.

There was also indirect assistance for mechanising grain production, including support for the production of farm machinery, the establishment of repair and maintenance facilities, the promotion of research and development, and tax exemptions for farm machinery purchases. These investments were significant for enhancing productivity while continuing to support a decline in the rural population (Douglass, 2013).

In 1978 and 1979, adverse weather and the rise of diseases that affected Tong-il rice led to plummeting yields, and by 1980 normal rice yields surpassed those of Tong-il rice. Total rice production also decreased 41% in 1977. Harvest failures only increased farmers' discontent with Tong-il rice and the new government finally acknowledged the failure of Tong-il rice, ceased to insist on its production and gave de facto freedom to farmers over what to produce in 1980 (T. Kim, 2009).

Implementation of Saemaul Undong *in urban areas*

The intention of *Saemaul Undong* was not to limit the programme only to rural areas. The Park administration thought it necessary to expand the scope to urban areas to improve social values, community spirit, the urban environment and work ethics (K. J. Chung, 2008). Factory *Saemaul Undong* activities also targeted better work ethics and increases in productivity.

Saemaul Undong projects in urban areas first began in 1973. Projects included house remodelling in poor areas, street pavement, forestation, community projects, consumer protection, school renovation, service improvement, and frugality and saving (Boyer and Ahn, 1991; K. J. Chung, 2008). These projects were undertaken in urban districts, schools and workplaces. With the pilot project in 1973 deemed successful, the government expanded the movement in 1974 and saw around 5.9 million family members and 45 000 schools participate (Boyer and Ahn, 1991). However, urban *Saemaul Undong* was not as extensive as its rural counterpart because the urban population did not interact as much, and people also move from one place to another.

Factory Saemaul Undong

Factory *Saemaul Undong* began in 1973 amid the oil shock, a staggering national economy and slow progress in income-increasing projects. Unlike *Saemaul Undong* in rural and urban areas, Factory *Saemaul Undong* was managed by the Ministry of Commerce and Industry.

Table 5.5. **Number of factories participating in the factory *Saemaul Undong* by industry**

Year	Textile	Chemicals	Electricity/ Electronics	Machinery	Steel/ Metal	Lumber/ Plywood	Food/ Medicine	Mine	Misc.	Total
1977	760	269	247	139	189	27	179	68	312	2 190
1978	1 507	448	338	315	332	40	214	65	558	3 817
1979	1 642	861	526	500	536	105	400	95	544	5 209
1980	1 390	638	446	348	517	80	366	119	500	4 404
1981	1 415	700	481	380	549	76	386	93	498	4 578
1982	1 366	611	463	366	556	85	373	145	590	2 190

Source: Chang (2006), p.180.

Factory *Saemaul Undong* was carried out in two forms: the first step was to increase productivity through incorporating the Saemaul Spirit into work ethics, ameliorating relationships between labour and management, as well as investing in welfare systems (e.g. operation of customer unions, in-house schools). Ways of improving the labour-management relationship included providing education to business owners and organising conferences and weekly meetings between the two parties (K. J. Chung, 2008). Table 5.5 shows that factories in various industries increasingly participated in the movement between 1977 and 1978. However, the number declined (with the exception of mining industry) when *Saemaul Undong* became a private movement in 1980.

The second step was to construct Saemaul factories to increase income and utilise idle labour in rural areas (Boyer and Ahn, 1991; K. J. Chung, 2008). This was closely linked to export-oriented industrialisation. These factories mainly engaged in labour-intensive products with simple production processes (such as stuffed toys, wigs, ceramics, bamboo ware, artificial pearls, parasols and baskets made from synthetic resins; B. Hwang, 2011; National Archives of Korea).

Involvement of women in Saemaul Undong

Women were involved in the *Saemaul Undong* process as agents of change and were primarily engaged in four areas: spiritual enlightenment, improving living conditions, increasing income and family planning.

Table 5.6. **The growing role of women in *Saemaul Undong*, 1970 to 1981**

	1970	1971	1972	1973	1974	1975
Female leaders	2 572	9 472	28 313	36 320	41 672	43 210
Classes	2 572	9 472	28 313	36 320	41 672	43 210
Members	82 193	311 998	1 633 052	1 964 9-7	2 089 647	2 160 862
	1976	**1977**	**1978**	**1979**	**1980**	**1981.9**
Female leaders	45 545	61 113	78 521	80 908	101 955	96,570
Classes	45 545	60 352	68 194	80,115	94 072	90 609
Members	2 254 310	2 423 663	2 552 385	2 678 074	3 175 030	2 831 382

Note: The categories refer to the number of female Saemaul leaders, classes and members of the Saemaul Women's Association. One of the digits for the number of members in 1973 was not printed.

Source: Ministry of Health and Social Affairs (1981), pp. 58–59.

To reduce unnecessary competition between different groups and to promote coherent activities in all villages, the government reorganised the pre-existing women's associations into Saemaul Women's Associations in 1977. Table 5.6 shows the rapid growth in the number of female leaders and members affiliated with Saemaul Women's Associations between 1970 and 1981, as well as the growth in classes offered by the associations.

Activities to change mind sets mainly occurred through training sessions targeting female Saemaul leaders or government officials in charge of social welfare. The training sessions had five main goals:

1. To develop the mind set of women as female Saemaul leaders.
2. To establish patriotism, which entailed classes on security and unification, communism and North Korea.
3. *Saemaul Undong* and the role women and the Association can play: e.g. improving the living environment including diet, family discipline, family health and family planning, as well as carrying out activities for income and co-operative production.
4. To teach women how to have group discussions.
5. To share successful *Saemaul Undong* experiences.

Women were also encouraged to improving living conditions. Relevant activities included purchasing proper, well-fitting and fashionable clothes at a reasonable price, eating healthy and nutritious food, improving housing, and promoting healthy food consumption. Overall, women were to become more frugal, which could contribute to increases in income.

Income generation was another crucial objective for the female population in rural areas. The continued outflow of the rural population required that women participate more in farming. At the same time, rural areas were becoming more exposed to modern home appliances, requiring higher incomes to purchase them. The Association ran village shops in order to reduce commodity prices through wholesale, to save time, and to reinvest the profits in the village. It also managed collective funds which would later be used for production, welfare facilities, infrastructure improvements, etc.

Family planning was a focal point of the Association's activities. Although there had been a family planning policy in Korea since the 1960s, it was not widely recognised in rural areas. Support was given for publication of educational materials, dispatch of administrators and periodic meetings. This helped spread family planning in rural areas, empower women, improve women's status within households and contribute to community development.

Women's involvement in *Saemaul Undong* had positive aspects such as encouraging women to both participate in income generating activities and contribute to the well-being of rural households. However, the impact on women's empowerment and changing traditional gender norms was limited.[12]

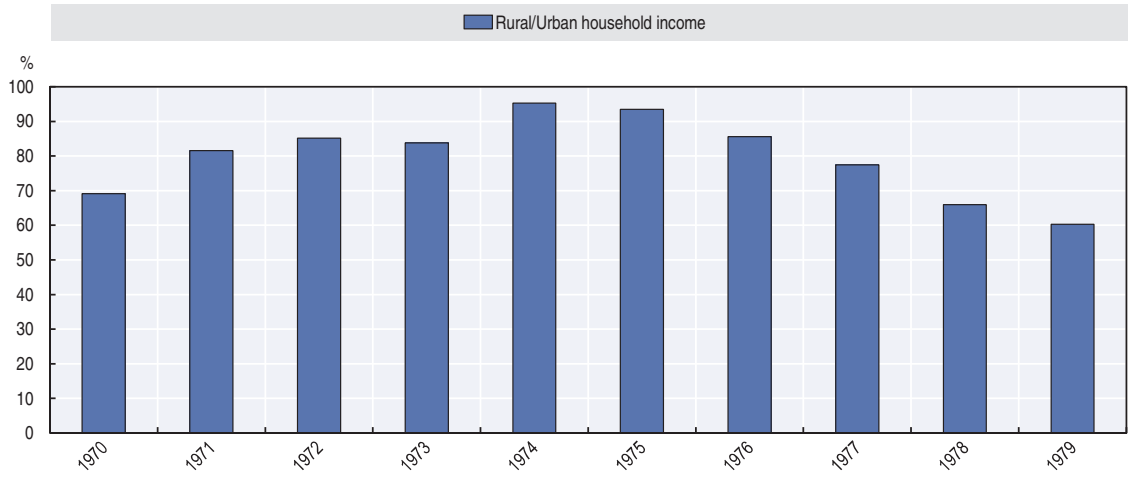
The contribution of Saemaul Undong *to rural households*

The impact of *Saemaul Undong* on rural incomes during the 1970s is not clear. A number of different projects that influenced rural livelihoods were renamed as *Saemaul Undong* projects, while certain policy measures were executed concurrently – most notably the Tong-il rice and the dual price policy (Y. Hwang, 2006). While *Saemaul Undong* likely had some impact on rural incomes, distinguishing its impact is challenging and perhaps impossible.

At the beginning of the 1970s, rural areas were characterised by an increasing income gap with urban areas. According to estimations on real household income by Y. Hwang (2006), rural households' income only exceeded that of urban households in 1974 and 1975; otherwise, urban households outperformed rural households during the 1970s. However, on a per capita basis, real income in rural areas was always lower than in urban areas (Figure 5.8). By 1979, rural households' income per capita was on average 60% of that of urban households, which was lower than the share in 1970.

It is possible that *Saemaul Undong* could also be linked to the increase in rural household debt during the 1970s (Figure 5.9). Between 1970 and 1980, the debt-to-income ratio increased from 6% in 1970 to 13% in 1979. As noted earlier, during the latter half of the 1970s *Saemaul Undong* focused on income-generating projects, including the implementation of high-yield rice variety which required higher production costs than original rice variety (Park and Han 1999; Hwang, 2006).

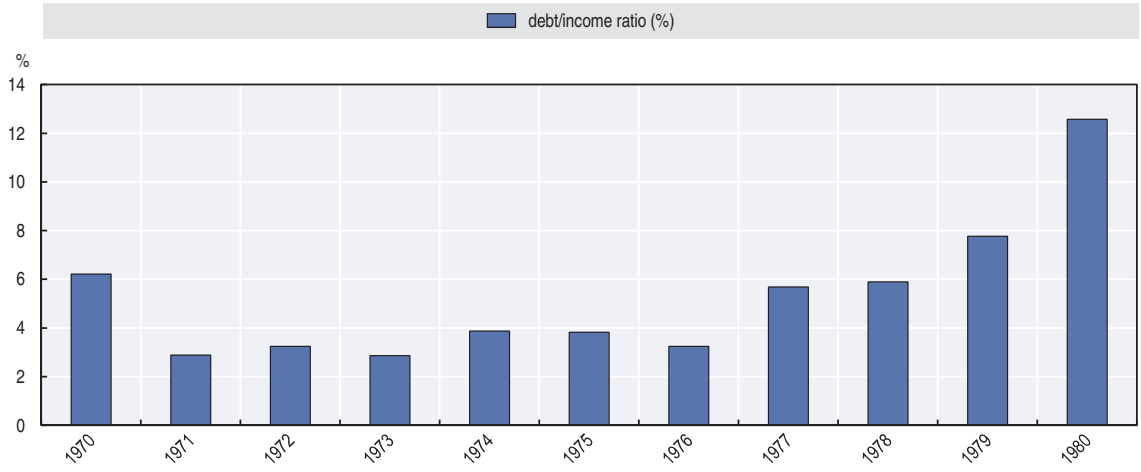
Figure 5.8. **Rural households' income was consistently lower than urban households, 1970-1979**



Note: The unit is the share of rural household income per capita divided by urban household income per capita expressed in real terms. Real income is based on 1975 prices. The real household income for rural areas was deflated by 1975 Price Index of goods and services paid by the farmers. The real household income for urban areas was deflated by 1975 Consumer Price Index for all cities.

Source: Hwang, Y. (2006), "Reappraisal of rural Saemaul Undong", *Korean Journal of Agricultural History*, *5*(2), 17–53.

Figure 5.9. **Ratio of farm household debt to income, 1970-1980**



Note: Annual average data were used.

Source: KOSIS (2014), *Korea National Statistical Office*, Database, http://kosis.kr, accessed 13 October 2014.

The increasing financial burden on rural households can also be inferred from the increasing amount of NACF's outstanding loans to the agricultural sector. The amount of outstanding loans was highest in both amount and share for the agricultural sector. Between 1970 and 1979, the amount of loans grew by 7.3 times (National Agricultural Cooperative Federation, 1982). Considering the fact that NACF acted as one of the main implementation

agents of *Saemaul Undong* in the 1970s, including providing loans to rural households, the fast growing loans to agriculture could suggest that rural, especially farming, households were faced with significant debt.

Table 5.7. **Progress in achieving *Saemaul Undong* projects**

Project name	Unit	Target (set in 1971)	Progress by 1979	% of target
Expansion of village roads	km	26 266	43 506	165
Pavement of farm roads	km	49 167	61 201	124
Construction of small bridges	number	76 749	76 195	99
Village assembly hall	dong (regional unit)	35 608	35 950	101
Storage house	dong (regional unit)	34 665	21 792	63
Workspace	number	34 665	5 755	17
Animal Stalls	number	32 729	4 352	13
Small reservoirs	number	10 122	13 079	129
Dikes	number	22 787	29 131	128
Waterways	km	4 043	4 881	121
Small river arrangements	km	17 239	9 180	53
Housing improvements	1 000 dong (regional unit)	544	185	34
Community resettlements	villages	-	2 102	-
Beautification of small towns	small towns (*do*, *eup*)	1,529	748	49
Portable water supply	number	32 624	23 764	73
Sewage systems	km	8 654	14 758	170
Electrification of farming and fishing villages	1 000 households	2 834	2 777.5	98
Village communication	*ri, dong* (regional unit)	18 633	18 633	100
(administrative villages and towns)	*ri, dong* (regional unit)	(36 313)	(24 633)	(68)
Magnetic telephone facilities	circuit/cable line	-	345 240	-
Saemaul Factory	factories	950	666	70
Village reforestation	ha	967 362	569 804	59

Source: Ministry of Home Affairs (1980), 10 Year History of Saemaul Undong: Data, p. 36.

Probably the most important contribution of *Saemaul Undong* was to improve living conditions in rural areas. As described before, the first phase of *Saemaul Undong* was concentrated on the modernisation of villages. Projects were largely focused on renovating rural environments, including paving roads, repairing riverbanks, and making compost ground. Moreover, these projects continued until 1980. For many types of projects, villages reached initial targets and sometimes even exceeded original objectives (Table 5.7). In particular, *Saemaul Undong* contributed important improvements in the provision of basic services such as sewage systems and electrification, as well as road infrastructure and communication. For instance, expansion of village roads outperformed the initial objective by more than 50%; similar outcomes occurred for sewage systems, and the construction of small reservoirs, dikes and waterways, all of which surpassed the goals set in 1971.

Rural development became more market-oriented from the 1980s

The approach followed by *Saemaul Undong* changed in the 1980s after *Saemaul Undong* was privatised. New projects included campaigns on frugality, orderly conduct, community co-operation and respect for elders. The Headquarters also provided overseas training for Saemaul Leaders as well as education on *Saemaul Undong* to Korean residents living abroad and foreigners, and invited prominent foreign figures to learn about *Saemaul Undong*. The programme eventually changed its name to the National Council of Saemaul Undong Movement in Korea in 1989 and then to Korea Saemaul Undong Center in 2000. The main priorities for the Center in the 1990s and 2000s were to globalise *Saemaul Undong*.

At the broader level, rural development policies in the 1980s became more market-oriented with less government protection. During this decade, policy actions focused on providing better living environments and infrastructure while developing different income sources, mainly through the development of non-agricultural activities, the diversification of agricultural production, and stimulation of local economy through the establishment of industrial complexes as well as the development of local products.

In the 1990s, the government adopted a more comprehensive strategy for rural development while embracing the major changes that had occurred in the 1980s. This included the Plan for Agricultural Policy Reform and Development of Farming and Fishing Villages, a Special Tax Law for Rural Areas for financial stability, and additional investment in research and development to foster technological advancements, train farmers to become professional businessmen, and enhance productivity. Rural policy during the 2000s is characterised by promoting rural economic stability along with agricultural and rural policy reform. Policies prioritise welfare, environmental issues and the public functions of agriculture and rural areas. Special attention is given to women and the elderly. Environmental issues have also become important and policies for environmental protection, land preservation, preservation of amenity functions and the development of scenic areas have increased. The government is also focusing on strengthening the linkages between urban and rural areas.

There are several lessons from *Saemaul Undong* for rural development

Korea's rural development experience provides a series of valuable lessons for developing countries today. Korea's development path was paved by a fast structural transformation of the economy that translated into a dominant urban system fed by continuous rural-to-urban migration and increasing living standards and opportunities in the urban milieu. This transformation affected both rural and urban areas simultaneously, creating different feedbacks across both types of regions. In particular, industrialisation contributed to growing disparities between rural and urban areas. The role of rural development policy in the 1970s was to act as a buffer during this fast industrialisation process. In this context, *Saemaul Undong* was not meant to reverse the economic development trends emerging in urban areas, but instead to contribute to the smooth transformation of rural areas.

Saemaul Undong was a rich experience that mobilised Korean society nation-wide. It cut across many sectors and had multiple objectives, making its full assessment complicated and outside the scope of the present analysis. Through the sequential implementation and different policy tools, the programme covered both village modernisation and income generation in a decade. In addition, it took place under very specific circumstances, making it unlikely that it could be replicated effectively in the new global context facing developing countries today. Nevertheless, its approach and components can undoubtedly provide inspiration to policy makers interested in the development of rural areas.

These lessons can be grouped as follows, and are described in turn below:

- Certain preconditions facilitate rural development and rapid industrialisation
- Multi-sectoral approaches need effective governance
- Sequential policy implementation can be enhanced through incentives and monitoring

Certain preconditions facilitate rural development and rapid industrialisation

The transformation of rural areas in Korea was the result of strong economic dynamics as well as of the interaction and accumulation of various earlier policy actions. Indeed, the modernisation of rural livelihoods that took place during the 1970s relied on some policies and reforms implemented one or two decades before *Saemaul Undong*. Four main actions which created the preconditions for modernisation of rural villages in Korea were to reduce socio-economic disparities, invest early in human capital, build rural institutions and draw on existing social capital.

An egalitarian rural society

A relatively egalitarian socio-economic status contributed to community participation in *Saemaul Undong*. Land reform had helped to reduce inequality between peasants and endowed the rural population with fair access to private land ownership. The land reform made it possible to move away from a tenant-based system, but limited land ownership to three hectares per household. The increase of available income for former tenants following the reduction of rent payments and the fact that most households received similar amounts of land translated into a more egalitarian society. Within this more egalitarian context, development approaches relying on community participation – such as *Saemaul Undong* – may be more likely to thrive, since the possibility of capture by local elites is lower (Sooyoung Park, 2009). Moreover, due to more egalitarian land ownership, villagers were more interested in participating in community development projects (Kwon, 2010).

Basic education

Early educational reforms helped to enhance *Saemaul Undong*'s policy actions. Education investment during the 1940s and 1950s was not limited to the urban population. By the time industrialisation policies started, an important share of the rural population had already been educated. Policy actions such as the Five-Year Illiteracy Eradication Plan and

the Six-Year Compulsory Education Plan (both launched in 1954) helped to create a labour force with a basic education by the mid-1970s. Human capital accumulation not only facilitated the movement of labour from agriculture to non-farm activities, thus reducing employment pressures in rural areas, but it also facilitated the adoption of new technologies (promoted through the green revolution during the 1970s). Education may have further contributed to a better understanding of the modernisation plans promoted by *Saemaul Undong* and to the rapid demographic transition.

Effective rural institutions

The implementation of *Saemaul Undong* and in particular the development of the Green Revolution relied on the existence of rural institutions established during the 1960s, namely the Office of Rural Development and the National Agricultural Cooperative Federation. Both were placed under the direct control of the government and supported the execution of agricultural policies during the 1960s and 1970s. These institutions were key in the adoption of the Green Revolution.

Existing social capital

Community-based activities in rural areas were not unprecedented in Korea. Pre-existing traditions included *Gye*, a type of community funding club; *Dure*, farmers' fraternities for mutual aid; and *Pumassi*, an arrangement of mutual exchange of labour for the purpose of achieving economies of scale in agricultural production. As a result, rural areas in Korea already had experience of mutual co-operation. *Saemaul Undong* further enhanced social capital through the practice of consensus building and collective action. This suggests that development approaches relying on community participation may be more likely to thrive in places with a pre-existing stock of social capital.

Multi-sectoral approaches need effective governance

Saemaul Undong aimed to promote a more inclusive growth process through a series of policy actions across different sectors. These actions focused on reducing disparities between urban and rural areas by improving wealth redistribution and increasing agricultural productivity. *Saemaul Undong* reflected the recognition by Korean authorities that a comprehensive strategy was needed to address multiple constraints for rural development across different sectors.

Multi-level governance and co-ordination are key in implementing cross-cutting policy actions. The Korean experience shows that multi-level governance should be complemented with engagement and leadership from both the top and the bottom, and that the empowerment of rural communities is also crucial.

Actions to increase agriculture productivity focused on strengthening agricultural research and extension through the Rural Development Administration under the Ministry of Agriculture. Moreover, the latter was complemented by the establishment of the National Agricultural Cooperative Federation, which acted as a government-supervised channel for input provision, product marketing, farm credit, and channel for agricultural pricing control. Agriculture productivity was further enhanced by sustained investments in rural sector infrastructure, including regional irrigation systems, farm roads, electrification, and communications.

Policies such as the implementation of subsidised (above market) pricing for the purchase of rice and other major crops, as well as subsidised (below market) pricing for key farming inputs contributed to redistributing wealth and reducing urban-rural disparities.

Top-down and bottom-up processes need to be combined

Saemaul Undong contributed to the development of rural areas in Korea by mobilising communities from the top, while allowing them to identify their own priorities and working together to reach common goals. This was achieved through institutional arrangements that made possible the co-ordination across different levels of government, and enhanced the delivery process of different policies. In practice this translated into a two-pronged mobilisation campaign. On the one hand, bureaucracy was mobilised to achieve rural development objectives. On the other hand, almost every village in the country was mobilised to participate in local projects on a co-operative basis.

Park's administration was characterised by performance-based advancement, centralised initiative and co-ordination. Directives originated at the centre and were disseminated through the ministries and down through the levels of government. This characteristic of the Korean administration was fundamental for the implementation of *Saemaul Undong*. Government also tried to incorporate farmers' experiences into the decision-making process, however, by inviting model Saemaul leaders to monthly cabinet meetings on the national economic situation.

Saemaul Undong was based in the Ministry of Home Affairs, which oversaw all lower levels of government, enabling policies, plans and resources to be efficiently distributed down through all levels and eventually to every village. This improved vertical co-ordination down through the various levels of government. Co-ordination across ministries and agencies was ensured through a co-ordinating committee organised by the Interior Ministry and under the direct authority of the President.

Central government commitment and leadership drive the process

A prominent feature of *Saemaul Undong* was the strong leadership of the central political figure. President Park had a keen interest in rural development, and closely followed the development of *Saemaul Undong*. The active role of the central government not only contributed to reducing the urban bias associated with the Korean industrialisation process, but it was also key for mobilising financial and human resources, and strengthened the institutional capacity of ministries and local governments to support the programme both vertically and horizontally.

Rural communities can become the main change agents

The design of *Saemaul Undong* allowed villagers to be the main agents of change. Ordinary villagers participated in local meetings to discuss development plans, the use of local funds, village affairs, etc. People were then able to practise consensus-building and take collective actions. The establishment of town halls, in which these meetings were held, was also part of *Saemaul Undong* projects (Hahn, 1981). *Saemaul Undong* helped to create

a new generation of leaders. Leadership at local level was formed through the election of Saemaul Leaders, who worked with the village chief (*Ri Jang*) to co-ordinate local projects and activities. Saemaul Leaders were commonly elected by villagers based on educational criteria and their interest in community development, independent from external forces. They received no financial compensation, but received special training and had the recognition of the community. Since Saemaul Leaders were not associated with a classic structure of power within the community (dominant clan), their presence further enhanced the role of the villagers as agents of change.

Sequential policy implementation is enhanced through incentives and monitoring

Policy implementation during *Saemaul Undong* not only relied on an effective governance structure, but also on mechanisms to ensure that policy actions were delivered and the objectives were met. Two main lessons for enhancing policy implementation can be drawn from *Saemaul Undong*: incentives are needed to mobilise communities, and monitoring schemes and best-practice sharing allow the programme to evolve.

Incentives support community mobilisation

While Korean communities were already used to community-based projects, a key feature of *Saemaul Undong* was the use of both incentives and competition to mobilise villagers. The government categorisation of villages based on their level of development, organisation, leadership, resources and infrastructure introduced an element of competition and encouraged villages to improve in order to graduate to the next level. Simultaneously, the government provided various incentives for villages to continue to participate in *Saemaul Undong* while competing with other villages. These incentives ranged from the provision of financial and physical resources to direct recognition by the President.

Monitoring schemes and sharing best practice can motivate stakeholders

In addition to incentives, embedded within *Saemaul Undong* was a system of monitoring and evaluating local projects. The outcome of projects on the ground was reported through government channels and the government took appropriate measures to further motivate villagers to participate in the programme and to adjust the programme as situation changed.

Best practice approaches during *Saemaul Undong* implementation were shared through the public media and educational materials for Saemaul leaders. The media were used to introduce the latest trends and exemplary cases of *Saemaul Undong* activities, while success stories were also printed in journals such as *Saemaul Weekly* and *Saemaul* (a monthly publication). Saemaul leaders would also visit model villages at times to acquire know-how, which in turn would motivate them to learn, adapt and implement best practices into their own village projects.

Conclusion

To conclude, *Saemaul Undong* was a comprehensive multi-level and multi-sectoral strategy that improved living standards in rural areas and helped to limit any fallout from

Korea's successful industrialisation process. Policy actions targeting different sectors were put into place in order to improve well-being and limit rural-urban disparities. Korea's fast and successful industrialisation process implied the reallocation of labour across economic sectors, which in practice included large migration from rural to urban areas, as well as an increasing income gap between both areas. *Saemaul Undong* acted as a buffer during the structural transformation of the Korean economy, redistributing wealth through subsidies for agriculture, increasing agricultural productivity, and providing both soft and hard infrastructure in rural areas. Overall these actions helped to improve the living standards of rural households. However, while income disparities between urban and rural households decreased during the 1970s, this trend was not sustained due to the fast and successful industrialisation process.

Although urban-rural disparities did not disappear, Korea's approach to rural policy highlights the importance of strategic planning for promoting an inclusive development process. Indeed, during the 1970s, the Korean government opted to use the resources accumulated through the industrialisation process, mainly taking place in urban areas, for enhancing the living standards of the rural population. Reducing urban-rural disparities not only meant bringing the rural population into the national development process; it also meant maintaining social and political stability across the country.

Notes

[1] The *chaebol* are big business conglomerates characterised by being family-owned and family-managed.

[2] Rates measured as the share of savings and gross capital formation with respect to gross national disposable income.

[3] For instance, 5.08 million metric tons of rice were produced between 1953 and 1960, whereas only 0.05 million metric tons were imported during this period.

[4] The unit for grain production at that time was a *Seok*. A *Seok* is based on volume and not weight. Hence, the amount may differ according to the grain. For instance, one *Seok* of rice weighs 144kg, barley 138kg and beans 135kg. This unit was used until the 1980s.

[5] Other intentions include expanding international trade and export markets for U.S. agricultural commodities (US DOA 1977, 1).

[6] Later renamed the Rural Development Administration (RDA).

[7] Now the Ministry of Agriculture, Food and Rural Affairs (MAFRA)

[8] GDP growth rate (%) for the 1960s is as follows: 2.1(1962), 9.1(1963), 9.7(1964), 5.7(1965), 12.2(1966), 5.9(1967), 11.3(1968) and 13.8(1969) (Korea Institute of Finance, 2013).

[9] According to Jung-Ryun Kim's memoirs, Chief Secretary to the President from 1969 to 1978, cement was used in *Saemaul Undong* to overcome the recession in the cement industry. Sung-gon Kim, then a member of the ruling party, as well as president of a cement company, asked for special financing for cement inventory and as a solution, the Park administration decided to input cement worth 3 billion Won (Oh 2003, 473).

[10] Because bureaucrats' evaluation and incentives in local offices also depended on the performance of the village, reports to the government were at times falsified and the villagers would sometimes be coerced to carry out projects against their will. One example is the production of Tong-il rice.

[11] According to a survey conducted in 1978, most (47.1%) of the respondents said they chose their Saemaul Leader through a village election, followed by advice from the neighbourhood or leading village members (25.6%) and election among a few villagers (15.4%). The least common method was nomination by administrative agency (4.7%) (Choe et al., 1978, p. 62).

[12] For more discussion on the positive aspects and the limitation of women in *Saemaul Undong*, see (J. Hwang, 2001; J. Lee and Chung, 2013; Ministry of Health and Social Affairs, 1981)

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Chapter 6
Experiences on rural development from Southeast Asia and China

Viet Nam, Thailand and the People's Republic of China have all made remarkable progress in reducing poverty and diversifying their rural economies. Viet Nam has achieved impressive economic development through its structural transformation from a closed, socially-planned and collective economy towards a market-based and open economy. Thailand's proactive policies have transformed it into an agricultural powerhouse and it has managed to narrow the urban-rural gap in infrastructure, education and health provision. China's economic development over the last 65 years has seen it evolve from a closed socially-planned economy to a modern industrial nation. This chapter reviews the national and rural development strategies of these three countries, drawing out valuable lessons on what works for rural development.

Understanding the specific dynamics and trajectories of rural development in developing countries can shed light on how to bridge the urban-rural gap while taking advantage of the new opportunities for rural and ultimately national development. This chapter analyses the impact of the national social and economic development approaches of three Asian countries – Viet Nam, Thailand and China – on their agricultural and rural development. Overall, their experiences highlight the need for holistic rural development approaches and government capacity building.

Viet Nam: A diversified market economy moving to a more holistic rural development

Country overview

Over the past 30 years, Viet Nam has achieved remarkable economic development through its structural transformation from a closed, socially-planned and collective economy towards a market-based and open economy (summarised in Table 6.1 below).

Following Independence in 1945, the country entered an internationalised civil war. In the context of the Cold War, ideology and political imperatives influenced economic policies on both sides. From the end of the war in 1975 until 1986, central planning was the main economic model with state-owned agricultural co-operatives, especially in the rice sector, as the main engine. However, dismal agricultural output due to lack of incentives and inefficient organisation of production led to hyperinflation, external deficits and recurrent food crises.

In 1986, the government gradually moved towards a "socialist-oriented market economy" through *Doi Moi* (renovation) reforms. From the 1990s onwards, the government adopted an export-driven development model while privatising many state enterprises. Viet Nam's accession to the World Trade Organization in 2007 marked a new period of full integration into the world economy. Social policies emerged to deal with rising disparities between rural and urban areas, between formal and informal sectors and between agricultural and non-agricultural productivity.

Viet Nam's gross domestic product (GDP) grew more than ten-fold between 1970 and 2014 (Figure 6.1). The main period of growth occurred after 1990, following the *Doi Moi* policy shift, and again after 2000, when Viet Nam accelerated its integration into the world economy. The country escaped the impact of the 1997 Asian crisis mostly thanks to its limited connection with the global trade system at that time.

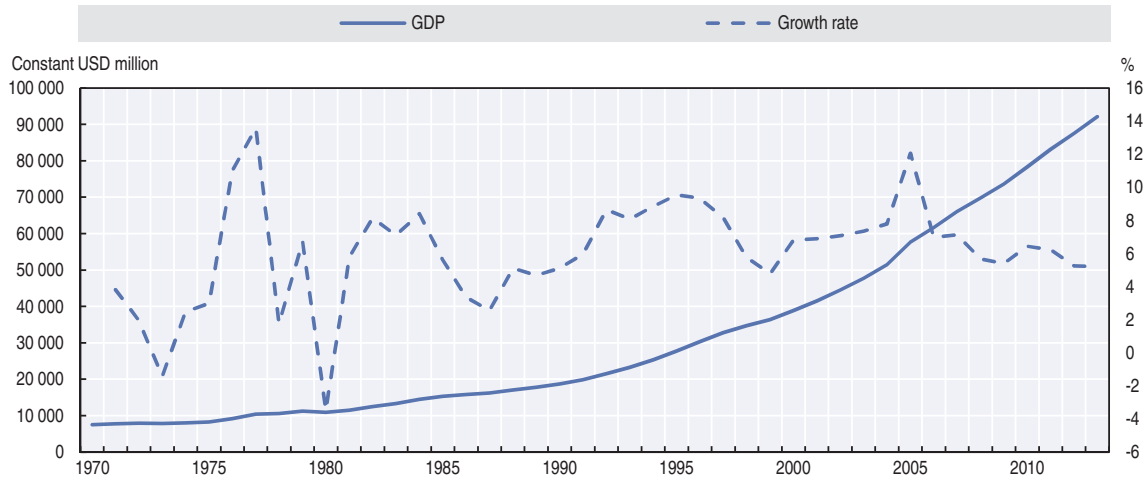
Between 1980 and 2012, the share of agriculture in GDP fell from 40% in 1985 to 18% in 2014 (Figure 6.2). Similarly, over this same period, the share of agricultural employment rapidly decreased from 76% of the workforce to 59%. In contrast, from 1985 to 2014 the share of service's contribution to GDP increased from 32% to 43%, and the industry sector from 27% to 38.5% (World Bank, 2015). Nonetheless the total number of economically active people in agriculture increased from 18 million in 1980 to 31 million in 2015, partly due to population growth (UNCTAD, 2015; FAO, 2015).

Viet Nam re-integrated into the world economy through two phases: first, through exporting raw commodities and agricultural products; and second, through the progressive development of manufacturing (from textiles to machinery and electronics). More sophisticated foreign direct investment (FDI) in electronics and high-tech arrived after the

first wave of FDI in light manufacturing. The government continued its support for a few state conglomerates following the Korean *chaebol* model (Chapter 5). Between 1975 and 2012, international trade "skyrocketed". Exports increased 123 times, from 6% of GDP in 1986 to 86% in 2014 (Figure 6.3). Imports followed the same trend. This boom accelerated from the late-1980s and growth was only interrupted by the 2008 financial crisis, which resulted in a slight trade deficit (UNCTAD, 2015).

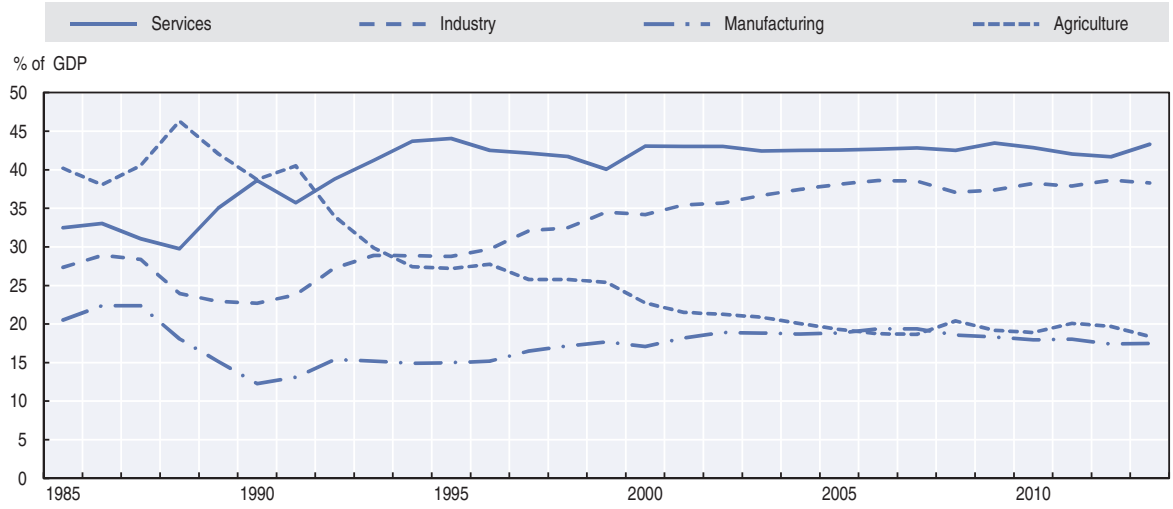
Figure 6.1. **Viet Nam's economic growth has been remarkable, 1970-2013**

% GDP growth and GDP in USD million



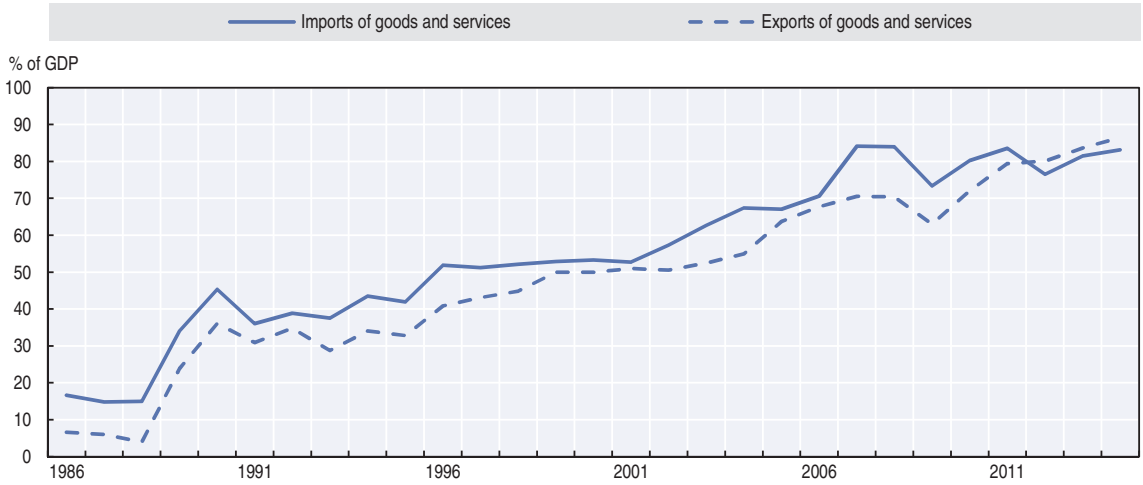
Source: World Bank (2015), *The World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 19 October 2015.

Figure 6.2. **Viet Nam's evolution of GDP by sector, 1985-2013**



Source: World Bank (2015), *The World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 19 October 2015.

Figure 6.3. **Viet Nam's share of exports and imports in GDP, 1986-2014**

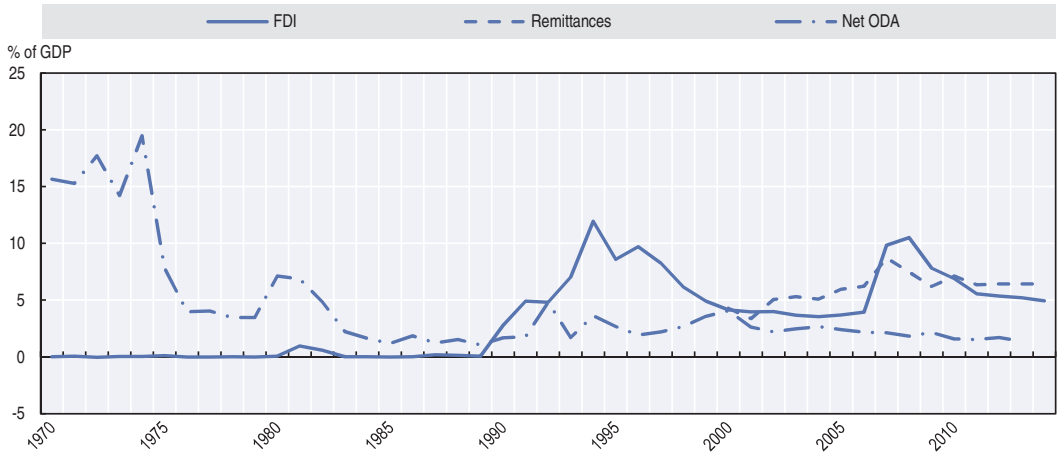


Source: World Bank (2015), *The World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 19 October 2015.

The inflow of investment and remittances has played an important role in development since Viet Nam re-opened its economy. Remittances reached a total of 6.4% of GDP, about USD 11 billion, in 2013 (Figure 6.4). This is considerably higher than most other Southeast Asian countries, apart from the Philippines (10-12%). Similarly, FDI reached USD 8.9 billion in 2013, with a strong increase in the early 1990s and a second push just after the 2008 crisis. Viet Nam first became an attractive location for the low-cost textile industry, but quickly upgraded its position towards higher value-added activities (electronics). Increasing labour costs in neighbouring China will make Viet Nam even more attractive in the coming years for Chinese firms wishing to relocate outside of China while staying close to home. Official development assistance (ODA) also plays an important but declining role, accounting for only 2.5% of gross national income (GNI) in 2014.

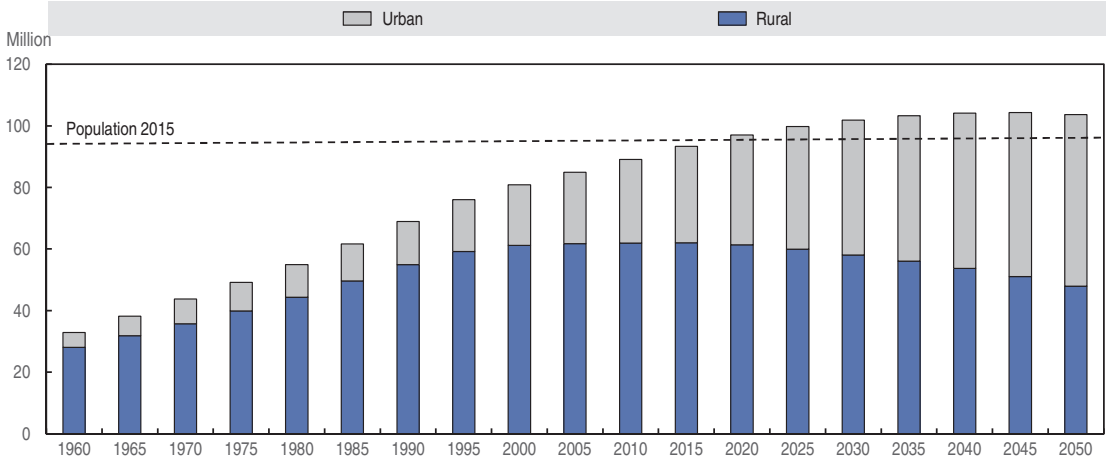
In the coming decades, the Vietnamese population will continue to grow; it is only expected to peak by the mid-2040s (Figure 6.5). While industrialisation and increased agricultural productivity have had both push and pull effects on rural-urban migration, overall Viet Nam has remained a predominantly rural country. Between 1960 and 2013, the urban population grew from 5.1 million to 28.9 million (UN, 2012). The majority of the urban population is concentrated in two major cities: Hanoi, the capital in the north, and Ho Chi Minh City, the biggest economic hub in the south. Regardless, 60 million people, or 68% of the total population, still live in rural areas, down from 85% in 1960 (UN, 2012). However, rural population will peak during the current decade before starting to decrease. By the mid-2040s, most of the Vietnamese population will reside in urban areas (Figure 6.5).

Figure 6.4. **Evolution of ODA, FDI and remittances in Viet Nam, 1970-2014**



Source: UNCTAD (2015), *UNCTADstat* (database), http://unctadstat.unctad.org/EN/; World Bank (2015), *The World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 20 October 2015.

Figure 6.5. **Viet Nam's population is becoming increasingly urban, 1960-2050**



Source: UN (2014), *World Urbanization Prospects* (database), http://esa.un.org/unpd/wup/CD-ROM/, accessed 4 November 2015.

Viet Nam is going through a demographic transition and will soon have to deal with a rapidly ageing population. An aggressive two-child policy, which started in 1986, has accelerated the fertility decline from 8.3 births per woman in 1960 down to 1.8 births per woman in 2012 (which is below the natural replacement rate). The fertility change, along with extended life expectancy, has opened the window to the demographic bonus that Viet Nam is currently enjoying. The activity ratio has climbed quickly, from 1.3 working age people for every inactive person in 1990 to 2.2 active people supporting each inactive person today (calculations based on UN, 2012).

Rural development strategy

Before 2007, there was no specific policy for rural areas; agricultural policies along with other infrastructure development projects were the main motor of change in rural areas. Table 6.1 summarises the evolution of policies relevant to rural development from 1975 to the present day; these are then described in detail below.

Table 6.1. **Evolution of agriculture and rural development objectives in Viet Nam**

Period	1960-1974	1975-1986	1987-2007	2008-2015
Policy orientations	Two countries and economy of war	Reunification - Collectivisation, egalitarianism and planned economy	*Doi Moi* (Renovation): "one country two systems", market liberalisation and integration into the world economy	Towards a more inclusive society
Agriculture and rural development	Priority to food for civilians and soldiers	Agriculture as a priority for the country. Collectivisation and investments in irrigation	Shift from co-operatives to a family-based economy (production and trade) Goal 1: restore national sufficiency on food (first decade) Goal 2: develop exports of raw products (second decade)	New rural development strategy: multisectoral policies & sustainability

Collective agriculture (1975–1986)

In this period, the state focused on increasing agricultural production to use the surplus to drive industrialisation. Agricultural co-operatives and large state farms were established to control the means of production. The government heavily financed infrastructure, especially for irrigation, and invested in agricultural machinery. Agricultural capital intensity increased five-fold, electrification nine-fold, and the number of tractors and machinery 11-fold. Trade, and agricultural extension, were directly supported by the state.

Towards a socialist-oriented market economy: Doi Moi (1987-2007)

Doi Moi abandoned the centrally planned market economy and initiated a process of liberalisation towards a "socialist-oriented market economy." *Doi Moi* can be split into two stages (Table 6.1). The main objective of the first stage was to reverse the economic crisis and establish food self-sufficiency. Households in farming contracts with the state replaced large-scale agricultural collectives and state farms. Land was redistributed on an egalitarian basis. In 1993, a new land tenure law extended land-use rights to 20 years for the production of annual crops and to 50 years for perennials. Private enterprises were formally recognised. State control over population movement limited rural depopulation.

Later, a second set of reforms was adopted to promote exports, especially for agricultural products. Food imports decreased dramatically and agriculture became the major source of foreign currency earnings. Urbanisation growth also led to increased competition for land. Agricultural production surpluses facilitated co-investments with FDI in industry. Light manufacturing developed, attracting a workforce from rural areas.

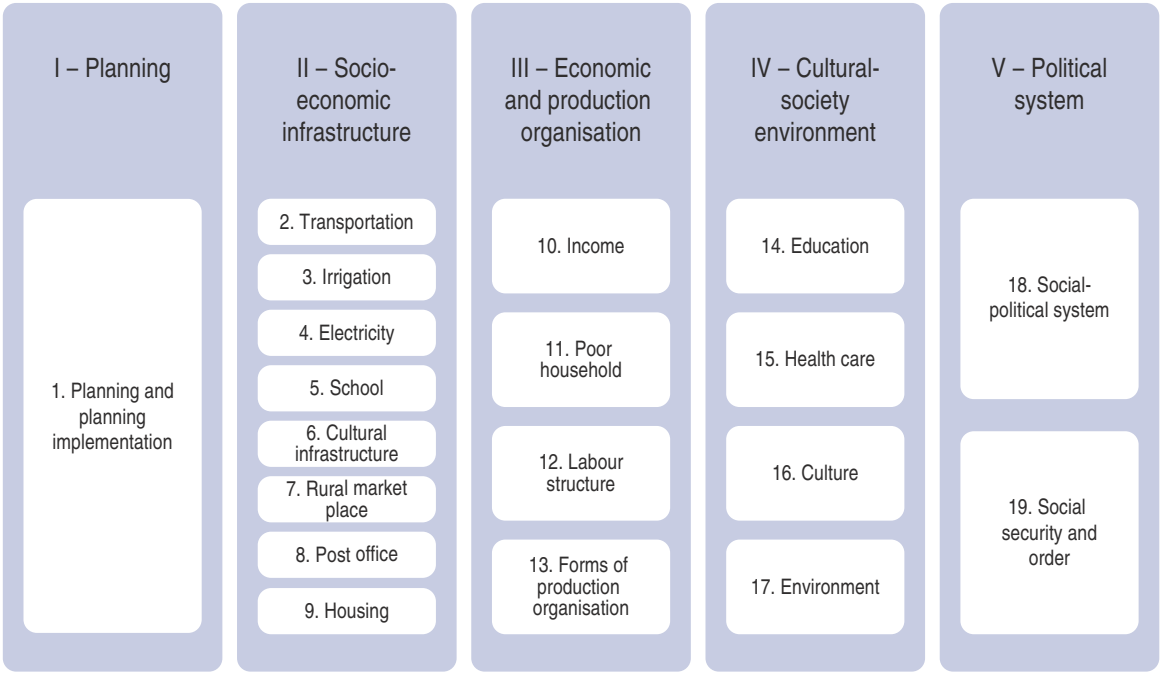
Other policies targeted rural areas, mostly in providing access to basic services such as connective infrastructure. In remote areas, transport infrastructure generated local employment. Economic corridors between north and south Viet Nam, as well as between Viet Nam and neighbouring countries, created a backbone of national roads that cut through remote areas.

The National Targeted Program on New Rural Development (2008-present)

The "rural development concept" appeared in Viet Nam's policy arena at the turn of the century to address the question of equity. The Communist Party's *Tam Nong* resolution supported the development of a three-pillar approach, integrating rural areas, agriculture and farmers. The resolution signified a shift towards people-oriented development. In 2010, Viet Nam adopted the "National Targeted Program on New Rural Development" (NTP-NRD) which takes a holistic view of rural development. The NTP-NRD is also integrated into the medium-term national "Socio-Economic Development Plan". It adopts a multidimensional approach to address economic, as well as social and cultural issues. It also sets out a multi-sectoral vision of rural development, in which growth of the rural non-farm sector is projected to reduce the share of agricultural employment from 47% in 2015 to 35% by 2020.

Agricultural policies now focus on increasing farmers' income rather than increasing land productivity. As such, changes in land policies and off-farm job creation strategies aim to consolidate small and scattered plots to facilitate mechanisation, particularly in the northern delta. Moreover, the government is promoting a variety of approaches – such as contract farming, agricultural co-operatives and marketing – to improve food safety and product diversification to meet the demand of the new urban middle classes and the high standards of export destinations.

Figure 6.6. **The 19 criteria of the new rural standards**



Source: Vu Thu, T., T. Do Thu and T. M. H. Nguyen (2014), "How to mobilise community involvement in Viet Nam rural development: Inspiration under the New Community Movement of Korea – Saemaul Undong".

The new approach aims to give more responsibility to communities and governments at commune and village level. The NTP-NRD sets out 19 minimum criteria for each village, including provision of infrastructure, and social and human capital targets, as well as cultural and environmental objectives. Local communities and governments will adapt the 19 dimensions to their actual needs and strive to meet the targets for villages to qualify for certification under the "new rural" standards (Figure 6.6). The criteria require strengthening of local administrative capacity and mobilisation of local initiatives.

The NTP-NRD works in tandem with other policies that affect rural areas. The "National Strategy on Rural Skills" mobilises a network of education organisations, universities, training centres and enterprises to expand vocational training networks and help rural people move from agriculture to other sectors. The objective for 2010-20 is to train 1 million people each year, half of them being subsidised by the state, and to build capacity for local government officials. Communes have a key role in identifying themes and possible candidates for vocational training. Other policies, such as targeted support for ethnic minorities, aim to generate sustainable livelihoods for the ethnic minorities who often reside in remote and mountainous areas.

Assessment of rural development outcomes

Labour productivity in agriculture remains low

Doi Moi reforms and integration into the global market have unleashed the potential of the agriculture sector in Viet Nam, yet labour productivity in agriculture is significantly lagging behind that of other sectors. Following the reforms, Viet Nam has switched from importing cereal production to becoming a major exporter. The export basket has also expanded from rice to include higher value-added products such as fresh fruit and shrimps. Arable land area grew by 59% between 1985 and 2011, while agricultural production increased six times faster than the cultivated area between 1961 and 2011 (FAO, 2015). Over the same period, the value added per agricultural worker increased by 68%. However, this level of value added per worker in agriculture in 2011 was only a quarter of the national average, falling from half the national average in 1995. Limited cultivable land and a high number of agricultural workers means that available land per worker is low (0.2 ha per worker in 2011).

Viet Nam has made strides in poverty reduction and human development

Extreme poverty has almost been eradicated in Viet Nam, with only 2.4% of the population living on less than USD 1.25 a day in 2012 (Figure 6.7). The percentage of the population living on less than USD 2 a day (in purchasing power parity, PPP) declined from 86% in 1993 to almost 13% in 2012. The pockets of poverty will be difficult to tackle, mostly being located in remote and mountainous areas. For instance, the rural poverty headcount ratio at national poverty lines out of rural population was 26.9% in 2010 and decreased to 22.1% in 2012. However, that of urban poverty out of urban population was only 6% in 2010, which dropped slightly to 5.4% in 2012 (World Bank, 2015).

In education, the primary school enrolment rate remains high, while enrolment in tertiary education doubled between 2000 and 2012. Similarly, health expenditure per capita (in PPP, 2011 constant USD) has more than quadrupled from USD 73 per capita in 1995 to USD 308 in 2013. Consequently, the infant mortality rate has sharply decreased, from 62 infant deaths per 1 000 births in 1964 to 17 in 2015. The under-5 mortality rate has also

decreased, from 95 deaths per 1 000 births in 1964 to 22 in 2015. Until 2006-07, those rates were lower than the average across the East Asian and Pacific countries. However, both infant and under-5 mortality rates of Viet Nam have been higher than those of East Asia and Pacific countries since 2007. Between 1960 and 2013, life expectancy increased from 59 years to 75.8 years (World Bank, 2015).

Figure 6.7. **The decline of poverty in Viet Nam, 1993-2012**

Source: World Bank (2015), *The World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 20 May 2015.

Rural access to basic infrastructure is higher than in most developing countries

Access to electricity in rural areas is close to universal coverage, at 98% (Table 6.2). The percentage of the rural population with access to an improved water source has also increased significantly, from 56% in 1990 to 92% in 2012. Similarly the percentage of the rural population with access to sanitation has doubled from 29% in 1990 to 65% in 2012. With the exception of access to improved sanitation, the gap between rural and urban areas in each dimension is closing rapidly as access is becoming almost universal.

Table 6.2. **Viet Nam's improving welfare indicators, 1990-2012**

	1990	1995	2000	2005	2010	2012
Access to electricity (% of total population with access)	88		89		96	99
% of urban population	100		97		99	100
% of rural population	84		87		95	98
Improved water source (% of total population with access)	63	70	77	85	91	94
% of urban population	90	92	94	96	97	98
% of rural population	56	64	72	80	89	92
Improved sanitation facilities (% of total population with access)	36	45	53	61	70	73
% of urban population	65	71	77	83	89	91
% of rural population	29	37	45	53	62	65

Source: World Bank (2015), *The World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 13 November 2015.

A network of secondary and tertiary cities is creating off-farm employment

A network of secondary and tertiary cities is emerging, notably along major transportation routes (Route 1 and Route 5), helping to create rural off-farm employment. These agglomerations are large enough to attract private investment in services, evidenced by the appearance of new branches of hospitals, schools and residential housing. Environmental concerns in the megacities of Ho Chi Minh and Hanoi have also led to a process of "de-urbanisation of industry", especially in the textile and garments industry where the agglomeration benefit is lower. These dynamics help the development of rural non-farm activities in the surrounding areas, although they also lead to increasing competition for land resources and related conflicts.

Viet Nam has been quick to adopt innovation for rural development in recent years

Near universal cell phone coverage in Viet Nam has played a vital role in enabling farmers to access production and market information**.** The spread of social networking has enabled rural enterprises to reach urban markets directly. Small enterprises concentrated in smaller cities and rural towns can now advertise their processed food and goods nationally, and especially to the middle classes in the two biggest cities, Hanoi and Ho Chi Minh City. They can then use the already established network of private buses for quick shipment to consumers. In the near future, the spread of low-cost smartphone-based urban delivery services that use existing scooter and taxi networks can further simplify and expedite the logistics chain, allowing farmers of perishable goods to extend their reach. Viet Nam's Ministry of Agriculture has recently invented a new subsurface dam technology to construct and upgrade household water supply systems in scattered, remote communities in mountainous areas. The pilot project, supported by AusAID, has proved successful in using local material and labour (accounting for 60% of construction costs), requiring less maintenance and speeding up construction. Overall it costs about USD 250 per household and generates 40% savings over current methods. The Ministry of Agriculture is seeking to expand this technology to all provinces. Moreover, in recent years, large private farms have adopted Israel's drip irrigation technology for water-intensive crops such as coffee and tea, thus conserving water use for their production.

Lessons for rural development

- **Well-sequenced investment priorities allowed agricultural upgrading and industrialisation to support each other.** Reforms and investments in agriculture increased food production and kept prices low to drive the labour-intensive manufacturing sector. Agricultural products, especially fish, were for a long time the major exports and generated the surplus capital to invest in industry and service sectors. As an industrial base develops in Viet Nam, agriculture will need support from industry to upgrade. The agriculture sector in Viet Nam currently has a low rate of modernisation, partly due to the weak industrial supporting sector. Investing in agriculture would thus provide additional opportunities for industrial expansion.
- **A consistent strategy was crucial to implementing long-term and drastic reforms such as the shift to a market-based economy.** The government's

consistency in implementing the policy agenda reduced economic and institutional risks for economic agents, while allowing for policy innovation to take effect. Allowing provincial governments autonomy in policy making enabled experimentation and fine tuning through pilot schemes in a few provinces and a few specific sectors, such as trade and agriculture, before being extended nationwide. This experimentation increased capacity for design and adapting policies, and allowed the programmes to be fine-tuned.

- **Providing the right incentives and public investment in public goods, infrastructure and education, was key to the structural transformation.** The country has been able to adapt to the challenges of globalisation, albeit at the cost of rising social and spatial inequalities. The development of social protection partly fills this gap yet its sustainability remains in question. Further economic diversification will be necessary, requiring the implementation of multi-sectoral approaches and more local development, which in turn demands effective decentralisation. To deal with the growing costs of urbanisation and the challenges of climate change, the long-standing tradition of top-down approaches will need to connect with the necessary bottom-up processes.

Moving forward

A strategic approach to rural development will be needed to tackle the long-term challenges of rural areas. The expansion of manufacturing and services is driving large-scale rural-urban migration, depriving rural households of active labour. This is made more acute by an ageing population. Furthermore, increasing agricultural productivity will create challenges in terms of land scarcity and environmental degradation. Thus a more holistic approach towards rural development, rather than one only focused on sectoral policies, is required to tackle these long-term challenges. Diversification of rural incomes and increasing value added through food processing or a more efficient food supply system could be part of the answer. However this process takes time and social policies will play a crucial role in the short to medium term to support the transition.

Thailand: Moving towards bridging the rural-urban gap

Country overview

Thailand is a constitutional monarchy which has had a turbulent political history involving frequent coups. King Bhumibol Adulyadej (or Rama IX) has reigned since 1946 and remains a symbol of national continuity. Prior to the 1997 constitution, technocrats in the macroeconomic offices greatly influenced national strategy through a series of five-year national development plans. Since the 2000s, Thailand has swung between democratically elected and military governments.

Despite volatility in the growth rate (see dashed line on Figure 6.8), Thailand's GDP has increased constantly since 1965, with the exception of the two downturns following the Asian and global financial crises of 1997 and 2008, respectively (Figure 6.8). From 1965 to 2013, the economy shifted steadily towards industrial expansion, and GDP per capita (in constant 2005 USD) grew from USD 437 in 1965 to USD 3 426 in 2014 (World Bank, 2015). Although the 1997 Asian Financial Crisis had devastating consequences, the

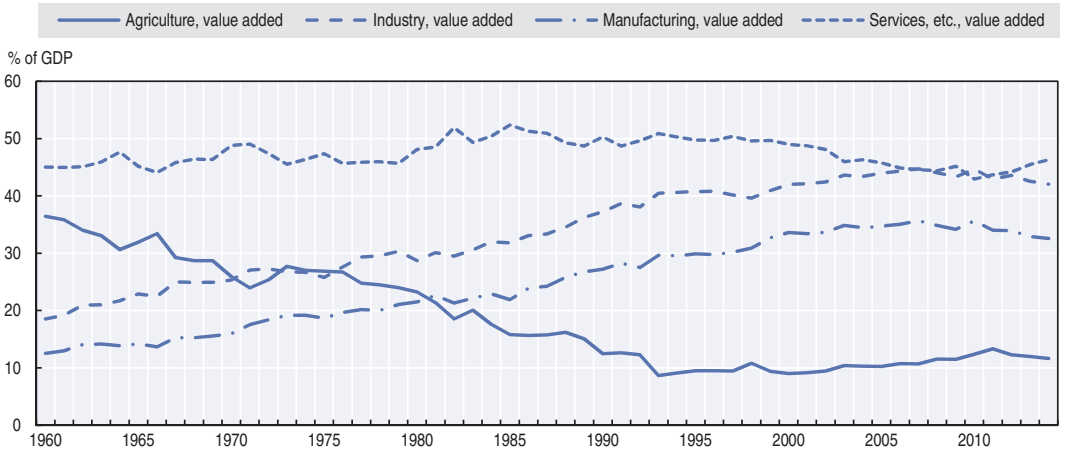
economy recovered quickly. The last two periods of strong growth (1985-97 and 2002-15) were mainly driven by manufacturing.

The share of industrial value added in GDP increased from 18.5% in 1960 to 43% in 2013, while that of agriculture decreased from 36% in 1960 to 12% in 2013. The service sector's share in GDP has remained fairly stable with no drastic changes over the years (Figure 6.9). Similarly, the share of employment in agriculture drastically decreased, from 71% in 1980 to only 40% in 2012.

Figure 6.8. **Thailand's economy has grown steadily, 1965-2013**

Source: World Bank (2015), *The World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 19 October 2015.

Figure 6.9. **Thailand's evolution of GDP by sector, 1960-2014**

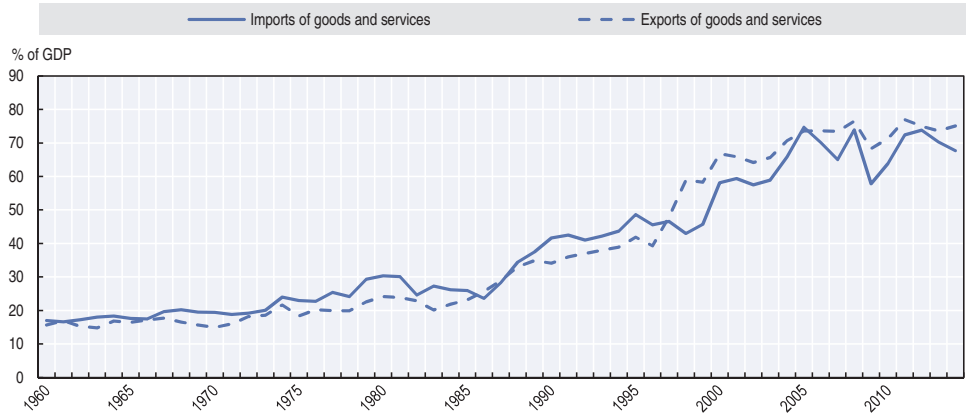


Source: World Bank (2015), *The World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 19 October 2015.

Thailand's economy is characterised by its strong connection to regional and global markets. Over the last 50 years, Thailand's imports and exports of goods and services have increased to reach USD 274 billion for imports and USD 284 billion for exports in 2013 in current prices, or around 65% of GDP (Figure 6.10).

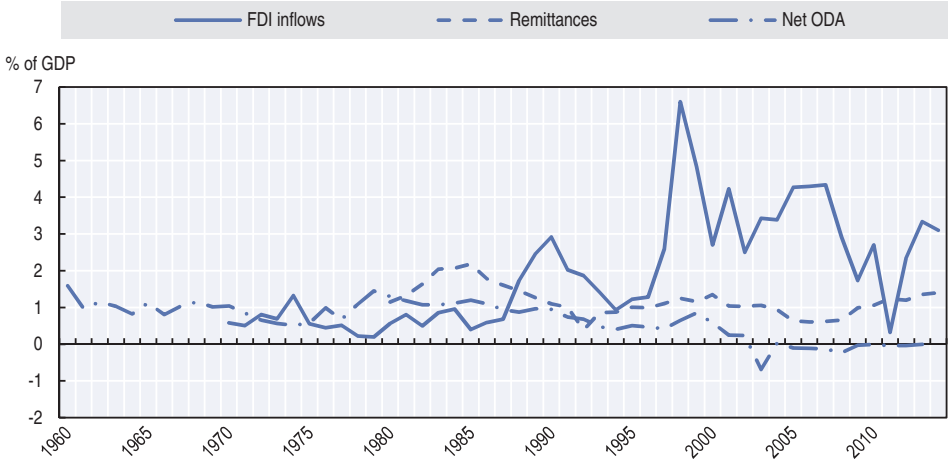
During the Cold War, Thailand benefited from significant inflows of foreign aid from the US to limit the spread of communism. The 1980s and 1990s saw a wholesale relocation by Japanese companies of their manufacturing activities to Thailand to avoid the stronger yen and to enjoy lower labour costs. Since the 1997 Asian financial crisis, FDI has fallen, reaching 3% of GDP in 2014 (Figure 6.11). In contrast, remittances have made a positive contribution to the current account balance, increasing from USD 1.9 billion in 2008 to USD 5.5 billion in 2012 in current prices.

Figure 6.10. **Thailand's share of exports and imports in GDP, 1960-2014**



Source: World Bank (2015), *The World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 19 October 2015.

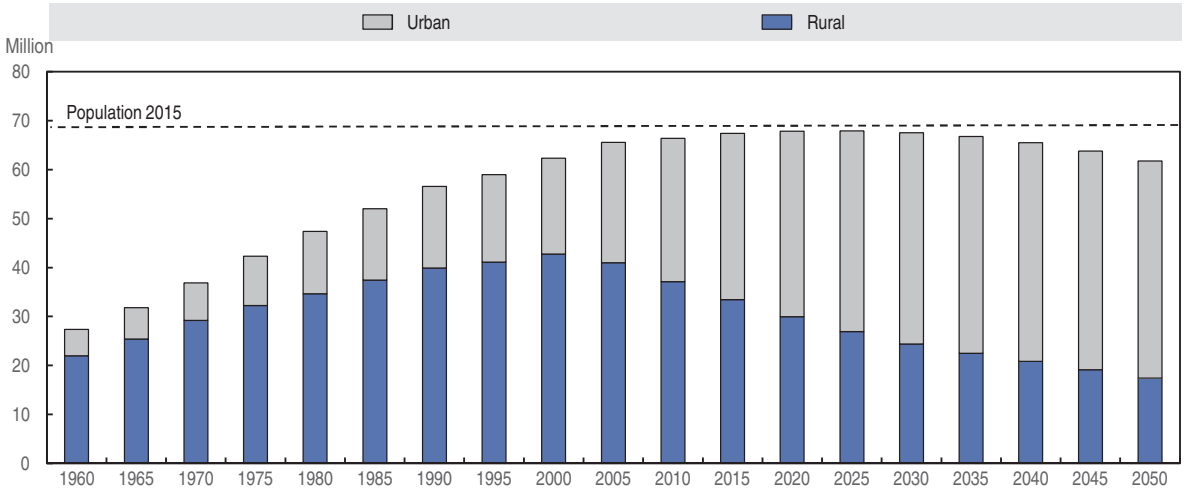
Figure 6.11. **Evolution of ODA, FDI and remittances in Thailand, 1960-2014**



Source: UNCTAD (2015), *UNCTADstat* (database), http://unctadstat.unctad.org/EN/; World Bank (2015), *The World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 20 October 2015.

The urban population grew from 5.4 million (19.7% of the population) in 1960 to 33.3 million (49.2%) in 2014 (Figure 6.12) – a trend which is very similar to other Southeast Asian countries. The rural population started to decrease in absolute terms in 2000. A large share of the urban population, between 10 million and 14 million people, is concentrated in the metropolitan area of Bangkok, demonstrating Thailand's strong regional asymmetry in city sizes.

Figure 6.12. **Thailand's population is becoming increasingly urban, 1960-2050**



Source: UN (2014), *World Urbanization Prospects (*database), http://esa.un.org/unpd/wup/CD-ROM/, accessed 4 November 2015

In the 1970s and 1980s, Thailand launched a national population policy that popularised contraception use through education and financial incentives linked to low birth rates. This programme successfully decreased the fertility rate from more than six births per woman in the 1960s to 1.4 births per woman in 2013, a level far below the natural replacement rate needed to maintain population size. Fertility decreases reduce the share of young children in the population, thus pushing up the activity ratio (between those in and outside the workforce). Thailand's ratio is now peaking at 2.6 working age people for every inactive person (UN, 2012). The demographic bonus is estimated to account for 15.5% of Thailand's economic growth between 1960 and 1990 (Mason and Kinugasa, 2008). Thailand is close to completing the demographic transition, however, and is about to become an ageing society.

Rural development strategy

Agricultural production and rural areas have played different roles during the last 50 years: as suppliers of food, capital and workforce for industry; as suppliers of foreign currency and tools for land control during the Cold War; and as tools for dealing with migration. Therefore their position in the policy agenda has shifted several times along with the political economy of the country. Four major periods in Thailand's national development can be identified, with accompanying shifts in rural development approaches (Table 6.3).

Table 6.3. **Sequencing of development policies and rural development objectives in Thailand**

Period	1960-1975	1976-1980	1981-1988	1989-1997	1998-2000	2001-2006	2007	2008-2013	2014-2015
Policy orientations	State-led liberalisation and import substitution industrialisation (ISI)	Export oriented industrialisation (EOI)	Economic crisis, state-led adjustment, strengthening of the EOI	Financial liberalisation	Asian crisis and structural adjustment	Redistribution strategy and welfare programme	Sufficient economy	Return to integrated policy with social welfare programmes	Sufficient economy
Period	**1960-1975**	**1976-1988**		**1989-2000**		**2001-2015**			
Agriculture and rural development	Support to agricultural production to facilitate industrialisation	Vertical integration and agricultural exports First rural development actions		Neglect of agriculture and rural development Increasing rural poverty		Social policies, rural development and rice support			

Support to agricultural production to facilitate industrialisation (1957-75)

After the military coup of 1957, the Thai government progressively replaced nationalist economic policies with free market policies. Import substitution was the main industrialisation strategy in the 1960s, with import tariffs raised to protect industry. Thanks to global economic growth and a fixed exchange rate system, the Thai economy enjoyed rapid progress mainly due to growth of the agricultural sector.

During this period the government's focus was on increasing agricultural production through 1) deforestation to expand agricultural land; 2) agricultural modernisation; and 3) diversification into higher value products. In 1966, the Bank for Agriculture and Agricultural Cooperatives (BAAC) was established to provide credit to farm households through a "group-guarantee" system. Conglomerates emerged initially from the food production sector and later diversified into other industries or services. Contract farming was progressively developed which boosted technology transfer (especially in the poultry sector).

Agricultural outputs were used to fuel industrialisation. The rice sector in particular was subject to high taxation and price controls in order to: 1) attract FDI in manufacturing by maintaining a cheap workforce through low-cost food and encouraging rural-urban migration of excess agricultural workers; and 2) generate a surplus to invest in infrastructure projects. This policy was successful in developing infrastructure and manufacturing in Bangkok and its inner suburbs (Kermel-Torrès and Schar, 2000).

Rural infrastructure developments were prioritised early on. In the early 1960s, the government concentrated on investing in rural infrastructure as a means of fostering the role of the state in remote areas as well as limiting the spread of communist insurgency. The development started with connective roads, and was then expanded to other services: electricity, water, sanitation and telecommunications. Education also became a focus at this time with the requirement for it to address the needs of industrialisation and the economy.

Export-driven agro-industrial promotion requires rural development buffering (1976-1988)

In the early 1980s, Thailand faced an economic crisis due to a growing deficit, inflation and excessive borrowing from commercial banks. The government implemented structural adjustments by devaluing the baht, cutting budgets and reducing export taxes (Chambers, 2013). The growing balance-of-payment deficit forced the government to switch to an export promotion strategy. It used the profits from the new gas reserves to initiate the Eastern Seaboard Development Project, attracting foreign investment in export-oriented manufacturing and in the petrochemical complex.

Export-oriented industrialisation in the 1980s led to massive rural-urban migration. The land frontier was exhausted and the fall in agricultural commodity prices (in 1979-80 and in 1986) affected profitability (Poapongsakorn, 2009). The government switched its focus to supporting agricultural intensification and continued with incentives and support projects for agro-industries, with regional variations according to their intrinsic features. Vertically integrated agri-food production (especially for poultry) emerged and influenced production patterns: crop choices, technical systems and so on.

In parallel, the government initiated the first programmes to support rural diversification to mitigate the impact of intensification and concentration in agriculture, and to foster the development of lagging regions. One of the major policy instruments was a dedicated scheme for the development and promotion of community-based enterprises (CBEs). Although their monetary contribution is small, the CBE plays an important role in community development as it enables social capital development, social participation, capacity building and gender empowerment.

Neglect of agriculture and rural issues, increasing inequality and rural poverty (1989-2000)

In the 1990s, Thailand accelerated its economic integration in both the world and regional economies, and Bangkok became a major financial hub, attracting capital inflow into basic industries. The government continued its liberal orientation with a series of privatisations in the energy and telecommunications sectors. However the large inflow of foreign currency, currency overvaluation and a quick asset price bubble led to a major financial crisis in 1997. The International Monetary Fund (IMF) required the Leekpai government to make structural adjustments, including reducing the budget for social programmes and agriculture, and tax hikes.

In this period, agriculture was neglected due to falling agricultural commodity prices and reduced investment. Growing agricultural labour costs driven by the scarcity of rural labour led to the development of labour-saving techniques, yet these increased environmental degradation. Agro-businesses increased their dependence on contract farming, especially for export productions.

The 1997 financial crisis had a significant negative effect on rural areas. Structural adjustment measures intensified state withdrawal from agriculture and the privatisation of the remaining state enterprises. Decreasing domestic prices for outputs and increasing input prices caused by depreciation of the baht led to a worsening in the conditions for farmers and increased their debt significantly.

Social policies, rural development and renewed rice support (2001-present)

The appointment of Thaksin Shinawatra as Prime Minister in 2001 marked the return of the state as a major actor for economic development: it created a better environment for investment and social programmes for the poor. Since Thaksin's overthrow in September 2006, however, development strategies have been going through a stage of tentative reorientation. In recent years, despite political instability, regional integration within the ASEAN member countries has deepened, with the intention of creating a single common market in 2015.

Thaksin's coming to power marked a return of state intervention in the rural sector. Popular policies – such as a three-year debt deferment programme, the provision of cheap credit and rice price guarantees – aimed to increase farmers' welfare. The state encouraged agricultural exports in rice, chicken, shrimps and other agricultural products by strengthening regional integration and lowering tariffs. The level of farming contracts nearly halved and the government allowed the employment of foreign workers to reduce the rural labour shortages.

In parallel, the government promoted the development of local communities and the diversification of activities in rural areas through the "One Tambon, One Product" programme (Box 6.1); the implementation of village funds; and the "one district, one scholarship" programme. This approach was amplified by the adoption of the "sufficiency economy" ideology[1] promoted by the new government following Thaksin's overthrow.

Box 6.1. **Thailand's "One Tambon, One Product" programme**

The One Tambon, One Product (OTOP)[1] programme was inspired by the One Village, One Product (OVOP) movement in Japan, and promotes the development of Thai villages (Natsuda, Igusa and Wiboonpongse, 2012). The scheme selects a product or industry distinctive to each village, and villagers work together to scale up the product to a national and global standard. In contrast to Japan, the Thai government assumed a central role and promoted a variety of strategies to enhance product quality and to facilitate exports. In 2010 approximately 4 000 producers were registered under OTOPs covering 85 000 products made up of decorative items (37%), textiles (25%), foods (24%), herbal products (11%) and beverages (4%).

This programme, introduced in 2001, has successfully created higher-value jobs in rural areas, created employment opportunities for women and marginalised people, and contributed to the reduction of rural-urban migration. However it was criticised for benefiting only those producers who were already better-off, limiting the impact on poverty alleviation. Furthermore, it had a limited impact on the overall economy (less than 1%).

Note: [1]Tambon means village community.

Source: Natsuda, Igusa and Wiboonpongse (2012*), One Village One Product–rural development strategy in Asia: the case of OTOP in Thailand*.

Assessment of rural development outcomes

Proactive agricultural policies have made Thailand an agricultural powerhouse

Farming systems and rice cultivation models are more mechanised in Thailand than in other Asian countries due to the relatively high and increasing labour costs (Bruneau, 2008; Thapa et al., 2010). From 1980 to 2005, almost all the contribution to agricultural growth came from capital expansion (60%) and technical progress (43.5%) (Poapongsakorn, 2006). Labour productivity doubled from USD 560 to USD 1 166 per agricultural worker between 1980 and 2012 (World Bank, 2015).

Rapid urbanisation has led to a shortage of rural labour

Rural-urban migration for jobs has drawn workers out of rural areas, leaving rural households short of working-age members. Rapid population ageing will further exacerbate the labour shortage. Immigration policies have been relaxed to import unskilled foreign workers, albeit at the cost of rising social tension.

The rural economy is well diversified

The level of diversification of activities in rural areas is higher than in other similar Asian countries (Thapa et al., 2010). The rural off-farm economy provides around half of all rural jobs. They are related either to agriculture – such as agro-processing, agricultural equipment manufacturing, livestock feed and village shops – or to labour-intensive export activities, such as gemstone cutting, silk weaving and production of artificial flowers (Haggblade, Hazell and Reardon, 2007).

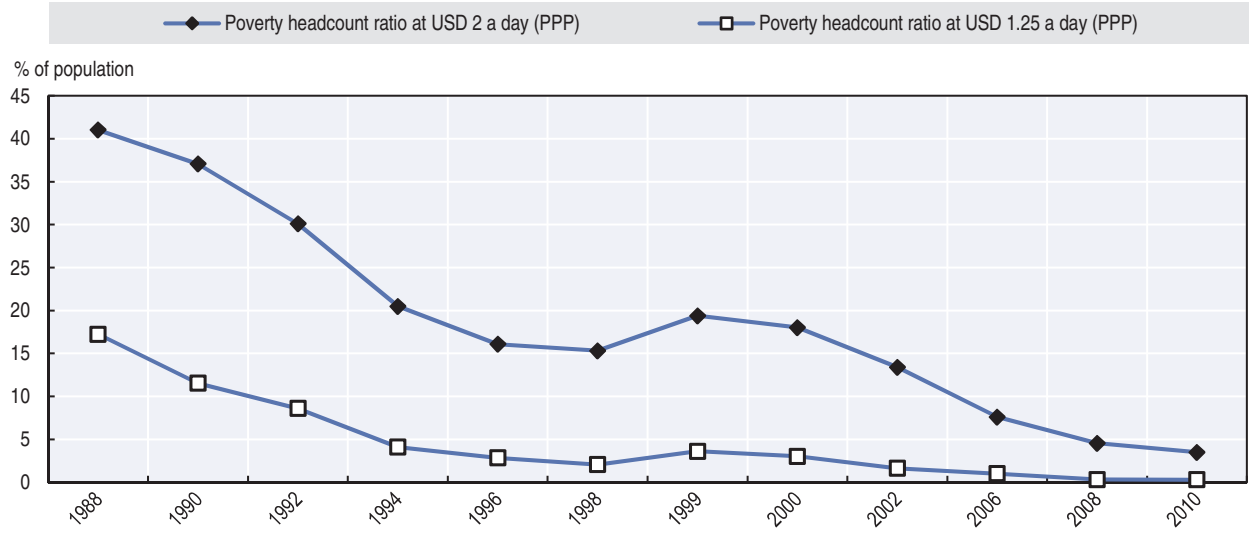
Thailand has achieved remarkable progress in poverty reduction

In 1988 around 40% of the population was living below the USD 2 (PPP) poverty line; the share was less than 4% in 2010 (Figure 6.13). The USD 1.25 (PPP) extreme poverty rate has followed the same trend, falling from 17% in 1988 to less than 1% in 2010. Rural poverty headcount at national poverty lines out of rural population also dropped almost by half from 30.4% in 2006 to 16.7% in 2011 (World Bank, 2015). Poverty is mainly concentrated in the northeast and north where agriculture remains the major, and often only, activity (Poapongsakorn, 2006).

Rural access to infrastructure, education and health is almost on a par with urban access

Long-standing investment in infrastructure led to 88% of roads being paved by 1988; road density has multiplied more than three-fold since 1990. Access to an improved water source is available to 97% of the Thai population, 93% have access to sanitation facilities and 100% have access to electricity. Access to these services is very similar across both rural and urban populations (Table 6.4). Rates of enrolment in secondary and tertiary education are also high, at 91% (secondary) and 51% (tertiary) in 2013 (World Bank, 2015). Health expenditure doubled from USD 238 per capita in 1995 to USD 653 in 2013. Consequently, both maternal and infant mortality have sharply decreased over the past 50 years, while life expectancy increased from 55 to 74 years between 1960 and 2012.

Figure 6.13. **Thailand's dramatic reduction in poverty, 1988-2010**



Source: World Bank (2015), *The World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 20 May 2015.

Table 6.4. **Thailand's improving welfare indicators, 1990-2012**

	1990	1995	2000	2005	2010	2012
Access to electricity (% of total population with access)	80		83		100	100
% of urban population	75		73		100	100
% of rural population	82		87		97	100
Improved water source (% of total population with access)	87	90	92	94	96	97
% of urban population	96	96	97	97	97	98
% of rural population	84	87	90	93	96	97
Improved sanitation facilities (% of total population with access)	87	89	91	93	93	93
% of urban population	89	89	89	90	90	90
% of rural population	86	89	92	95	96	96

Source: World Bank (2015), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 4 November 2015.

New technologies assist the rural population

Information and communication technologies (ICTs), particularly through the Internet, are beginning to play a role in Thailand's development. On the administrative side, the government is efficiently using ICTs to decentralise services delivery, reaching even the most remote parts of the country. E-government is used as an instrument to improve its reach, enhance the tax base, minimise processing costs, increase transparency, and reduce the times involved in completing administrative procedures (Suwannarat, 2010).

Thailand is one of the biggest producers of biofuels in Asia. This follows a government plan to diversify energy sources and promote renewable energy to meet the increasing energy demand in the country. The growth of biofuel production has largely been policy driven, with many policies and plans (e.g. the 10-year Alternative Energy Development Plan of 2012) contributing to the ten-fold increase seen between 2005 and 2010 (Kumar et al., 2013).

Lessons for rural development

- **Agriculture has played a critical role in Thailand's development.** It supported the development of industrialisation through transfers of labour and capital, while a downstream strategy promoted the transformation of products. National champions sprang from agro-businesses before diversifying into other sectors.
- **A holistic rural development strategy was eventually needed to replace agriculture policies.** Policies for rural development emerged at the end of the 1970s with two major objectives: to initiate a process of rural diversification *vis-à-vis* the spread of agricultural modernisation and to support lagging regions. These policies initially relied on community-based approaches, but became progressively more sophisticated with targeted programmes focusing on the development of local resources (such as One Tambon, One Product), and with a broader strategy embedded in the national development approaches, addressing multi-sectoral issues (education, natural resources management, and targeted assistance to vulnerable people). This progressive integration of overall rural development objectives into the policy agenda occurred in parallel with an effective and continuous effort to improve living conditions in rural areas and promote human development.
- **Early and sustained investment in basic services played a key role in the success of rural and national development.** Investment in physical and human capital created the enabling environment for agricultural intensification as well as rural diversification into the non-farm sector. Education enabled rural residents to accumulate the required skills to migrate in search of better economic opportunities, while education policy was quickly adapted to the pressing needs of the economy, such as the spike in demand for skilled workers for industrialisation.
- **Coherence in designing and implementing strategies** allows Thailand to take advantage of an evolving international environment and to deal with the successive challenges of its structural transformation. This relative flexibility results from the Thai structure and performance, driven by a long-standing tradition of self-government (a long-reigning dynasty and no formal colonisation), a class of highly-skilled civil servants and fluidity between research, universities and high-level civil service. This specific pattern explains the autonomy of Thai's development policies.

Moving forward

New, integrated and place-based strategies need to be designed in order to address current challenges, including mega-urbanisation (congestion of the Bangkok metropolitan area), food safety issues and new consumer requirements, climate change and the degradation of the natural environment (impacts of fertilisers, deforestation and salinisation of coastal deltas). The necessary policy will require effective decentralisation and strengthened local governments in order to benefit from bottom-up contributions to local and national development issues.

China: From closed economy to industrial powerhouse

Country overview

The economic development of the People's Republic of China over the last 65 years consists of three broad eras, evolving from a closed socially-planned economy to an open market-driven economy, and then to a modern industrial powerhouse.

During the Maoist period (1949-1978), China primarily focused on accelerating industrialisation. Following the Soviet model, China's command economy mobilised resources to develop heavy industry, often to the detriment of the agricultural sector and rural households, who were forced to sell their grain to the state at fixed low prices (Naughton, 2007). The overall inefficiency of the planned economy, the misallocation of resources and the seemingly irrational mass mobilisation campaigns of the Maoist period generated large losses in national income, productivity and agricultural production and led to the deaths of millions of peasants during a mass famine in 1959-61. However, during this period, the early investments in basic public health and literacy programmes and the formation of industrial "communes and brigades" in rural areas that eventually became highly successful township and village enterprises (TVEs) were key preconditions for China's success in the post-Mao period (Naughton, 2007).

Following the death of Mao Zedong in 1976, China began a gradual, experimental process of fundamentally re-structuring the economy (between 1978 and 1998). Reforms began in agriculture and were then expanded to the industrial sector; gains in agricultural productivity pushed the large-scale transfer of labour away from agriculture; and China's burgeoning, labour-intensive industries pulled in labour from both rural and urban areas. Township and village enterprises drove industrialisation and diversification in rural areas, while special economic zones (SEZs) attracted massive foreign direct investment in export-oriented and labour-intensive manufacturing. Overall, the slow and experimental market transition process accompanied by the gradual shedding of command economy institutions and adoption of new regulations ensured the macroeconomic stability of the economy.

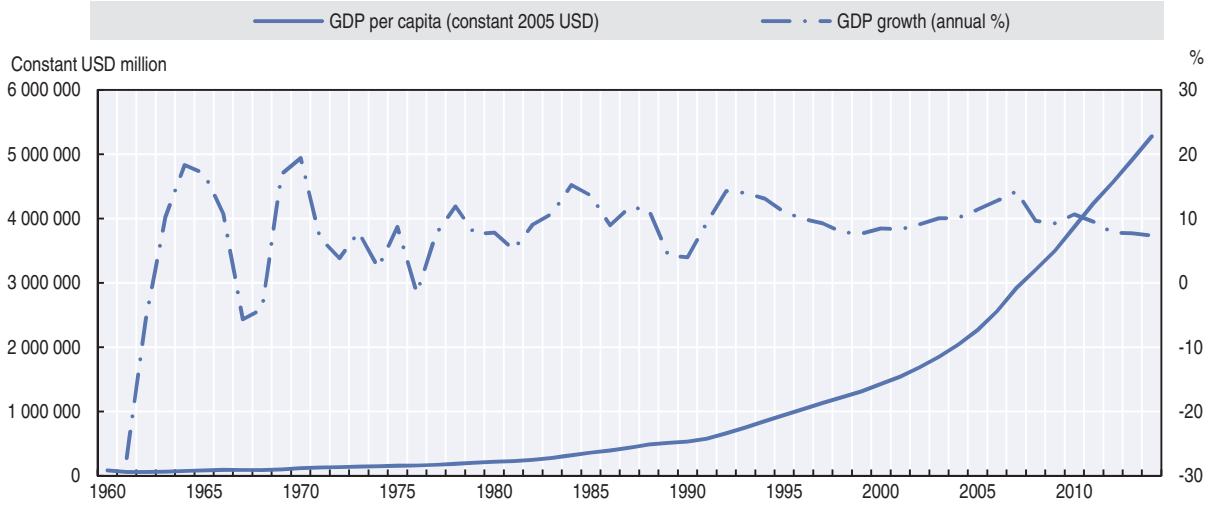
Since the turn of the century, China has become one of the world's largest economies and one of its biggest trading nations following its entry into the World Trade Organization in 2003. Privatisation and trade liberalisation have led to the reallocation of labour and capital into private domestic and foreign-invested enterprises, generating rapid productivity growth in the manufacturing sector (Zhu, 2012). Furthermore, the saturation of labour in parts of the manufacturing sector has led to increasing labour costs and increased

manufacturing competition from other countries in Southeast Asia. China will need to focus more on increasing within-industry productivity and increasing value-added activities to continue to spur manufacturing competitiveness (OECD, 2014). Significant entrance barriers for private and foreign-invested firms in the service sector remain, and there is a need for continued reform of fiscal, legal and regulatory institutions to support a sophisticated market economy (Naughton, 2007).

China has achieved great economic successes thanks to these economic reforms. GDP per capita rose exponentially with the onset of the economic reforms in the late 1970s, increasing from USD 195 in 1978 to USD 3 619 in 2013 (in constant 2005 USD) and GDP growth reaching peaks of more than 10% in some years (Figure 6.14). This success can be attributed in large part to reforms that fostered rapid industrialisation. From 1978 to 2013, the share of agriculture in GDP decreased by more than half, from 28.2% to 10% (Figure 6.15), and its share of employment halved from 69% in 1980 to 35% in 2011. Meanwhile, the share of manufacturing (including construction) in GDP remained fairly stable, increasing slightly from 29.2% in 1965 to 30.8% in 2013. Although the share of services in GDP significantly increased from 1960 to 2014, rising from 32.1% to almost 50%, China's service sector is still underdeveloped in comparison to the middle-income country average of 54% and the high-income country average of 74% (World Bank, 2015).

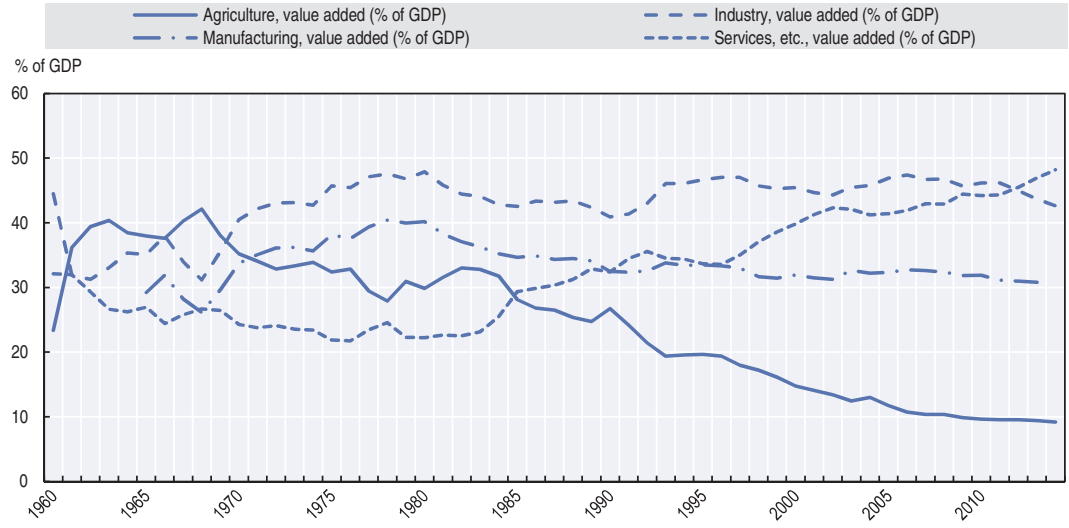
Trade in China witnessed a dramatic rise between the 1970s and the 2000s. After the Maoist period both exports and imports started to rise as a share of GDP. The trade balance oscillated until the mid-1990s, when exports steadily overtook imports. In the last decade, both exports and imports of goods and services entered a downward phase, influenced by the global economic downturn (Figure 6.16).

Figure 6.14. **China's GDP has increased rapidly recently, 1960-2014**



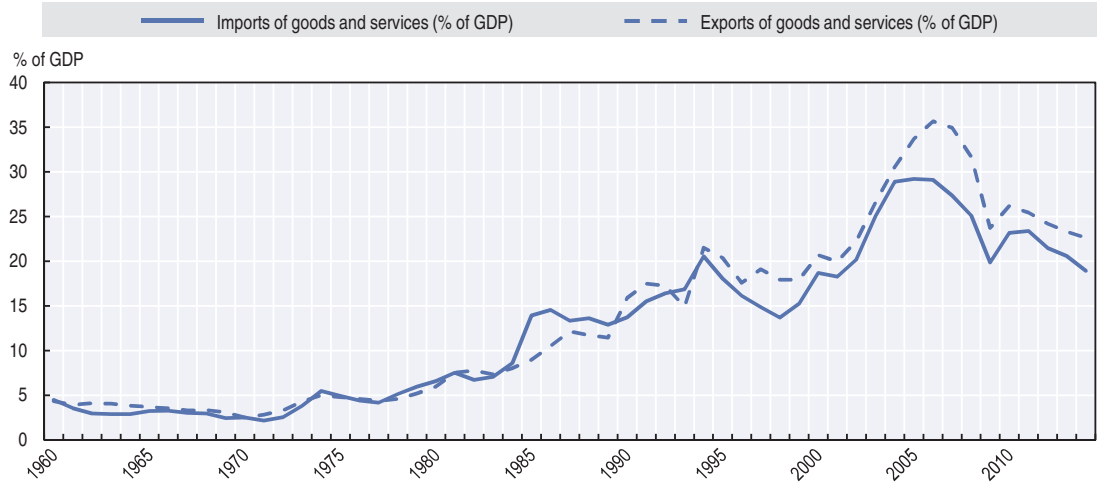
Source: World Bank (2015), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 19 October 2015.

Figure 6.15. **China's evolution of GDP by sector, 1960-2014**



Source: World Bank (2015), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 19 October 2015.

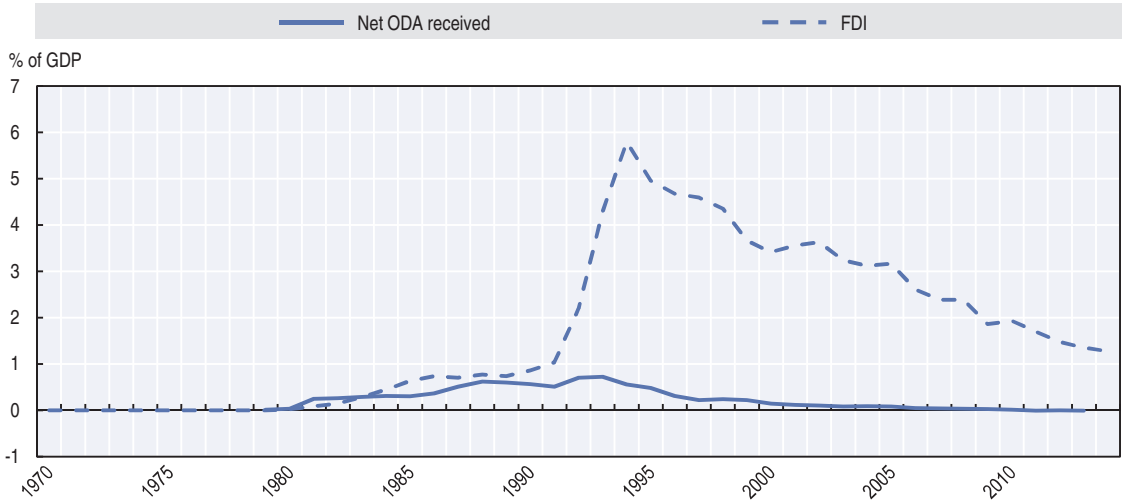
Figure 6.16. **China's share of exports and imports in GDP, 1960-2014**



Source: World Bank (2015), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 19 October 2015.

Unlike other developing countries, China has received very little development assistance over the years; it has seen higher foreign direct investment flows, however. The net official development assistance received (ODA) has remained stable at between 0 and 1% of GDP since the 1970s. It has recently become negative, as China is currently a highly active provider of development assistance. FDI, on the other hand, drastically increased after the 1980s, peaking at almost 6% of GDP in 1994, before falling to 1.28% in 2014 (Figure 6.17).

Figure 6.17. **China's evolution of ODA and FDI, 1970-2014**



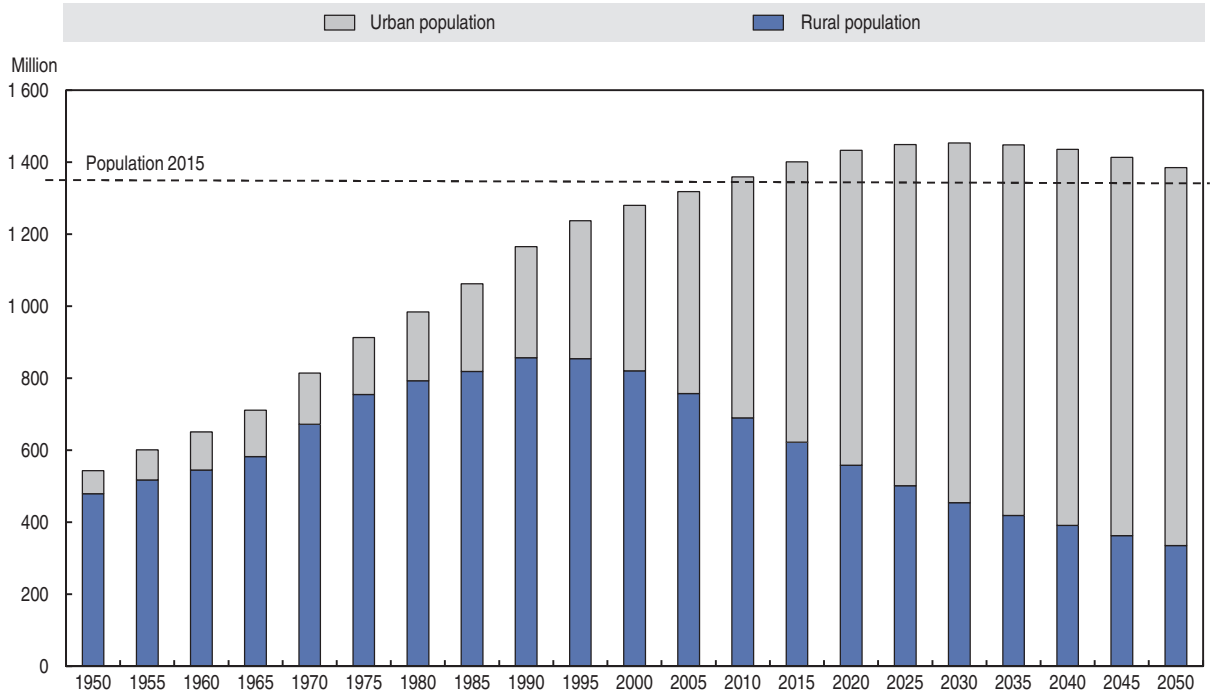
Source: UNCTAD (2015), *UNCTADstat* (database), http://unctadstat.unctad.org/EN/; World Bank (2015), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 20 October 2015.

China has undergone a tremendous population boom over the past 65 years. The population tripled from 544 million in 1950 to 1.36 billion in 2010 and is expected to continue rising until 2045, when it is expected to peak at 1.4 billion. The one-child policy and earlier national birth control programmes mean that China's annual population growth rate today is one of the lowest in the world, standing at 0.494 in 2013 (Feng, 2011; World Bank, 2015).

China completed its demographic transition in an unprecedented two decades, and the total fertility rate fell below replacement levels in the early 1990s (Feng, 2011). It is estimated that the number of young workers (aged 20–29) will start to decline quickly after 2025, and even sooner for those aged 20-24, meaning that China will have successively smaller cohorts of labour force entrants in the coming years. The share of the working-age population (ages 15–64) as a proportion of the total has been falling since 2011 (NBS, 2014).

China has seen rapid urbanisation through large-scale migration from rural to urban areas and from inland provinces to the coastal cities. From 1950 to 2015, the share of China's urban population increased from 11.8% to 55.6%, while the share of the rural population decreased from 88.2% to 44.4%. China's population has been mostly urban since 2011 (Figure 6.18), with the highest urban concentrations in Shanghai, Beijing and Tianjin, followed by Guangdong and Liaoning provinces on the east coast (NBS, 2014). Estimates suggest that the share of urban population will continue growing, to reach 75.8% of the total population, equivalent to 1.05 billion, by 2050.

Figure 6.18. **China's population is predominantly urban, 1950–2050**



Source: UN (2014), *World Urbanization Prospects* (database), http://esa.un.org/unpd/wup/CD-ROM/, accessed 4 November 2015.

Rural development strategy

These broad national policies have had a strong impact on China's rural areas over the past three decades. China's successful development in the reform and modern periods has also relied significantly on preconditions from the Maoist era. The historical account below summarises policies affecting rural development in China against the backdrop of these pre-reform conditions and national policies (Table 6.5).

Table 6.5. **Sequencing of development policies and rural development objectives in China**

Period	1960-1978	1979-1997	2000-2015
Policy orientations	Planned economy to accelerate industrialisation. Investments in heavy industry. Launch of health and literacy programmes.	Restructuring of the economy. Reforms targeting first agriculture and then industry. Special Economic Zones (SZEs) attracting FDI in export-oriented and labour-intensive manufacturing.	Privatisation and trade liberalisation. China enters the WTO (2003) and becomes one of the world largest economies.
Agricultural and rural development	Investments in irrigation systems, agricultural extension and chemical fertiliser. Formation of industrial "communes and brigades".	Green revolution. Government de-collectivised farms, increased the prices of farm goods, and relaxed procurement contracts. Surge of Township and Village Enterprise (TVEs). Investment is science and technology for rural industries.	Investments in rural health and education. Western Development Strategy (WDS) initiated large investments in rural infrastructure. Development of secondary cities. Place-based policies.

Investment and land reform to drive up farm incomes

Pre-1978 investments in irrigation systems, agricultural extension and chemical fertiliser development allowed China's domestically-engineered Green Revolution to take off in the early 1980s, leading to a significant rise in agricultural productivity and freeing millions of agricultural workers to pursue off-farm occupations (Naughton, 2007). Between 1978 and 1984, the Chinese Communist Party (CCP) de-collectivised farms and returned control of production to households based on the size of households and the number of workers. The government also increased the prices of farm goods and relaxed procurement contracts so that farmers could sell surplus crops in markets and earn higher incomes. Overall, these agricultural policies and incentives increased agricultural productivity and raised farmers' incomes , setting the stage for the large-scale reallocation of labour from agriculture to industry that began in the reform period (1978-1984) and has continued into the present (Fan, Kanbur and Zhang, 2011; Zhu, 2012). More recently, a comprehensive rural tax and fee reform completely eliminated agricultural taxes by 2006, removing a tax burden that had affected farmers unevenly.

Decentralisation and industrialisation to diversify rural economies

The township and village enterprise (TVE) strategy led to the substantial diversification and rise of rural incomes during the reform period. TVEs developed as the CCP began to introduce market functions into the economy in the early 1980s and to decentralise economic decision making to lower-level governments in charge of the former rural industrial communes during the Maoist era. Large numbers of start-up firms in rural industry sprang up, especially as restrictions on migration prevented people from moving to cities (Zuo, n.d.). In addition, in the mid-1980s, the Chinese government began several science and technology programmes to provide technical assistance to rural industries and help increase their competitiveness as market functions were introduced into the economy.

Investment to improve rural health and education

Since the early 2000s, the central government has implemented various health and education initiatives to improve key social programmes serving poor and vulnerable populations in rural areas. A new rural collective medical service network provides basic health insurance; and a medical financial assistance programme funded by various levels of government ensures health care for the poorest section of the population and prevents income shocks from unexpected medical expenditures. The Ministry of Education (MOE) has also been implementing measures to increase the quality of and access to education in rural areas, especially through "distance learning networks" that bring free higher-quality learning materials to rural classrooms (McQuaide, 2009). The MOE has banned miscellaneous scholastic fees and has required county governments to allocate funds for education in poor areas (Jing and Hu, 2007). Recent plans include universalising pre-school education by 2020, increasing the senior middle school enrolment rate to 90%, increasing the higher education enrolment rate to 40% and improving the quality of education and enrolment rates for children in rural areas whose parents are migrant workers (MOE, 2010). In 2013, the government also began a new education investment plan, the "Midwest Higher Education Revitalisation Plan", to last until 2020, aiming to increase the quality and level of infrastructure of higher education institutions in central and western China (NOST, 2013).

Heavy rural infrastructure investment to plug the urban-rural gap

Over the past 15 years, China's central government has allocated a majority of transfers to rural areas under the Western Development Strategy (WDS), investing heavily in roads, rail, airports, bridges, irrigation, drinking water, schools and environmental projects. Surging investment in transportation networks is helping to integrate fragmented regional markets, while investments in public goods and services are helping to improve urban–rural disparities. In addition, government strategy has included financial tax incentives to encourage private and foreign direct investment in China's interior regions, although the results so far have been limited.

Family planning to cut the fertility rate

China first experimented with family planning programmes in 1962, starting with an information campaign on contraception in urban areas and later introducing a nationwide policy promoting later marriages, longer spacing between children and fewer children, leading to the halving of the total fertility rate from 5.5 in 1970 to just under 3 in 1978 (Naughton, 2007; World Bank, 2015). The biggest demographic contributions to China's growth were accomplished during this period. However, the CCP implemented the controversially coercive one-child policy in 1980. Implementation of the policy has been uneven across regions and across urban and rural areas (Naughton, 2007). Today, the government has removed the one-child policy[2] in recognition of its unintended negative consequences, which include a severely skewed sex ratio that could cause social unrest and serious implications for social security and pension programmes of population ageing (Naughton, 2007).

A push for rural-urban integration

Since the early 2000s the government has aimed to develop satellite cities around large cities and to enable larger and medium-sized cities to influence their surrounding areas (CDRF, 2013). A system of "municipalities administering municipalities" was adopted that placed suburban counties under the jurisdiction of neighbouring higher-level cities in order to tie the growth of urban and surrounding areas together (Zhang, 2008). Other sets of policies on regional and sectoral linkages include hand-in-hand aid policies, which involve the central government pairing together regions to co-operate on various economic and social development projects; and east-west interaction policies, which involve the promotion of east-west cross-regional production via market mechanisms (Lu and Deng, 2011). Provincial governments have been key actors (and sometimes instigators) in these initiatives, with encouragement and participation from the central government. Some of China's inland cities, particularly those close to waterways with access to international markets, have developed competitive industrial clusters tied to regional production networks and linked to domestic consumption demand as opposed to export-oriented manufacturing. However, "artificial cities" pose a problem when growth is not linked to local competitive advantages, leading to diseconomies of scale and reduced competitiveness (Henderson, 2005).

Place-based policies to promote growth in the hinterland

Since the mid-late 2000s, China's central government has emphasised spatially-targeted policies to promote regional development and sustainable growth of the rural hinterland. The government has established development zones to encourage new development and attract foreign direct investment through preferential policies. Chengdu in Sichuan Province, for example, benefited enormously from the central government's infrastructure investments under the Western Development Strategy, which enabled the building of the Chengdu-Chongqing high-speed rail line and Chengdu Shuangliu International Airport, the nation's fourth-largest air hub (Yu, 2015). These investments accentuated Chengdu's strategic location as a link between the eastern, central and western regions, and today its industrial development is closely tied to inter-regional industrial transfers (Yu, 2015).

Assessment of rural development outcomes

China has restructured and diversified the rural economy

The share of people employed in agricultural activities decreased from 70.5% in 1978 to 31.4% in 2013, and agriculture made up just 10% of GDP in 2013 (NBS, 2014). In 2005, approximately 40% of people in rural areas were employed in industry, construction, transport and communication, commerce and other non-agricultural sectors, and this trend continues to increase (OECD, 2009).

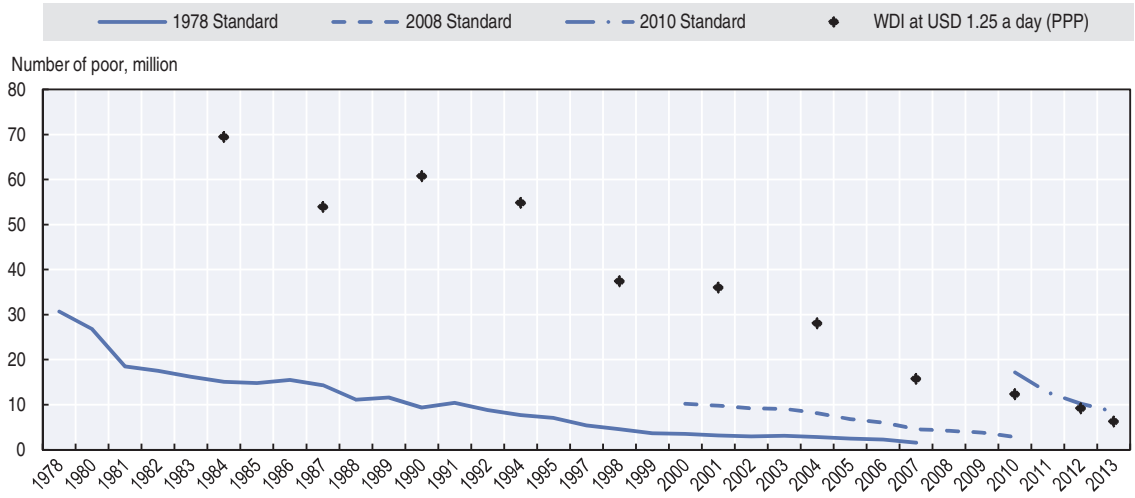
Poverty has been almost eradicated

China reduced the proportion of those living on less than USD 1.25 a day from 69% of the population in 1984 to 6.3% in 2013 (in PPP), representing a 91% reduction in overall poverty (Figure 6.19). Using China's definition of poverty (CNY 300 per person per year at 1990 prices, or USD 0.06–0.07 per person per day at PPP), the number of rural poor in China fell from 250 million in 1978 to 14.8 million in 2007 (NBS 2014; OECD, 2009). Between 1980 and 2007, real incomes per capita in rural households increased almost five-fold, with an average annual rate of increase of about 6% (OECD, 2009).

Other social welfare indicators have also improved significantly

China has also succeeded in improving a range of other welfare indicators, including health, education and access to public services, all of which have been key foundations for the country's labour-intensive industrialisation-led development strategy (World Bank, 2015). Public infrastructure in rural areas has improved, access to tap water has increased, and primary and secondary education has been greatly expanded. For example, secondary school enrolment increased from 38% in 1990 to 89% in 2012 (World Bank, 2015). However, in the near future, China's ageing population will become a big problem in rural areas, since the rural elderly are usually not covered by pension plans, have lower income and higher dependency rates due to the flow of working-age youth to urban areas (Naughton, 2007).

Figure 6.19. **Extreme poverty has fallen dramatically in China's rural areas, 1978-2013**



Notes: a) 1978 Standard: referred to as the rural poverty standard from 1978 to 1999, and as the rural absolute poverty standard from 2000 to 2007; b) 2008 Standard: referred to as the rural low-income standard from 2000 to 2007, and as the rural poverty standard from 2008 to 2010; c) 2010 Standard: defined as the rural poverty alleviation standard; d) WDI: World Development Indicators, USD 1.25/day extreme poverty threshold.

Sources: NBS (2014), *Chinese Statistical Yearbook 2014*, Table 6-19; World Bank (2015), *World Development Indicators*, *(*database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 20 May 2015.

Inequality between urban and rural areas and between coastal cities and rural hinterlands remains very high

According to the *2014 Chinese Statistical Yearbook* (NBS, 2014), the urban-rural income ratio increased from 2.2 times in 1978 and peaked at 3.33 in 2009, and has since decreased to 3.03 in 2013, which suggests that China has made some headway towards alleviating rural-urban inequalities in recent years. From 2000 to 2012, the western region's contribution to total GDP only increased from 17.1% to 19.7%, and its contribution to industrial output increased from 13.8% to 17.7% (from 2000 to 2010), indicating a mild acceleration in the region's industrial and economic growth over the past decade (Yu, 2015). Even so, in 2013 China's western provinces received only 6% of the foreign capital in foreign-invested enterprises, compared to 54% for the eastern region (NBS, 2014). Access to and quality of public goods, services and infrastructure are still highly unequal (Fan, Kanbur and Zhang, 2009; National Bureau of Statistics (NBS), 2014). For example, in 2006, the illiteracy rate in rural areas was 11%, compared to only 3.6% in cities (OECD, 2009). Water pollution, water shortages, soil erosion and desertification are all serious problems in rural areas.

Over the last 25 years, welfare indicators have significantly improved, both at rural and urban level (Table 6.6). Almost the entire population could access improved water sources in 2012, with a slightly higher coverage in urban (98.4%) than in rural areas (84.9%). Currently, everybody can access electricity, with no distinction between rural and urban inhabitants. Despite drastic improvements, access to improved sanitation is still far from reaching the whole Chinese population, with only 55.8% of the rural population having access to this service compared to 74.1% in urban areas.

Table 6.6. **A gap remains between China's urban and rural welfare indicators, 1990-2012**

	1990	1995	2000	2005	2010	2012
Access to electricity (% of total population with access)	94		98		100	100
% of urban population	100		100		100	100
% of rural population	92		95		98	100
Improved water source (% of total population with access)	67	74	80	86	91	93
% of urban population	97	97	97	97	97	98
% of rural population	56	64	71	78	86	89
Improved sanitation facilities (% of total population with access)	48	53	59	65	71	73
% of urban population	68	72	75	79	83	84
% of rural population	40	45	50	54	59	61

Source: World Bank (2015), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 4 November 2015.

Lessons for rural development

Over the past 30 years, China has undergone an unparalleled, rapid transformation from a mostly poor and rural society to become the world's second-largest economy in 2014. Although China's development took place in a specific context and relied on key preconditions, the country's experience provides important lessons in rural development for developing countries in the 21st century:

- **Multi-level and coherent governance has played an important role in designing, planning, implementing and monitoring rural development.** China has pursued a strategy of fiscal decentralisation combined with strong co-ordination across government ministries and economic sectors, and across the different levels of government. For example, since the mid-1990s, China has decentralised fiscal revenues to local and regional governments. At the same time, the CCP has given incentives for localities to reach national targets and objectives, while also giving them broad autonomy in implementation. This strategy allows local officials to shape policy to local and regional contexts and to take ownership of results. Moreover, China's tendency to experiment with transformative policies on a small scale before gradually expanding programmes nationally has allowed strong feedback mechanisms across different levels of government. Consequently the CCP has been able to readjust its methods and objectives in response to lessons learned, and to replicate successes on a larger scale.
- **Improving the rural economy requires a multi-sectoral and integrated strategy.** China's Green Revolution and later liberalisation of the agriculture sector laid the groundwork for improving rural livelihoods, yet it required a simultaneous industrialisation process to absorb the surplus labour released by agricultural productivity gains. At the same time, industrialisation in urban areas cannot be the only solution for improving rural livelihoods, as evidenced by the widening rural-urban gap between 1978 and 2000. Since the early-mid 2000s, China has therefore shifted from a development approach that heavily favoured urban industrial areas towards a multi-sectoral, integrated strategy that emphasises balanced development

across regions. This strategy includes efforts to diversify local economies, including growing a competitive service sector to support more sophisticated industries and rising consumption demand. As part of this approach, China has formed policies around the geographic and economic advantages of regions and localities. These efforts are helping to support structural transformation and reduce pressure on China's urban systems.

- **Early and sustained investments in education and health, as well as family planning policies, are vital to structural transformation and economic development.** Investments in health and education provide an educated and healthy workforce able to take on more productive jobs. Voluntary family planning policies implemented prior to the one-child policy provided the biggest demographic dividend to China's growth in the reform and modern periods. Reduction in fertility and decreased mortality ensured a large share of working-age population to fuel industrialisation, reduced the dependency ratio and enabled a saving mentality that was critical for investments.
- **Targeted investments can help increase productivity,** yet monetary transfers can only help at the margin. Since the early 2000s, China's leadership has dedicated a majority of transfers and investments towards lagging inland and western regions. The central government has invested heavily in human capital, including health, education, basic infrastructure and public services; in efforts to ensure that migrants have access to the same public goods and services as residents; and in transportation networks that help integrate local economies into regional markets. Increased agricultural productivity, due in part to sustained investment, has helped to reduce poverty levels in Inner Mongolia and Gansu, yet income transfers and agricultural tax abolishment have been found to have limited effects on alleviating poverty at the margin (Christiaensen, Pan and Wang, 2013).

Moving forward

The Chinese economy has grown spectacularly over the last 35 years and rural poverty has been cut dramatically through large rural migration flows to better paying jobs in urban areas and the diversification of economic activity in rural areas. However, urban incomes are still more than three times as high as rural incomes, and the rural-urban gaps in access to basic services still remain high. The government is well aware of this and is making a more concerted effort to improve the livelihoods of the rural population by doing more to boost agricultural productivity, provide credit for rural enterprises and improve rural non-farm job opportunities, as well as the quality of rural public services. Given that 45% of the population is still rural, this represents a daunting challenge because of the public financing involved and at a time when the overall rate of Chinese growth has slowed to below 7%. The government also continues to undertake reforms such as relaxing the controls on the hukou system (household registration system), regularising unofficial rural migrants living in cities, liberalising agricultural land markets, further opening access to rural credit, and allowing the growth of the service sector. All these reforms are targeted in China's 2016-20 five-year plan; continued progress will depend on its successful implementation.

Notes

[1] "Sufficiency Economy is a philosophy that stresses the middle path as an overriding principle for appropriate conduct by the populace at all levels. This applies to conduct starting from the level of families to communities and to the nation in terms of development and administration, so as to modernize in line with the forces of globalisation. "Sufficiency" means moderation, reasonableness, and the need for self-immunity to protect from impacts arising from internal and external change" (Piboolsravut, 2004).

[2] For example, Chinese law allows couples in which both members are only children to have two children (Naughton, 2007).

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Chapter 7
Experiences on rural development from Sub-Saharan Africa: Côte d'Ivoire and Tanzania

Sub-Saharan Africa faces many rural development challenges. Its demographic transition has come late, and the sub-continent has the highest fertility rates in the world. The process of structural transformation in sub-Saharan Africa is also still in the early stages, with agriculture being the predominant livelihood activity. This chapter explores the challenges and opportunities of two sub-Saharan African countries – Côte d'Ivoire and Tanzania – and draws out some wider lessons. The two countries have taken different approaches to rural development. Côte d'Ivoire has prioritised agricultural development and diversification as the engine of the economy, rather than implementing an explicit rural development strategy. However, despite strong agricultural performance, extreme poverty is entrenched and the country has seen human development levels decline since the 1990s. Tanzania has adopted different approaches to rural development over time but, even if the country has recorded sustained economic growth since the mid-2000s and levels of extreme poverty have fallen substantially, this has not translated into a substantial increase in the living standards of the rural population. Inadequate implementation and governance are some of the main factors holding the country back from making significant advances in rural livelihoods.

Rural development remains a critical issue in both Côte d'Ivoire and Tanzania. Although the two countries have addressed rural development through different approaches, in both cases there have been limited improvements in the living standards of rural areas over the past decades. Côte d'Ivoire has prioritised agricultural development and diversification as the engine of the economy. Tanzania has adopted different and radical approaches towards rural development going from socialism (*Ujamaa*), to strong liberalisation, and poverty reduction. Along these different paths, none of these countries has adopted a holistic approach to rural development beyond agricultural development. Nevertheless, the experiences of these two countries provide a series of valuable lessons regarding the success and failures during the implementation of rural development strategies in contexts characterised by high instability and limited governance capacity.

Côte d'Ivoire: Rebuilding the export-oriented agriculture model

Country overview

Côte d'Ivoire's development has seen four major periods. During the 20 years following Independence in 1960, Côte d'Ivoire was the "West African miracle": a booming agricultural sector and the development of manufacturing and services in Abidjan, based on a close partnership between foreign partners and the governing elite, resulted in GDP growth exceeding 10% in certain years (Figure 7.1). However, the collapse of the international prices of cocoa and coffee in 1979, combined with growing debt resulting from major public and private investments, led to a deep recession in 1980. This was followed by a 15-year stagnation during which the country had to engage in difficult structural reforms, eventually eased by the devaluation of the *Communauté Financière Africaine* (CFA) franc in 1994.[1] A short-lived respite was followed by growing political tensions, leading to a *coup d'état* in 1999. Ten years of political crisis followed, marked by recessions and military conflict. Since 2011 the country's fortunes have changed. The government's objective is for Côte d'Ivoire to become an "emerging nation" by 2020. This ambition is supported by robust internal and external demand of goods and services, major public and private investment in infrastructure, an average yearly growth rate of 8% to 10%, strong donor backing, and good international prospects for economic performance.

Côte d'Ivoire's economy is confronted with the big challenge of promoting a more inclusive growth model to cater for the needs of an impoverished, fast growing population. Services account for the largest share of the economy, while agriculture's share in GDP has decreased from 48% in 1960 to around 22% in 2014 (Figure 7.2). Moreover, agriculture's share in total employment has also sharply declined, from 82% in 1960 to 38% in 2010 (FAO, 2015). This evolution, in contrast with other sub-Saharan African (SSA) countries, reflects the increasing role of the service sector in a country where the rural population remains dependent on agricultural activities. Manufacturing stands at 13% of GDP while extractive industries (oil, gas, gold) have grown to reach 7%. Agriculture-related activities in trade and transport, as well as major urbanisation, have led to the rapid development of the service sector, which contributed 56% of GDP in 2014, though a large part takes place in the informal sector. GDP per capita (constant 2005), at USD 1 084.2, has recovered slightly after dropping to below USD 1 000 in the 2000s, which is around the average for sub-Saharan Africa, but half the level recorded at Independence (World Bank, 2015).

Figure 7.1. **Côte d'Ivoire's economic growth has been strong at times, 1960-2014**

% GDP growth and GDP in USD million

Source: World Bank (2015), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 19 October 2015.

Figure 7.2. **The service sector makes up a large share of Côte d'Ivoire's economy**

Evolution of GDP by sector (1960-2014)

Source: World Bank (2015), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 19 October 2015.

Côte d'Ivoire has benefited from a positive trade balance in goods since the 1980s (World Bank, 2015). Imports stagnated from the mid-1990s to the mid-2000s, but have since caught up, accounting on almost 40% of GDP in 2014. Exports have followed a similar trend, but have oscillated between 40% and 50% of GDP over recent decades (Figure 7.3).

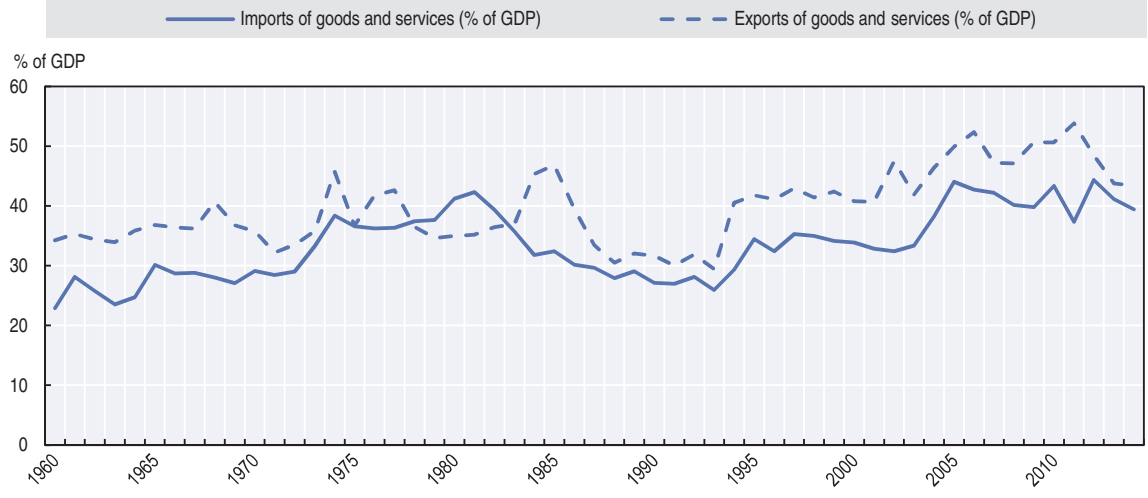
Due to its economic success during the first two decades after Independence, Côte d'Ivoire was not then a major recipient of foreign aid. International support came after the devaluation of the CFA franc in 1994, but aid levels have been erratic. In the last couple of decades, ODA has rarely reached 10% of GDP (Figure 7.4). FDI increased in the 1990s with the first wave of privatisations and then declined during the crisis. Remittances from abroad are limited as the country is mostly a destination country for immigration.

Although more advanced in its demographic transition than most SSA countries, Côte d'Ivoire faces a massive challenge in the decades ahead in terms of job creation. Its population has increased more than six-fold over the last 50 years, from 3 million in 1960 to 20 million in 2013, while the fertility rate has decreased from nearly 8 births per woman in the early 1970s to less than 5 today (World Bank, 2015).[2] The activity ratio is thus improving, at 1.23 active people for every one inactive person. This is higher than the 1.15 average for SSA, and is expected to reach 1.65 in 2050 (UN, 2012).

Yet, with a growth rate of 2.3% in 2012, the population is expected to reach 44 million in 2050 (Figure 7.5). In 2015, the share of people under 15 years old was estimated at 41%, while the share of population under 25 years old was estimated at 61%. The annual cohort of young people (aged 15-24) entering the labour market today is estimated at 430 000, and is expected to reach 800 000 in 2050. In the next ten years, the country will have to provide jobs for 7 million young people (CIRAD, 2015a). Nearly half of these new workers will live in rural areas, putting an additional strain on natural resources and rural livelihoods.

Figure 7.3. **Côte d'Ivoire's export and import trends are volatile but generally upward**

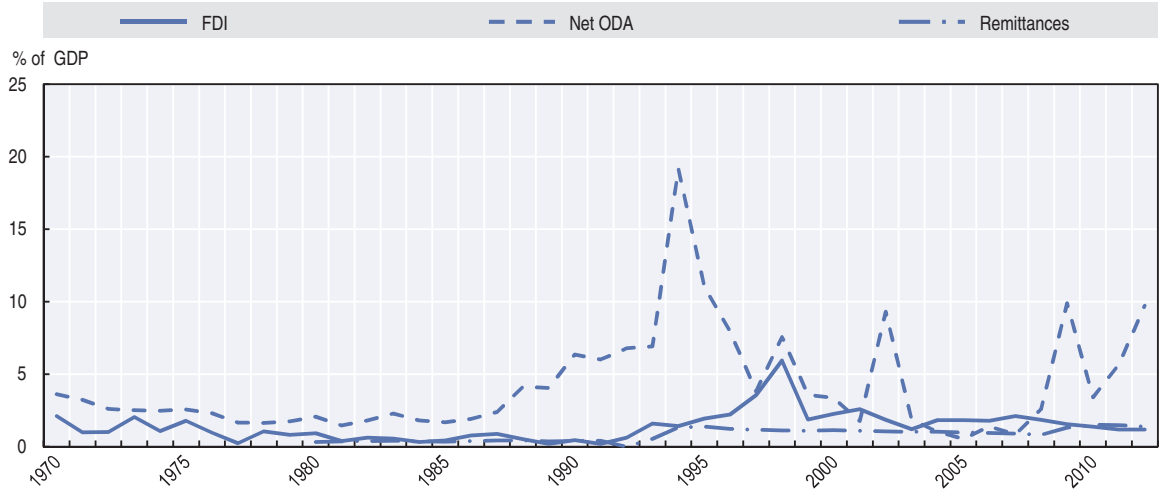
Share of exports and imports in GDP (1960-2014)



Source: World Bank (2015), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 19 October 2015.

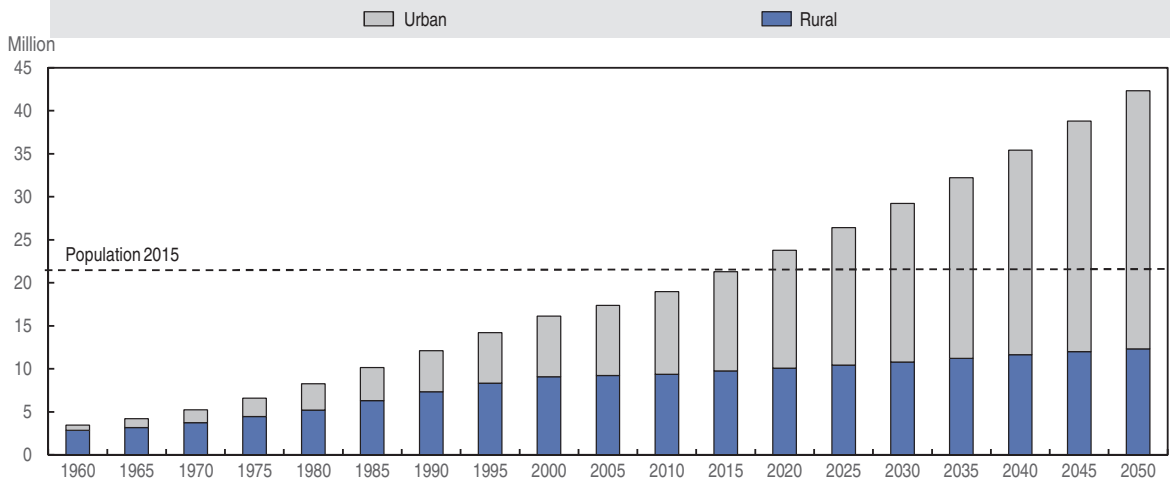
Figure 7.4. **ODA, though erratic, contributes the largest share of Côte d'Ivoire's financial inflows**

Share of net ODA, remittances, and FDI in GDP (1970-2012)



Sources: UNCTAD (2015), *UNCTADstat* (database), http://unctadstat.unctad.org/EN/; World Bank (2015), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 20 October 2015.

Figure 7.5. **Côte d'Ivoire's population is growing rapidly, 1960-2050**



Source: UN (2014), *World Urbanization Prospects* (database), http://esa.un.org/unpd/wup/CD-ROM/, accessed 4 November 2015.

Côte d'Ivoire also has one of the highest immigration ratios in the world, reflecting the steady flow of new arrivals looking for job opportunities in labour-intensive sectors such as agriculture over the last 50 years. Before the series of political crises starting in the early 2000s, the population of foreign origin was estimated at 25-30% of the total; however, immigration then fell sharply.

The urbanisation rate is high by SSA standards, at around 55%. Urban growth was very high in the 1960s through to the 1980s (7% to 10% per year), but slowed down as a consequence of the economic crisis in the 1990s and 2000s (3% to 4%). The country has an asymmetric urban structure, with a primacy index[3] of 6.07 and only one big city: Abidjan, the main economic hub and harbour, with between 4.5 million and 5 million inhabitants. This means Abidjan hosts more than six times the population of the next largest city in the country (Attahi, Hinin-Moustapha and Appessika, 2009).

Côte d'Ivoire is considered a "high alert" country for state fragility (see Annex 9.A1), and is also vulnerable to both climatic and man-made hazards: cocoa farming in particular has been a major cause of deforestation in the southern part of the country.[4]

Rural development strategy

With the exception of a few isolated, short-lived programmes, Côte d'Ivoire has not had an explicit rural development policy.

At Independence, the government prioritised agricultural development and diversification as a motor of national development: rural development was expected to result directly from increased agricultural production, higher farm incomes and public investment financed by tax revenues. Policies initially continued to apply the colonial-era formula of modernising farming systems by promoting more intensive practices to achieve higher yields and productivity. They combined a "*laissez faire*" approach with light technical support to subsistence farmers growing food crops as well as coffee and cocoa, and strong state intervention to promote diversification and exports.

The evolution of the country's rural development can be split into four periods (Table 7.1).

Table 7.1. **Evolution of agriculture and rural development objectives, Côte d'Ivoire 1960-2015**

Period	1960-1980	1981-1986	1987-1992	1993-1999	2000-2010	2011-2015
National policy orientations	State capitalism and public-private partnership	First adjustment period	"Cocoa war" and liberalisation	Privatisation and "12 Works of Africa's Elephant"	Coup and political crisis (northern secession)	Reconstruction and FDI
Period	**1960-1976**	**1977-1990**		**1991-2010**		**2011-2015**
Agricultural and rural development	The "filière" approach to agricultural development	Tentative "regional" approach to agricultural development and uncertain rural development perspective		Privatisation of agricultural development and new governance of the cocoa sector		Back to the "filière"

The "filière" approach (1960 to mid-1970s)

In order to speed up diversification based on a planning system, the government set up ad-hoc organisations to promote production along specific commodity chains (or *filières* in French). These public enterprises or joint ventures – known as *sociétés de développement* (SODEs) – had a private-sector type of management, a board and a chief executive officer, and their own personnel. They were linked with (initially French) research institutions providing improved seeds and technical support. Several SODEs were set up: the *Société d'Assitance Technique pour la Modernisation de l'Agriculture en Côte d'Ivoire* (SATMACI), initially created in 1958, focused on coffee and cocoa; *Société pour le Développement et l'Exploitation du Palmier à Huile* (SODEPALM) for palm and coconut, associated with PALMINDUSTRIE for oil production; *Société de Développement des Plantations Forestières* (SODEFOR) for timber; *Société de Développement des Fruits et Légumes* (SODEFEL) for fruit and vegetables; *Société pour le Développement de la Production Animale* (SODEPRA) for animal production; *Société pour le Développement des Plantations de Canne à sucre, l'Industrialisation et la Commercialisation du Sucre* (SODESUCRE) for sugar; *Compagnie Ivoirienne pour le Développement des Textiles* (CIDT) for cotton, etc. They were "flagships of progress in rural areas" (Sawadogo, 1978). For *filières* where private firms were already in place – rubber, bananas and pineapples – the state would delegate the role of supporting farmers to the private sector.

Food crops did not benefit from any dedicated support body; farmers continued to grow staples whilst benefiting from improvements in export crops. However, these improvements indirectly benefitted the food crops, and consequently food production was able to meet the growing demand from the increasing urban population.

As in colonial times, marketing of Côte d'Ivoire's main exports – coffee and cocoa – was fully managed by private middlemen and exporters. The role of the state was limited to 1) setting the rules in agreement with private operators; 2) defining an annual unique farm-gate price and regulating downstream costs; and 3) controlling exports through the marketing board – the *Caisse de Stabilisation* (*Caistab*) – which taxed and regulated exports based on a target price. Over this period, annual increases in guaranteed prices, combined with the President's political support for "planters" and access to land resources for any producer, including those of foreign origin, made for an effective set of incentives. The result was a booming production.

Agricultural growth and increasing farmers' incomes were therefore the pillars of rural development. A National Agency for Rural Development (ONDR) existed briefly in the early 1970s. However, policies aimed at improving education, health, living conditions and transport infrastructure did not specifically target rural areas. These were included in action plans by sectoral ministries.

A regional approach (mid-1970s to late 1980s)

Côte d'Ivoire tried to adopt a regional approach to rural development in order to tackle growing inequality between the south of the country, which was benefitting from the cocoa boom, and the north. Major regional projects included infrastructure investment such as a hydroelectric dam on the Bandama River in the central region; a new harbour in San Pedro

and the development of the southwest region; the "railway cities operation" supporting enterprises in small towns along the Abidjan-Ouagadougou railway; and accelerated urban planning projects in secondary cities. Another major initiative was to support the development of cotton in the savannah region. This led to the so-called "white revolution", which saw annual cotton production rise from 35 000 tons in 1970 to 400 000 tons by the late 1990s.

In 1977, the government started to restructure the agricultural extension system. The restructuring aimed to mainly stop competition between SODEs, which had gradually generated inefficiency and regional overlaps. This restructuring saw leadership divided along regional lines: SODEPALM in the south; SATMACI in the central region; and CIDT in the north. These regions more or less corresponded with the SODEs' core crops (palm and coconut; coffee and cocoa; and cotton respectively). However, several agro-industrial estates and regional development programmes were maintained. By the late 1980s when the country faced its deepest economic crisis, the system had become over-complicated.

In practice, regional development never emerged as an effective approach, and rural development, in spite of a short-lived Ministry of Rural Development (1984-1986), remained a "by-product" of agricultural and sectoral growth.[5]

Standardisation and privatisation (1989-2011)

As structural reforms kicked in, the extension system was profoundly reshaped. In 1989, the World Bank implemented the *National Support Project to Extension Services* (PNASA) in order to rationalise extension systems. In 1993, the National Agency for Rural Development (*Agence Nationale d'Appui au Développement Rural*, or ANADER) was created as a public-private partnership. The SODEs were subsequently absorbed by the ANADER after a drastic reduction in their payrolls. The agency, which promoted the development of agricultural production as well as farmers' access to inputs, was fully privatised in 1998.

As easy access to land, coupled with huge immigration flows, fuelled social tensions in a context of deep economic crisis and increasing population densities, a new national land law came into force which formally limited land ownership to the state, local governments and Ivorian nationals. This threatened the situation for immigrants. In parallel, the government was pressed by donors into liberalising the coffee and cocoa sectors. Guaranteed producer prices were gradually removed, as well as other administrative costs, and the *Caistab* had to implement a transparent system for sales management. The *Caistab* was finally dissolved in 1999, after 44 years of dominating the strategic agricultural export sector.

A couple of months later, the country experienced a military coup. The troubled 2000s saw private governance prevail in the coffee and cocoa sectors. New organisations were created with representatives from exporters, carriers, processors, banks, producers, and the state. These included the *Bourse du Café et du Cacao* (BCC), the regulation fund, and the *Autorité de Régulation du Café et du Cacao* (ARCC). High taxation on exports continued in an often chaotic political context. A new cocoa and coffee regulation system was set up in 2008,[6] which also had a mandate to contribute to road improvement. Previously volume-based export taxes became value-based, and were limited to 22%.

Revival of the filière *approach (2011-today)*

In 2011 the new regime's priority was to jump-start Côte d'Ivoire's economic engine: 25% of the budget of the *Plan National de Développement* (PND) is devoted to infrastructure and transport, followed by energy and mining (15%) and agriculture (8.5%). Investment objectives are based on the *Programme National d'Investissement Agricole* (PNIA), updated by the 2012 *Programme d'Investissement Détaillé* (PID). Rural development is not addressed per se. It is instead included in thematic actions related to education, health, living conditions, etc.

In 2012, new regulating organisations were set up, jointly managed with the private sector: the *Conseil du Café Cacao* (CCC) for cocoa and coffee, and the *Conseil du Coton et de l'Anacarde* (CCA) for cotton and the booming cashew sector. A major policy orientation today is a return to an integrated approach to agricultural development, based on multi-stakeholder platforms (or *interprofessions*) in charge of defining vision, objectives and actions, and co-ordinating research, extension, training and education, as well as agro-industrial development. The rationale is to maximise common benefits instead of having a few winners and many losers. *Filières* are again the cornerstone, but in a different way than in the past: the system no longer hinges on the implementation of the planned vision of the state, which now mainly assists the *interprofessions*.[7]

This objective of involving public and private agents with a shared interest in developing specific commodities does not give specific attention to rural development, however, which again appears as a by-product of agricultural growth. The *Fonds Interprofessionnel pour la Recherche et le Conseil Agricoles* (FIRCA) finances research, extension, training and support to farmers' organisations, targeting specific *filières* with contributions from their stakeholders. It receives support from the government and donors, particularly the World Bank. Programmes are implemented through the *Centre National pour la Recherche Agronomique* (CNRA) and ANADER, which depend on these product-targeted funds for developing their activities. As a consequence, in spite of its name, ANADER has limited cross-sectoral presence and only provides occasional support to local governments engaging in territorial planning.

As regards food engineering, the West African Rice Development Association (WARDA) has used an "embryo rescue" technique to cross-breed African and Asian rice. The new product has advantages over the traditional African varieties, including early maturity, improved pest resistance, greater tolerance of drought and soil acidity, and greater height (Makoni and Mohamed-Katerere, 2006).

Assessment of rural development outcomes

Côte d'Ivoire has built a strong commercial agricultural sector through proactive policies

Cocoa is now Côte d'Ivoire's biggest export commodity, whereas coffee was the main export crop at the time of Independence. The country has also successfully promoted diversification: natural rubber, cashew and palm oil have grown in the share of total exports (FAO, 2015). The share of food in total merchandise imports stands at around 10% and has

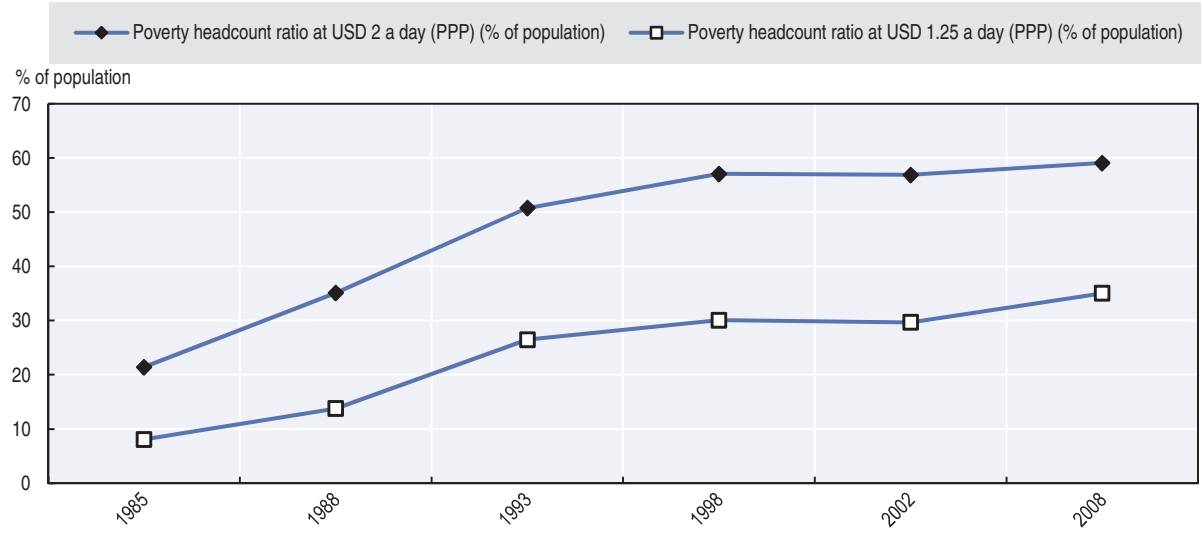
decreased over the last decade due to a combination of improvements in staple production (notably rice in recent years) and the consequences of the series of crises during the 2000s, which saw consumers depend increasingly on local food.

Past economic successes have not spurred human development in rural areas

Strong agricultural performance co-exists with weak human development in Côte d'Ivoire: in 2013, the country ranked 171 out of 187 countries on the Human Development Index, coming after Afghanistan (UNDP, 2014). In fact, Côte d'Ivoire has seen human development levels decline since the 1990s. Although the political and economic crises have deeply affected social indicators, they are not the only cause of this paradoxical situation. In fact, the "big push" of the 1960s and 1970s did not translate into significant improvements in social services or living conditions: in 1980, Côte d'Ivoire was not performing better in indicators of social welfare than other SSA countries that at the time had lower GDPs and growth rates.

While in the early 1980s, only 10% of the population was under the national poverty line, extreme poverty[8] grew from 8% in 1985 to 30% in 1998, and USD 2 per day poverty from 21% to 57% (Figure 7.6). The situation worsened during the 2000s: at the end of the decade, 60% of the population was below the USD 2 per day poverty line and GDP per capita had fallen back to early 1960s levels. Rural areas have always been more deeply affected by poverty, with ratios twice those of urban areas. The gap remained constant during the long-standing crisis of the early 2000s: in 2008, 54% of rural dwellers were under the national poverty line (World Bank, 2015).

Figure 7.6. **Poverty is on the increase in Côte d'Ivoire, 1985-2008**



Source: World Bank (2015), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 20 May 2015.

Sharp regional differences persist

Until 1985, rural poverty was highest in the northern savannahs. The drop in cocoa and coffee producers' prices in 1989 led to a dramatic change: poverty spread to the forest zone, especially in the Western region. Abidjan was somewhat sheltered until 1993 when public wages were cut and the currency was devalued. The generalisation of poverty led to a drop in income inequality in the early 1990s (World Bank, 2015), but worsening governance in the years of political trouble led to a new rise in inequality, as measured by the Gini coefficient, from 32 in 1990 to 42 in 2010. This situation was significant for rural areas, which did not benefit from levels of public investment commensurate with their contribution to national development.

While the government has proceeded gradually to equip the administrative centres of each *département* with health facilities, electric power and schools, the countryside has lagged behind in terms of infrastructure and access to basic services (Table 7.2).[9] This rural-urban gap is exacerbated by north-south disparities reflecting differences in agricultural dynamics and an "urban bias." Abidjan has a big impact on the territorial organisation of the country, with the southern coffee and cocoa producing regions benefiting from a dense transportation network and early connection to the power grid.

Support to education and health has been dramatically eroded

In the early 1980s, 31% of the national budget was allocated to education and health policies. Structural adjustment saw this drop to 22% in the early 1990s and then to 19% by the late 1990s. Gross enrolment levels in primary school also dropped in the 1990s (World Bank, 2015). Today, the average years of schooling remain extremely low, at 2.8 years (World Bank, 2015). There are also sharp regional disparities: more than half of children in the country's northwest do not attend school. The literacy rate has been poor (40% of 15-year olds) and remained almost stagnant for 20 years (World Bank, 2015). Levels of enrolment in secondary and tertiary education are also very low.

Early health policies had a significant impact, halving under-five mortality rates between 1960 and 1980, and increasing life expectancy from 37 to 50 years (World Bank, 2015). However, life expectancy in Côte d'Ivoire is now below the SSA average. Undernourishment doubled between 1992 and 2014 (FAO, 2015).

Rural access to infrastructure has stagnated

While rural access to infrastructure is relatively good by regional standards, very little progress has been made over the last two decades and rural areas remain worse off (Table 7.2). Progress is most noticeable in water infrastructure, both nationally and in rural areas, where nearly 70% of the population has access. The situation is markedly worse for sanitation, with only 10% of rural dwellers having access. While the country is an exporter of electricity to neighbouring countries, less than 40% of rural areas are connected to the power grid, and the ratio falls to 15% for several *départements* in the north, holding back economic diversification.

Côte d'Ivoire has a relatively good road network by SSA standards, with paved roads connecting the main urban centres (except in the northwest region). Road infrastructure deteriorated in the 2000s, but improvements are currently a priority for public investment. The situation for secondary roads is much worse, however, particularly in the north.

Table 7.2. **The rural-urban gap in welfare indicators is wide, 1990-2012**

	1990	1995	2000	2005	2010	2012
Access to electricity (% of total population with access)	37		51		59	56
% of urban population	72		89		80	88
% of rural population	14		23		37	29
Improved water source (% of total population with access)	76	77	78	79	81	81
% of urban population	90	91	91	92	93	93
% of rural population	67	67	68	68	68	69
Improved sanitation facilities (% of total population with access)	15	16	18	19	21	22
% of urban population	28	29	30	31	32	32
% of rural population	7	7	8	9	10	10

Source: World Bank (2015), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 4 November 2015.

Information and communication technology (ICT) offers a wide range of rural development opportunities

E-government initiatives started as early as 2004 to provide health, education and finance public services, and have contributed not only to reducing transaction costs, but also to promoting accountability. A national e-agriculture initiative was launched in 2012, aiming to modernise the agricultural sector and enhance productivity by making real-time commodity market information available via mobile phones and tablets. E-banking also has huge potential, with over 40% of the adult population already having a mobile money account (IDAL, 2015).

Lessons for rural development

- **Post-Independence successes resulted from a clear strategic vision that built trust and reduced risk for farmers.** The development of a powerful agro-industrial sector following Independence resulted from the combination of 1) proactive public policies, including specific commodity sector development and spatial planning (especially for the southwest); and 2) close partnership with the private sector, including, importantly, farmers. The integrated commodity chain (*filière)* approach linked research and extension services through dedicated agencies. The broader strategic framework combined investment and trade openness; easy access to land and migrant labour; a secured price environment – with high taxation levels but based on growing yearly prices; guaranteed commercialisation based on public-private agreements; and, last but not least, strong political support to farmers with a symbolic relationship between "planters and the Founding Father of the Nation". These incentives created trust amongst agents and reduced risk – the major obstacle to investment and diversification.
- **Problems arise when a rural development strategy does not adapt quickly to a changing environment**. The post-Independence "miracle" ended abruptly in the early 1980s as a consequence of overspecialisation in exports; falling commodity prices and unfavourable US dollar-CFA franc parity; failure to anticipate the need to improve productivity and invest in human capital; and deteriorating governance with

mismanagement and successive postponement of reforms. This situation was exacerbated by the lack of reaction by the political elite, who were embroiled in the succession conflict.

Fundamentally, the massive growth of agriculture, exemplified by cocoa, relied on the expanding use of natural resources (especially in the fertile southern forest zone) and both local and foreign labour, but without credit, and with few inputs or extension services. Output therefore grew fast but factor productivity remained low. This proved successful as long as access to inputs was easy (especially new land), but became unsustainable when the pressure on natural resources rose. Given the lack of alternative job opportunities – compounded by the rapidly growing labour force and the impact of structural adjustment on public-sector employment – this also resulted in growing tensions between local and immigrant populations, which were soon exploited by "political entrepreneurs".

- **Lack of a clear focus on rural development has failed to narrow the urban-rural gap.** Over the last few decades, rural development per se has never been a priority for public policy. It was initially a secondary by-product of agricultural development and rising farm incomes. State investment in rural infrastructure and services had somewhat limited results, partly due to overlooking opportunities for synergies through a place-based approach to infrastructure delivery. With government policies focused on the growing urban population, priority was given to agricultural productivity and diversification. The economic and political crisis prevented any possibility of reinvesting significantly in the provision of public goods in rural areas, and the gap with cities remains important today.
- **The "miracle" years failed to trigger a sustainable process of capital accumulation to provide resources to invest in rural areas.** Capital accumulation in the non-agricultural sectors – largely financed by "taxing" the proceeds of capital accumulation in the agricultural sector – was not accompanied by productivity gains. The low quality of public investment[10] and financial mismanagement prevented a sustainable process of accumulation and led to an erosion of existing capital. Unlike in China or Thailand, therefore, Côte d'Ivoire has not been able to reach a stage in its development where the proceeds of growth in high-productivity sectors (e.g. industry) can be reinvested in rural development.

Moving forward

Adopting a more comprehensive approach to rural development could help reduce the gap between urban and rural areas. The evolution of rural development policies in Côte d'Ivoire has been characterised by a strong emphasis on agricultural development within a national context negatively affected by economic crises, military conflicts and instability. These have translated in marked differences in terms of welfare between urban and rural areas, and increasing poverty. These disparities risk being further exacerbated by the increasing population. The size of the population reaching working age every year is expected to double from 400 000 to 800 000 by 2050. Addressing rural development in the future will require improving public service delivery in rural areas as well as creating new job opportunities outside agriculture in order to cope with the impending bulge in the youth population. Today's political stability is an opportunity to focus on rural development.

Tanzania: From *Ujamaa* to economic liberalisation

Country overview

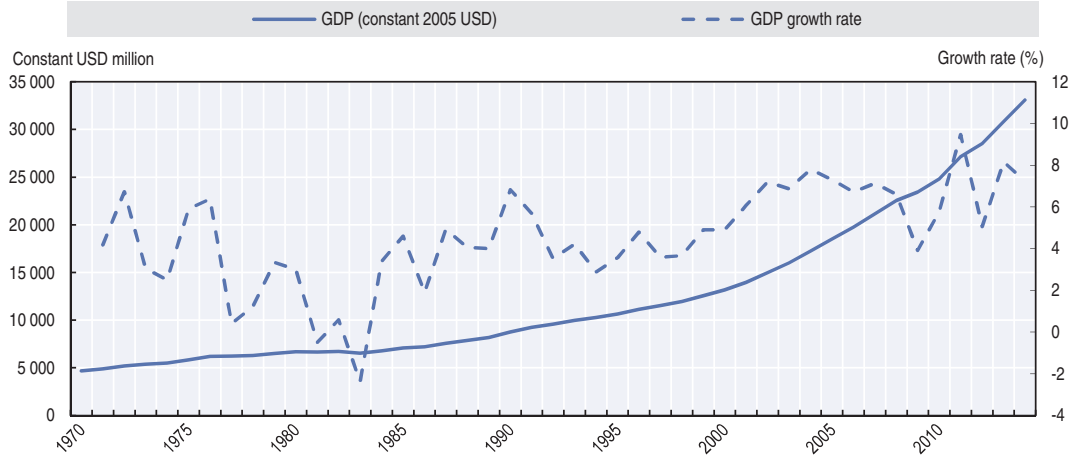
Since Independence in 1961, national economic policy in Tanzania has moved from socialism to economic liberalisation and then to a focus on poverty reduction. Today Tanzania remains a poor agrarian and rural economy, and faces the challenges of educating and providing jobs for a huge youth bulge.

Tanzania is one of the biggest countries in Eastern Africa, spread over 945 000 km^2 (including 2 000 km^2 of the Zanzibar archipelago), with a coastline of approximately 800 km bordering the Indian Ocean. About 650 000 km^2 of the mainland are available for productive purposes. Mountains count for 100 000 km^2 and national parks cover 150 000 km^2 of the country's surface.

Tanzania is a low-income country whose economic performance was volatile until the early 2000s (Figure 7.7). At around USD 500 per capita on average, it remains one of the 34 least-developed countries in Africa. Nationalisation and strong state control over the economy during the 1960s and 1970s, followed by structural adjustment policies in the 1990s, have translated into fluctuating GDP growth rates. However, the country has recorded sustained economic growth since the mid-2000s, at an average annual rate of 7%. The recent discovery of rich reserves of natural gas is expected to bring additional growth in the coming decades.

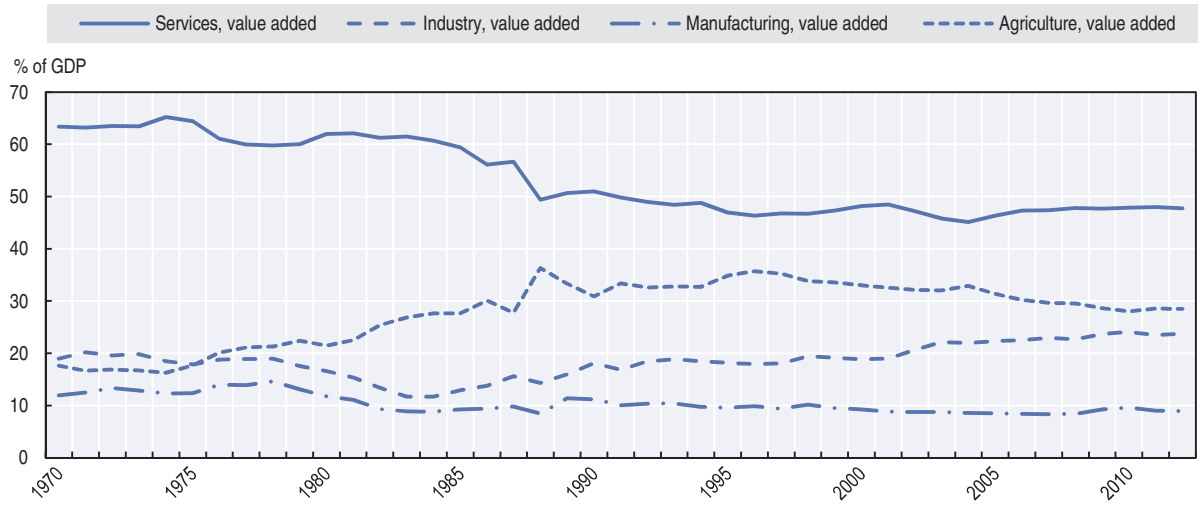
Agriculture is a key economic sector, representing close to 29% of Tanzania's GDP in 2012 (Figure 7.8) and 75% of employment in 2006 (World Bank, 2015). Small and family-based farms account for most production in the country. Manufacturing accounts for less than 10% of GDP, lower than at the beginning of the 1970s. The service sector accounts for the biggest share of the economy, although its contribution to GDP has also decreased since the beginning of the 1980s.

Figure 7.7. **Tanzania's volatile, yet sustained, economic growth path, 1970-2014**



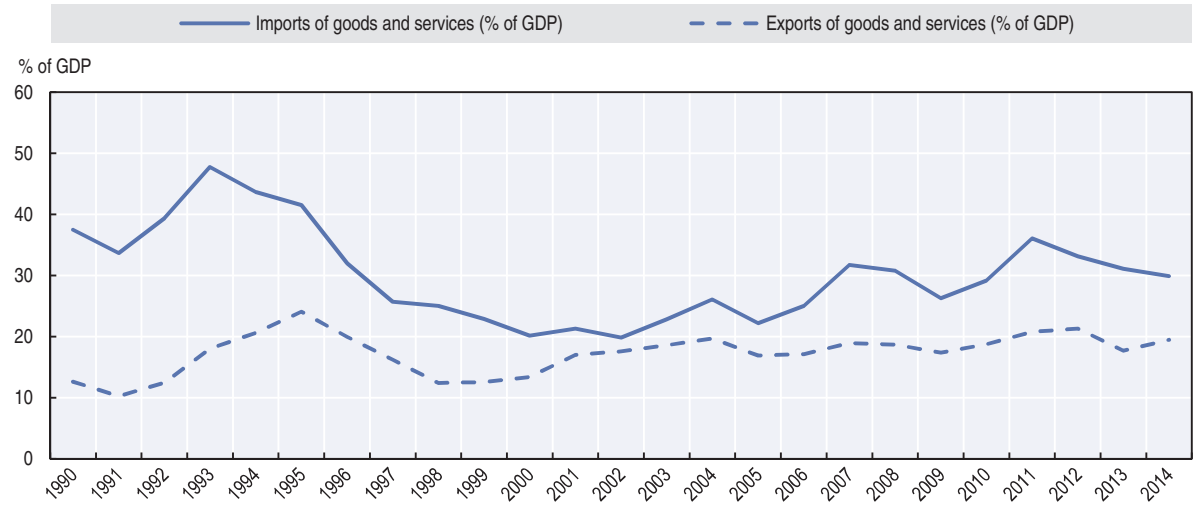
Source: UNCTAD (2015), *UNCTADstat* (database), http://unctadstat.unctad.org/EN/, accessed 19 October 2015.

Figure 7.8. **Services and agriculture remain Tanzania's most important sectors, 1970-2012**



Source: UNCTAD (2015), *UNCTADstat* (database) http://unctadstat.unctad.org/EN/, accessed 19 October 2015.

Figure 7.9. **Tanzania's export and import shares are lower than in the past, 1990-2014**



Source: World Bank (2015), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 19 October 2015.

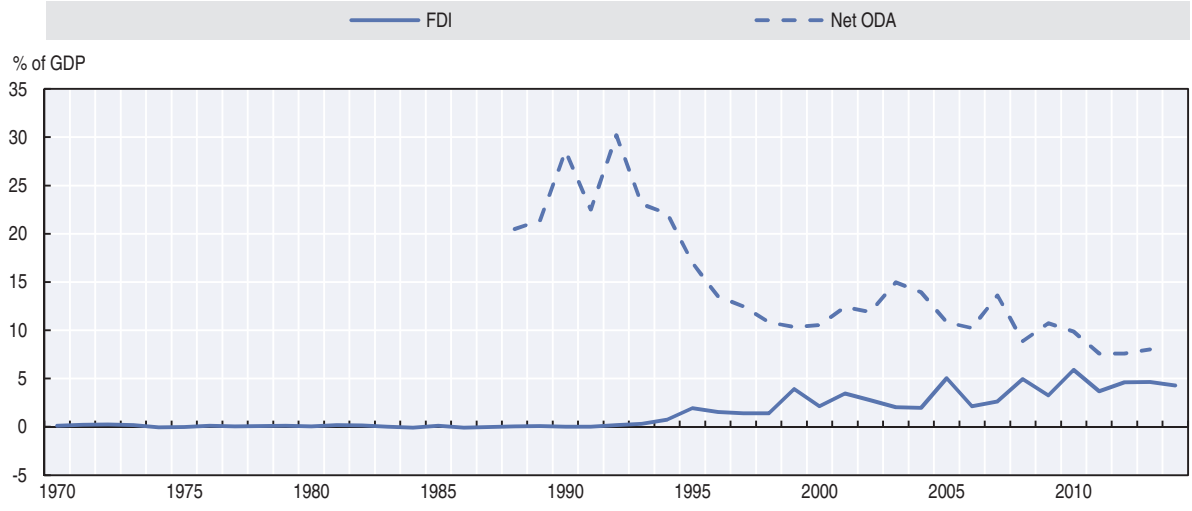
During the first two decades after Independence, Tanzania mainly looked inward and prioritised self-reliance. However, as the Tanzanian economy began to open in the early 1990s the share of imports in GDP rose to almost 50%, before declining to an average of around 25% during the 2000s. In recent years they have picked up again, reaching 30% of GDP. Exports have also slowly increased, from 13% of GDP in 2000 to almost 20% in 2014 (Figure 7.9).

Tanzania has been a major recipient of foreign aid. During the mid-1980s to the mid-1990s, a period of important structural economic reforms, Tanzania received net official development assistance (ODA) equivalent to 20% of its GDP (Figure 7.10). Aid flows have risen in absolute terms in recent decades, reaching USD 3 billion per year during the 2000s, but are only 10% of GDP. Economic growth since the mid-2000s has been fuelled by an increase in private capital flows into a small number of sectors, including construction, telecommunications, financial services and retail trade, resulting in an improved balance of payments. Annual FDI levels peaked at 8% of GDP in 2009, before decreasing during the economic recession in developed markets.

Despite having the largest urban population in Eastern Africa, Tanzania remains a predominantly rural country (Figure 7.11). In 2013, the rural population accounted for more than two-thirds of the total population. The urban population represents 31% of the country's total population, compared to 19% in Ethiopia, 16% in Uganda, and 25% in Kenya (although Tanzania's rate is lower than the average for sub-Saharan Africa, which is 37%). Dar es Salaam, the country's major harbour and economic hub, has an estimated population of 5.1 million (estimates for 2015), which represents 10% of the total population and 31% of the urban population.

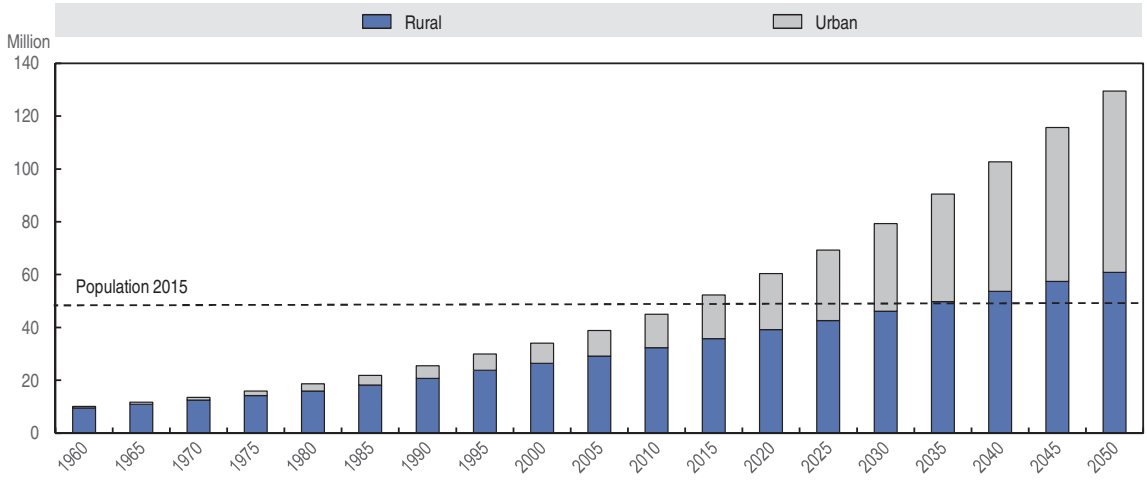
Tanzania has a young population that is projected to more than double by 2050. Despite a modest decline over the last decades, fertility in Tanzania remains high at 6.1 births per woman in rural areas and 3.7 in urban areas. Tanzania's population increased from 10 million in 1950 to 52 million people in 2015, and will reach 130 million by 2050, according to the medium fertility projection of the UN World Population Prospects.

Figure 7.10. **ODA and FDI levels are converging in Tanzania, 1970-2014**



Source: UNCTAD (2015), *UNCTADstat* (database), http://unctadstat.unctad.org/EN/; World Bank (2015), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 20 October 2015.

Figure 7.11. **Tanzania remains predominantly rural, but is urbanising rapidly, 1960-2050**



Source: UN (2014), *World Urbanization Prospects* (database), http://esa.un.org/unpd/wup/CD-ROM/, accessed 4 November 2015.

Under the same projection, Tanzania will experience a slow demographic transition as the activity ratio slowly increases from 1.1 active persons for every inactive person today, to 1.5 active people for every inactive person in 2050. The ratio is set to increase well beyond that. Currently one million people reach working age every year; by 2050 the annual entrance cohort will expand its size to 2.5 million (CIRAD, 2015b), raising great policy challenges for education and job creation.

Rural development strategy

Tanzania's post-independence political history is reflected in its policies for rural development, which cover three major phases (Table 7.3): the *Ujamaa* period of socialism and forced villagisation, economic liberalisation and focus on poverty reduction.

Table 7.3. **Evolution of Tanzania's agriculture and rural development objectives**

Period	1961-1964	1965-1966	1967-1979	1980-1985	1986-1999	2000-2015
Policy orientations	Independence and creation of Tanzania		Socialist period: self-reliance and planned economy	First reforms towards liberalisation	Structural adjustment and liberalisation	Sectoral and poverty reduction strategies - "Mkukuta"

Period	1964-1979	1980-1999	2000-2015
Agricultural and rural development	*Ujamaa* doctrine: forced villagisation with resettlement, provision of services, communal production, collectivisation of land	New Agricultural Policy (NAP) Progressive shift to market liberalisation, land reform and co-operatives	New strategies for rural and agricultural development Agricultural growth Corridor (SAGCOT) Cash transfer programmes (TASAF)

Ujamaa villages: the main tool for rural development during Tanzania's socialist period (1964-1979)

In 1964, only a few years after Independence, the then President Nyerere introduced the doctrine of *Ujamaa* (socialism in Swahili) – a radical shift of the economy towards socialism that aimed to develop self-reliance as a way of transforming economic and cultural attitudes. Framed as a national reaction to the rule of international finance and capital, *Ujamaa* translated into a one-party system, the official use of Swahili, the nationalisation of banks and large industrial enterprises, free and compulsory education, and support to agriculture. Its backbone was the "villagisation" of production and social services, which involved the creation of new villages by resettling scattered peoples so as to improve living standards by providing infrastructure and social services (health and education), and allowing government control over economic activity. Village committees were in charge of both the organisation of collective production and the allocation of individual plots to farmers.

The government was directly engaged in the definition of production objectives and in crop choices (additional incentives were created through programmes that distributed seeds and fertilisers to the new villages). On the marketing side, government price controls were also used to orientate crop production, notably in favour of food crops (Isinika et al., 2003). In 1976, a policy of a unique national price per crop was implemented to achieve inter-regional equity and to stimulate production in remote areas.

While *Ujamaa* had positive outcomes in terms of health and education, this was not the case for economic performance. Decreasing agricultural production, over-taxation, corruption and bureaucracy resulted in the widening of the structural deficit. The macro-economic situation further deteriorated with the simultaneous collapse of export commodity prices, the oil crisis of the 1970s, and the Uganda-Tanzania war in 1978-79, followed by the partial but costly occupation of Uganda by Tanzanian forces (Putterman and Island, 1995).

Co-operatives, which played a key role during the first years of *Ujamaa* (URT, 2005), were abolished in 1976 and replaced by Crop Authorities, the National Milling Corporation (NMC) and other parastatal organisations in charge of inputs, transportation, storage and processing (Campbell and Stein, 1992; Putterman and Island, 1995).

Economic liberalisation and expanding agricultural production (1980-1999)

Following the limited economic success of *Ujamaa* and the deterioration of the macro-economic situation, Tanzania moved away from socialism and entered a period of economic liberalisation and structural reforms. After a devaluation of the Tanzanian Shilling, discussions with the IMF led to a three-year standby agreement in 1980, the National Economic Survival Programme in 1981, and the Structural Adjustment Programme in 1982. These programmes focused on macro-economic stability (internal and external balances, monetary and fiscal policy).

From the early 1980s, rural development policies became more market-oriented, starting with the abolition of the unique national price policy (1981), and establishing a new national agricultural policy (1982). The latter aimed to raise famers' confidence and encourage

investment through a land reform that gave access to 33-year land leases. It also re-introduced co-operatives by ending the NMC's monopoly and establishing a new Co-operative Act. The government maintained control of agricultural prices, establishing a regional pricing system that taxed areas with comparative advantage while subsidising remote areas.

President Nyerere retired in 1985 and was replaced by a new elected president, Hassan Mwinyi, who continued the reform process and started a gradual liberalisation of the economy (Campbell and Stein, 1992). A four-year "Economic Recovery Programme" was initiated in 1986, focusing on liberalisation of both prices and marketing (including food). In order to deal with the social costs of the reforms, the "Economic and Social Action Programme" followed in 1989. Further reforms were begun under President Benjamin Mkapa in the mid-1990s with the privatisation of state-owned enterprises and banks, revision of land and labour legislation, improvement of the business environment, and the promotion of public-private partnerships.

Price and marketing control ended in 1986 with the implementation of the Economic Recovery Programme, which also abolished a series of subsidies. Reforms continued in the 1990s with the suppression of remaining subsidies (notably on fertilisers) and the revision of land and labour legislation. A new Land Act (1999) recognised the intrinsic value of land and the possibility of private transactions.

Rural development focuses on increasing agriculture productivity and reducing poverty (2000-today)

In the early 2000s, the government changed policy orientation to address rising inequality and recurring poverty. It endorsed the Millennium Development Goals and simultaneously adopted its own "Development Vision 2025". This vision was to be achieved through a series of sectoral-based strategies outlined in the "National Strategy for Growth and Reduction of Poverty" (NSGRP), also known in Swahili as *Mkukuta*. Since 2005, the NSGRP has been the backbone of government action. It is focused on education, health and nutrition, as well as quality of life (housing and water), social protection, governance and accountability. In parallel, the Tanzania Social Action Fund (TASAF) was launched in 2001, with the overall aim of reducing extreme poverty. TASAF has focused on the provision of basic services (health and education), as well as on cash-for-work and conditional cash transfer programmes. These efforts have recently been reinforced by a programme called "Big Results Now", which aims to support the implementation and monitoring of priority policies for achieving the mid-term goals of the "Development Vision 2025".

The National Rural Development Strategy was drafted in 2001. It had as a broad set of general objectives including the promotion of widely shared growth, development of a conducive environment for investment, support to rural financial services, and careful management of natural resources. Its key priority areas were agriculture, livestock, small and medium-scale enterprises, and human and natural resources. It was followed by the Agricultural Sector Development Strategy, drafted in 2003, and implemented through the Agricultural Sector Development Programme adopted in 2006. Agricultural programmes progressively became major components of the NSGRP (I and II). In parallel, access to inputs was improved by initiatives such as the National Agricultural Inputs Voucher Scheme in 2003, and the adoption of the Fertiliser Act (2008).

In 2009, faced with growing co-ordination problems, the government adopted a cross-cutting approach: *Kilimo Kwanza* (or Agriculture First). Formulated under the patronage of the Tanzania National Business Council, *Kilimo Kwanza* aims to accelerate agricultural modernisation through a holistic approach based on public-private dialogue and direct involvement of the private sector. The Southern Agricultural Growth Corridor (SAGCOT) is a recent example of Tanzania's approach to promoting private-public partnerships (see Box 8.6 in Chapter 8). SAGCOT encourages the involvement of private investors with large commercial farms, and the promotion of close links with smallholders through contracts and access to modern inputs and irrigation systems.

Assessment of rural development outcomes

Ujamaa was economically flawed, but had a positive impact on basic education and health

Under *Ujamaa*, primary school enrolment reached 95% at the end of the 1970s, a higher share than in many countries with a similar gross national product at that time (World Bank, 2015).[11] Life expectancy also remained higher and grew faster than the average for sub-Saharan countries, increasing from 44 to 61 years between 1960 and 2012 (World Bank, 2015). Nevertheless, these educational and health-related benefits dissipated when *Ujamaa* finished; *Ujamaa* levels have only recently been regained.

Despite the number of initiatives launched in recent decades, agricultural productivity remains low

Agricultural development has traditionally been based on practices such as shifting cultivation and manual tools. This has resulted in low labour productivity and low yields. Moreover, a growing rural population has meant less land per worker (FAO, 2015), with around one available hectare per worker today (more than two when pastures are included). The adoption of modern agricultural technology has been limited as most farmers still rely on extensive production systems and basic agricultural practices: 56% of farm acreage is cultivated by hand (hoe), 32% with oxen, and only 4% with tractors, with the remaining 8% having no mechanical assistance (Msuya and Isinika, 2011). In addition, only 200 000 hectares are irrigated, mostly in the Arusha-Kilimanjaro area, representing only 1.5% of the total arable land in Tanzania (FAO, 2015).

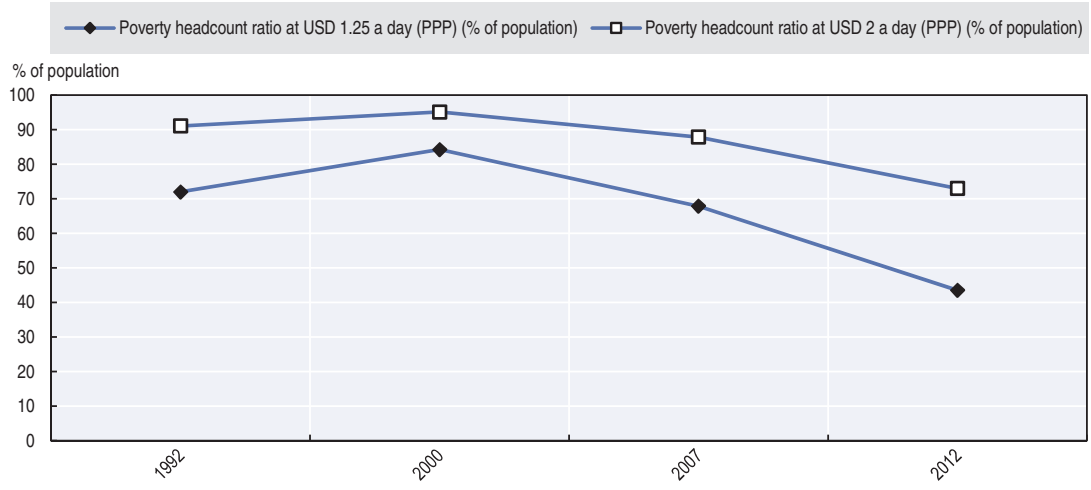
However, despite the predominance of subsistence farming, Tanzania has seen significant diversification and expansion of crops such as maize (FAO, 2015). Tanzania has become a big producer of cattle, which is today its most important agricultural product in value terms (FAO, 2015). The dairy sector has also developed rapidly, with some noticeable success stories, such as Tanga Fresh Ltd. in the Tanga region.

Poverty is falling in rural areas, but welfare and living standards remain low

With one of the lowest GDPs per capita on the continent, poverty remains high in Tanzania. However, progress has been made over the last 25 years. The percentage of the population living on less than USD 2 a day (PPP) fell from 91% in 1992 to 73% in 2012.

The reduction in extreme poverty was even more remarkable, going from 72% in 1992 to 43% in 2012 (Figure 7.12). However, based on national poverty estimates, the share of population living in poverty in rural areas (33%) is two times higher than in urban areas (16%) (World Bank, 2015).

Figure 7.12. **Tanzania has seen a remarkable reduction in extreme poverty, 1992-2012**



Source: World Bank (2015), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 20 May 2015.

Over the past 25 years, welfare indicators have not really improved, however (Table 7.4). Access to improved water sources, sanitation facilities and electricity is very low for urban populations, and much worse for rural populations. The situation in the countryside is particularly striking, with only 4% of the population having access to electricity and 8% to sanitation.

Table 7.4. **Welfare indicators for rural Tanzania remain low, 1990-2012**

	1990	1995	2000	2005	2010	2012
Access to electricity (% of total population with access)	7		9		15	15
% of urban population	30		34		46	46
% of rural population	1		2		4	4
Improved water source (% of total population with access)	54	54	54	55	55	55
% of urban population	92	89	86	83	80	79
% of rural population	45	45	45	45	46	46
Improved sanitation facilities (% of total population with access)	7	8	9	11	13	14
% of urban population	6	11	16	21	26	28
% of rural population	7	7	7	8	8	8

Source: World Bank (2015), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 4 November 2015.

Lessons for rural development

- **The Tanzanian experience is a strong reminder of the importance of adequate incentives.** Corruption, coercive measures, and the damaging economic policies during *Ujamaa* – such as mandatory crops, the banning of private marketing and private businesses, central pricing, over-taxation, mandatory resettlement, and collectivisation of land – led to stagnating production, declining export crops, and major disruption of commercial networks for inputs and outputs. Moreover, the drastic socialist policy changes following *Ujamaa*, that inhibited both investment and entrepreneurship, further highlight the relevance of a secure economic and institutional environment.
- **Without adequate implementation, strategic planning does not lead to development.** In the Tanzanian context – marked by imperfect and missing markets, lack of infrastructure, and high demand for social policies – the role of the state is crucial. The number of strategies, plans, and programmes launched over the last 15 years reflect the government's interest in addressing these issues. However, in spite of all these efforts, and the significant amount of resources received from the international community, inadequate implementation and governance have hindered progress. The rural development strategy formulated in the early 2000s has never translated into integrated and inclusive action. Instead, rural development has been addressed through a fragmented and sector-based approach that has mainly focused on agriculture.
- **As well as increasing agricultural productivity, policies for rural transformation need to promote economic diversification and non-farm employment.** A regionalised approach that addresses the assets and main constraints of each rural area may be more effective in facing present and future challenges. Indeed, challenges such as demographic growth, youth unemployment, and the expected impacts of climate change require a stronger focus on a multi-sectoral and place-based approach that goes beyond capturing FDI through development corridors.
- **International donors tend to follow a sectoral approach that affects national policies.** Tanzania has been one of biggest recipients of ODA in Africa. This has made international donors key agents in the execution of both rural and national development strategies. International donors tend to target their resources and efforts on specific economic sectors or themes. Despite the existence of some task forces across sectors, this practice leads to further fragmentation of national strategies for rural development. This results not only in higher co-ordination costs, but also in policy interventions that do not fully address the challenges of rural development.
- **Sound governance will be crucial for reaping the benefits of economic growth.** Over the last decade Tanzania has experienced high economic growth, but this has been mainly driven by capital-intensive sectors. Recently identified gas reserves also promise much development potential. But these motors of growth do not create much employment, nor do they feed through to all sectors of the economy; government action needs to aim for redistribution of their benefits, and to promote alternative sources of inclusive growth. To achieve this, it is fundamental to

implement governance mechanisms that limit corruption, promote transparency, and monitor and evaluate the effective allocation of resources.

Moving forward

Tanzania faces important challenges that will be difficult to address without a comprehensive and effective rural development strategy. In the coming decades the country's total population will double, calling for a huge number of employment opportunities in both rural and urban areas. This will require greater agricultural productivity and non-farm employment. Tanzania has 44 million hectares of arable land, but only 23% are currently under effective cultivation. Modernising agriculture, improving farming methods and increasing access to financial institutions will all help to improve productivity and reduce poverty in rural areas. Subsistence farming and non-farm activities may be an alternative to reduce rural-urban migration; the development of processing activities, agro-industry conglomerates, and tourism should be further considered. Along with the creation of employment opportunities, improving access to basic services and providing hard infrastructure should be prioritised. Indeed, improving both soft and hard infrastructure will be fundamental for the economic transformation of rural areas. Considering the big demographic challenge face by the country, even if these actions are properly implemented they may not be enough. Policies promoting family planning as well as other policies helping the demographic transition will also be required.

Notes

[1] Previously pegged to the French franc, the CFA franc is now pegged to the euro at XOF 655.96 for EUR 1. The 1994 devaluation rate was 50%.

[2] The ratio was estimated at 4.6 in the 2000s (UN, 2011) and is estimated at 4.9 today.

[3] The primacy index is computed as the ratio between the population of the biggest city and the population of the second biggest city of a country.

[4] Deforestation dramatically increased in the 1970s, when it reached 300 000 ha per year, and was estimated at around 100 000 ha per year in 2000. The forest area decreased from 8.3 million ha in 1955 to 1.7 million ha in 2008 (RCI, 2010; World Bank, 2010).

[5] Technical ministries continued to develop their own programmes with the objective of improving population coverage.

[6] The *Comité de Gestion de la Filière Café-Cacao* – CGFCC.

[7] The government targets around 20 *interprofessions*, although only a few of them have been formally put into operation so far.

[8] Extreme poverty is currently defined by the World Bank as people who live on USD 1.25 per day in PPP (purchasing power parity).

[9] A limited exception were the *Fonds régionaux d'aménagement rural* (FRAR) created in 1974, which co-funded schools, water access, roads, health centres, etc., with villagers contributing 40% to 60% of the investment (more in the richer south, less in the north).

[10] This is illustrated by the poor performance of public companies such as Sodesucre, or the building of "cathedrals in the desert" such as the world's largest basilica in Yamoussoukro.

[11] The adult literacy rate was 73 % in 1977 (Collier et al, 1986), compared to 68% in 2010.

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Chapter 8
Rural development lessons from the past and opportunities for the future

Rural development has taken many different routes, as shown in the case studies and comparisons of Asian and sub-Saharan African countries in the preceding chapters. This chapter compares and contrasts their experiences and also draws on the analysis in Chapters 2-4 to synthesise ten key lessons and insights for rural development. It also highlights some key opportunities in the area of information and communication technologies (ICTs), biofuels, and agricultural technology that offer great potential for rural development in developing countries in the 21st century.

Previous theories and approaches, along with the case studies of OECD, Korea and the Asian and sub-Saharan African countries, show that rural development has evolved differently across time and place. They also demonstrate the need to adjust and adapt rural development strategies according to the specific resources, institutions, capabilities and dynamics of each country. At the same time, the successes and failures of the past have yielded a number of lessons, covering the social, economic, institutional, demographic and environmental spheres. Ten lessons (discussed in this chapter) highlight the core elements to consider in successful rural development strategies, and can be built into the New Rural Development Paradigm for developing countries in the 21st century (see the next chapter):

1. Rural areas vary enormously, so rural strategies need to be tailored to each country's specific conditions
2. Governance is a key factor in the success or failure of rural development
3. Demographic dynamics play a vital role
4. Policies that build on rural-urban linkages can drive development
5. Agricultural development is key for improving welfare in many developing countries today
6. … but there is more to rural areas than agriculture
7. Inclusive infrastructure is critical for rural economic growth
8. Gender equality is fundamental for rural development
9. Inclusive policy approaches are necessary to reduce rural poverty
10. Rural development and environmental sustainability go hand in hand.

1. Rural areas vary enormously, so rural strategies need to be tailored to each country's specific conditions

Developing countries are tremendously diverse. This diversity can be observed when comparing the case studies in Asia and sub-Saharan Africa: countries across these regions differ in their stages of development, they have differing governance structures, institutional capacity, and political landscapes that affect their ability to implement strategies; they have different levels and types of natural resources upon which to draw to sustain their populations and drive development; and they have different levels of hard and soft infrastructure. For instance, the selected Asian countries are already engaged in a demographic transition that has translated into lower fertility and dependency rates and a shrinking rural population, while in the sub-Saharan African case study countries, the rural population will continue to grow in the coming decades. Another important difference is the capacity for public policy delivery across these two regions. In all the Asian case studies there have been significant improvements in the provision of basic public services in rural areas such as piped water, electricity, and sanitation facilities, while for the sub-Saharan case studies improvements in the provision of basic services in rural areas have been very modest. Rather than pointing to the relative success or failure of rural policy across these two regions, however, we aim to illustrate their varying challenges and possible paths for rural development (for an example, see Box 8.1).

Box 8.1. **Viet Nam and Tanzania: Two countries, two different possible paths for rural development**

In **Viet Nam** global and domestic changes are bringing new opportunities and challenges for rural development. Thanks to globalisation, Viet Nam can offer lower wages and close proximity to Chinese markets to attract industrial and service firms from China. Globalisation also offers new opportunities in tourism, especially agro and eco-tourism, in which Viet Nam has a natural advantage. However, with 47% of the population still involved in agriculture, increasing agricultural productivity is a vital component of rural development. Diversification into higher value crops and developing the food processing industry can build on the strong agricultural base in rural areas. Within this process, agricultural extension and industry expansion need to play a larger role in supporting modernisation and product development. Harnessing new opportunities for creating non-farm employment will require improvements in the overall conditions for investment. A combination of institutional reform and investment in connective infrastructure are needed to create a business-friendly environment, to foster rural entrepreneurship, and to attract foreign firms relocating from China. Furthermore, the government needs to continue its commitments to health, education and skills to ensure a healthy and capable rural workforce. Social protection and rural health infrastructure will be necessary to cope with the new demands of an ageing rural population. Meanwhile, mechanisation can help offset the lack of labour in rural areas in the future, while physical and human capital in ICT offers the opportunity of shifting to a knowledge-based economy that is less labour-intensive.

Tanzania is a young nation whose potential for development is untapped. Close to 70% of the population is rural, characterised by high poverty and limited access to soft and hard infrastructure. In the next four decades the country's total population will double, raising important challenges for reducing poverty, creating employment and providing public services to rural areas. Tanzania possesses 44 million hectares of arable land, of which only 23% are currently under effective cultivation. Modernising agriculture, improving farming methods and increasing access to financial institutions will be needed to improve productivity and curb poverty in rural areas. The looming demographic challenge demands additional policy actions, such as expanding processing activities and agro-industrial conglomerates in rural areas. Natural resource rents could fund improvements to basic service provision in rural areas, such as electricity, piped water, and sanitation facilities. Estimates suggest that recently discovered gas reserves could generate an annual government revenue of USD 2 billion, which is equivalent to two-thirds of the official development assistance (ODA) received in 2010 (Bukurura and Mmari, 2014). Natural resources could also provide non-farm employment opportunities. Protected areas for conservation account for approximately 40% of Tanzania's surface, and include a number of wildlife reserves of worldwide renown, such as Serengeti National Park and Ngorongoro Conservation Area. Moreover, and in contrast to neighbouring countries like Kenya, Tanzania benefits from internal stability making it a more appealing destination for international tourism.

In addition to this diversity, the rapid globalisation process that has unfolded over the past few decades – characterised by increasing economic integration, easier access to information and communication technologies (ICT), new global institutions and governance structures, and an increasing recognition of the threats posed by global environmental degradation and the depletion of natural resources – has had highly asymmetric effects on developing countries. Furthermore, developing countries today are subject to challenges and opportunities that did not exist several decades ago, let alone when the more advanced economies were developing. These include very high demographic growth in most sub-Saharan African countries, climate change, and new technological opportunities in a variety of sectors. The high level of diversity across developing countries and the highly dynamic nature of the new global system mean that rural development strategies must be tailored to country-specific conditions and capabilities and must consider external conditions.

2. Governance is a key factor in the success or failure of rural development

Looking at past experience, one of the fundamental reasons for the failure of many development attempts has been their neglect of governance issues. Ambitious approaches such as the World Bank's Integrated Rural Development in the 1980s and the UN's Millennium Development Goals framework more recently have been widely criticised for failing to account for existing technical, administrative, institutional, and human capacity in their policy design (Chapter 3). The case studies show that the Asian countries (China, Korea, Thailand, Viet Nam; see Box 8.1) benefited tremendously from much stronger governance and institutional capabilities than the African countries (Côte d'Ivoire, Tanzania). The issue is partly explained by the youth of the African states and by the historically strong influence of external actors, which limits their autonomy. In comparison, the Asian case study countries are characterised by a much higher degree of political autonomy. They tend to have strong central states with a high capacity to develop strategy: that is, to manage, implement, enforce, evaluate, and adjust policies in response to changing conditions. In African states, the lack of governance capability is also closely tied to histories of drawn-out conflict and fragility. Decades of political and economic instability have limited the potential of governments to develop strong leadership capability and co-ordination across administrative levels, to adequately and equitably serve their populations (especially at the local level), to make vital infrastructural and human capital investments, to develop a business environment conducive to investment and economic growth, and to build up traditions of civic engagement. However, political stability does not completely explain the strong contrast between African and Asian states: in Thailand, the strong capability of the civil service has helped maintain coherence in policy direction and strategy despite numerous political coups.

While governance issues, especially those deriving from conflict and entrenched corruption, can be extremely difficult to improve, rural development strategies must pay adequate attention to the existing level of governance to ensure successful implementation, while incorporating methods and mechanisms that aim to grow governance capabilities. Given the high number of public and private actors that must be involved in rural development, efforts to address governance should also consider how to incentivise various actors and how to build mechanisms for co-ordinating them. To this end, efforts to involve local government and civic participation in developing a vision and strategy for rural development can be a powerful way to build buy-in, ownership, and the foundational relationships necessary for monitoring, evaluation and adjustment (see Box 8.2 for some country examples).

Box 8.2. **Leadership and governance lessons from Korea and Viet Nam**

Korea's *Saemaul Undong* is an especially successful example of combining bottom-up and top-down approaches to building government and institutional capacity at multiple levels. The training of *Saemaul* Leaders at the village level to manage and co-ordinate development activities built local capacity to design and implement projects and helped drive local participation in and commitment to development. In addition, the creation of local offices to monitor progress and of a co-ordinating body comprising various ministry heads ensured coherence across government levels, led to better integration of projects across sectors, and facilitated monitoring and evaluation. Throughout *Saemaul Undong*, President Park's strong vision for rural development helped to mobilise people and resources towards the goals of poverty reduction, rural modernisation, community-building and self-reliance.

Viet Nam's National Targeted Program on New Rural Development (NTP-NRD), begun in 2008, follows a similar approach:[1] the programme aims to strengthen local administrative capacity and mobilise villages to achieve rural development objectives, which include addressing rural poverty through agricultural productivity increases, infrastructure improvements, income diversification and regional specialisation. However, the development of criteria is still top-down, and thus has not generated the buy-in and ownership necessary for monitoring, evaluation, and adjustments to local specificities.

3. Demographic dynamics play a vital role

In the Asian countries, education and health improvements and consistent family planning led to drastic decreases in the total fertility rate and the mortality rate, and increases in life expectancy (Box 8.3). These spurred rapid demographic transitions that dramatically reduced dependency ratios and enabled more rapid growth in income per capita, thereby fuelling economic development. Indeed, the demographic dividend is estimated to account for 9.2% of China's economic growth between 1960 and 2000 and 15.5% of Thailand's growth in the same period (Mason and Kinugasa, 2008). China's tremendous growth was fuelled by a massive working-age population that enabled labour-intensive industrialisation and turned the country into a global manufacturing powerhouse. Contrary to popular belief, the major reductions in China's fertility rates occurred a decade before the one-child policy was implemented, mainly via moderate campaigns to encourage smaller families and later marriage.

Box 8.3. **Family planning in Thailand**

Thailand has had remarkable success in family planning, largely due to the strong leadership of Mechai Viravaidya, a former government economist who launched the non-profit Population and Community Development Association (PDA) in 1974. The PDA used creative and high-profile public education campaigns that were highly successful in spreading contraceptive information and turning family planning into something more familiar and less embarrassing. To convince Thailand's then-agrarian society to refrain from the practice of having more children for farm labour, the PDA combined family planning with economic development. It launched micro-lending schemes to give the poor other income-generating alternatives, and gave preference to applicants who were practising family planning (Frazer, 1992). The Thai government supported these efforts by making a wide range of new contraceptive methods easily available to the public. These imaginative, non-coercive policies were highly effective in rapidly reducing fertility rates and improving rural livelihoods, helping to drive structural transformation.

In the coming decades, rapid population ageing will become a concern for these countries (and is already a concern for China): increasing dependency ratios place a higher financial burden on the working-age population; increase government spending on health care and pensions; and can contribute to a potential decrease in productivity, investment, and growth due to higher taxes, and a shortage of workers in the economy. For instance, Myanmar risks missing its demographic dividend: decades of political instability have prevented the country from capitalising on its large youthful population, abundance of natural and mineral resources, and strategic geographic location. The country risks getting old before incomes and living standards improve (OECD, 2013a). Increasing the retirement age and labour force participation rate – especially for women – and improving the funding of pensions (for example, through the private sector) can help mediate the effects of an ageing population on the economy.

In contrast to the Asian countries, the failure to address demographic challenges in sub-Saharan African countries has been a hindrance to structural transformation and to rural development and continues to pose increasingly daunting challenges, both long-term and short-term. Forty-six sub-Saharan African countries have fertility rates above 3 births per woman, 35 have fertility rates above 4, and 13 have rates above 5. In the next few decades, large youth bulges will present enormous challenges for ensuring that there is enough food, water and other resources to sustain the population; creating enough jobs to enable productive livelihoods; and overcoming population pressures on the environment. In addition, youth bulges drain family and social resources away from physical and human capital accumulation, high fertility rates limit women's ability to pursue education and participate in the labour market, and high youth unemployment and inequality can fuel civil violence and political instability. Without a combination of effective education, health and family planning policies and increased availability and use of contraception in countries that have not undergone the demographic transition, demographic challenges will overwhelm many development efforts. However, family planning policies take many years to have an impact on dependency ratios and the working population. Therefore, many countries will have to supplement family planning with other policies in the shorter term, such as developing commercial agriculture and strengthening subsistence agriculture, poverty alleviation and income support programmes, and the development of medium-sized intermediary cities that can absorb some of the growing population and relieve environmental pressures in larger cities.

4. Policies that build on rural-urban linkages can drive development

There is broad agreement among development experts and researchers that there are complex and dynamic demographic, administrative, economic, social, and environmental linkages between rural and urban areas; viewing rural and urban areas as distinct entities in policy making does not reflect the reality of rural-urban interdependencies. Definitions of "rural" and "urban" differ widely from country to country, drawing on combinations of various elements such as population size categories, administrative boundaries, sectoral composition of the local economy, the share of the population employed in various sectors, and the level of public services available. However, viewing rural and urban areas as separate and cleanly delineated entities does not capture the dynamic hybridity nature of rural-urban regions. It can lead to co-ordination failures, negative externalities, and sectoral approaches that may miss important structural and demographic opportunities for development and possible complementarities at the regional level (OECD, 2013b; Tacoli, 1998; World Bank, 2006).

Box 8.4. **Rural-urban linkages in Mali, Nigeria and Tanzania**

A 2003 study of rural-urban linkages in Mali, Nigeria and Tanzania found a dynamic and increasing pattern of occupational diversification in the three countries that is heavily influenced by population density, sectoral and spatial patterns of industrialisation, access to affordable transport and demand for services by urban-based groups. For example, in southeastern Nigeria, an efficient and cheap transport system encourages commuting to regional urban centres, where low-income rural women work as cleaners or gardeners and men work as construction workers or in the oil industry.

In the three countries, younger generations are increasingly engaging in non-farm rural employment due to issues affecting the viability of small-scale farming, including limited access to credit, land shortages, and weak markets for produce, as well as to take advantage of new opportunities for small-scale trade and manufacturing in peri-urban areas. Migration, too, serves as a vital link between rural and urban areas in the three countries. Out-migration has caused labour shortages in Mali while increasing households' dependence on remittances. At the same time, social links between migrants and their home communities remain strong, serving as "a way of spreading their assets (and risk) across space and maintaining a safety net which helps in times of economic and social insecurity in the cities". In Nigeria, many out-migrants build homes for future retirement in their home areas, creating new opportunities for construction in rural areas. Migrant associations also play a strong role in channelling resources to communities of origin, investing in public goods and facilities. These examples show that rural-urban linkages have large and continuously changing effects on the behaviour of households and individuals, and should be taken into account by governments forging development strategies.

Source: Bah, M. et al. (2003), "Changing rural-urban linkages in Mali, Nigeria and Tanzania", *Environment & Urbanization*, 15(1), 13–24, www.ucl.ac.uk/dpu-projects/drivers_urb_change/urb_economy/pdf_Urban_Rural/IIED_Bah_Mali.pdf.

There is also strong evidence that increasing rural-urban linkages can improve regional competitiveness and lead to poverty-reducing impacts through remittances, changing rural land-to-labour ratio, and non-farm employment (Akkoyunlu, 2015; Cali and Menon, 2013; Christiaensen and Yasuyuki, 2013). Spatial rural-urban linkages are important drivers of economic activities, and are central for understanding the dynamics of rural livelihoods, such as the diversification of farm and non-farm activities and income sources, mobility, migration, and the diffusion of technology and innovation (Akkoyunlu, 2015; see Box 8.4 for several country examples). On the other hand, unbalanced rural-urban growth can trigger negative externalities in urban areas such as congestion, unmanageable urban growth, crime, pollution, and rising land prices (Berdegué and Proctor, 2014). Some of the case study countries have seen success following policy shifts towards regional and national integration of rural areas. Viet Nam has progressively adopted a regional development approach that focuses on the use of industrial clusters, economic corridors and transport infrastructure to facilitate trade in goods, services and human resources between complementary activities and to incorporate remote areas into regional markets. The government also invests in infrastructure development to establish industrial areas located in secondary and tertiary cities where labour is cheaper. These smaller intermediary cities have already been a draw for the textile and garments industry (for which agglomeration benefits are lower), and are expected to attract firms relocating from China or from major cities in Viet Nam to take advantage of cheaper labour.

Since the mid-2000s, the Chinese government has also officially recognised that rural areas are central to the country's future economic growth and development. Its leaders have shifted from a development approach that heavily favoured urban industrial areas towards a multi-sectoral, integrated strategy that emphasises balanced development across regions. This strategy includes efforts to diversify local economies, including growing a competitive services sector to support more sophisticated industries and rising consumption demand; broad investments in transportation networks that help integrate local economies into regional markets; heavy investments in human capital, including health, education, and public services; and targeted policies that build upon the geographic and economic advantages of particular regions. These policies have already resulted in rapid growth in some of China's inland cities, some of which have been able to develop competitive industrial clusters tied to regional production networks and driven by domestic consumption demand as opposed to export-oriented manufacturing, as well as stronger and more high-value services sectors.

Overall, the case studies show that successful "rural" development strategies are not limited to policies that explicitly target rural areas. Rather, successful strategies are able to integrate rural areas into national policy, building on the diverse links between rural and urban areas to strengthen regions as a whole and help them become more resilient, productive contributors to the national economy.

5. Agricultural development is key for improving welfare in many developing countries today

Agriculture has been important for economic growth in many developed and developing countries. It still remains a fundamental source of employment in many developing regions. In 2015, 23.4% of the economically active population in sub-Saharan Africa was employed in agriculture, and 22.7% in Southeast Asia (FAO, 2015a). In 2014, the agricultural sector represented 10% of gross domestic product in Asia and 14% in Africa, compared to a global average of 4% (FAO, 2015b). Agriculture is particularly important in sub-Saharan Africa where the population is predominantly rural and agriculture is still the leading sector. In this context, agriculture plays a pivotal role in improving living standards in developing countries.

Given the large size of the agricultural sector in developing countries, increasing agricultural productivity – combined with the opportunities offered by ICT and global integration – can lead to higher rural incomes and an increase in food supply. This can translate into lower food prices, a reduction in household expenditure on food, increased savings, and an overall improvement in food security. Improving agriculture productivity can also lead to more investment opportunities, and the development of both agricultural-related industries and the rural non-farm economy (Dercon and Gollin, 2014; World Bank, 2007a). More productive agriculture is also key to addressing the challenges of a population boom, especially in regions with unstable domestic agricultural production and foreign exchange constraints such as sub-Saharan Africa, where the demographic change will put additional pressure on food demand (World Bank, 2007a). Empirical evidence shows that agricultural growth has an impact on poverty reduction in developing countries. For instance, the Green Revolution in Asia mitigated the impact of a food shortage crisis in the 1970s and contributed to industrial growth by increasing domestic savings and foreign exchange (Brandt and Otzen, 2004).

Côte d'Ivoire and Thailand have both promoted the market integration of the agricultural sector, supporting farmers financially and with extension services (Box 8.5). Land policy plays a key role in creating the right incentives for productivity increases. Acknowledging the household ownership of land has encouraged farmers to invest in their own agriculture production and brought about major productivity increases in China and Viet Nam. The agricultural land market also needs to be flexible for trading and generating economies of scale. Co-operatives for machinery and production inputs can provide the necessary scale for small household farmers and avoid all the benefits of agricultural modernisation being captured by big farms.

Box 8.5. **Thailand spurs rural development through agro-industrial promotion**

Starting from the 1960s, Thailand's government spearheaded a diversification from rice to maize, cassava and sugarcane production. This began an expansion of agricultural commodities to feed the development of agro-industries (animal feed, sugar cane and food packaging), which were fully part of the industrialisation strategy (Goss and Burch, 2001). In order to support this dynamic, the state provided adequate infrastructure, protection to small businesses with price guarantee mechanisms, as well as incentives for industrial development outside of Bangkok (through the extension of the investment act to the agribusiness sector in 1972 and 1977). The expansion of the agricultural sector was also influenced by the progressive development of contract farming, which boosted technology transfer (especially in the poultry sector). Food-production conglomerates emerged out of this process, and they later diversified into industries and services. Some of these developed into regional and global leaders, such as in the poultry and sugar markets.

The developing country case studies show the diverse functions that agriculture has played in rural and national development and its potential for improving the well-being of rural populations. The experience of Côte d'Ivoire shows that building a strong commercial agricultural sector can lead to an increase in production and higher farm incomes if the right institutional settings are securely in place. Agriculture in Thailand and Viet Nam has served as a support base for industrialisation by lowering food prices, decreasing food imports, and increasing foreign exchange reserves.

The positive impact of agriculture on rural and national development can be increased through complementary policy actions related to gender, environment, and technology. Women's rights to assets and economic participation should be enhanced, since women make up nearly half of the agricultural workforce in developing countries, but are mostly smallholder farmers, self-employed or landless. Environmental costs should be minimised by protecting and using natural resources efficiently. Identifying environmental services associated with agriculture while promoting watershed management programmes can contribute to biodiversity preservation, the sustainable use of water, and greater agriculture productivity. Innovation in science and technology, through investment in R&D, and better access to financial services as well as to information, can translate into a more sustainable production system across the population involved in agricultural activities (World Bank, 2007a).

6. … but there is more to rural areas than agriculture

While agriculture undoubtedly plays a vital role within rural development, there is some question as to whether agriculture can viably continue to be the main source of income for the majority of rural populations in the face of large youth bulges (in Africa) and growing environmental degradation and climate change that are predicted to have particularly detrimental effects on developing countries. The development of rural non-farm industry and services has the potential to slow rural-urban migration, thereby easing environmental pressures on large cities, and to lead to a more equitable distribution of income. Across developing countries, the majority of rural households already rely on non-farm sources of income for at least some of their income, some of the time.

Despite a new global context in which industrialisation in developing countries is heavily challenged by China and other manufacturing powerhouses, some countries (especially those in Asia) have been able to successfully spur structural transformation by leveraging competitive advantages such as location, resources, latent industrial capability and human capital, and by taking advantage of the opportunities presented by a highly integrated modern world, such as global value chains, industrial clusters, and increasing foreign direct investment (FDI) flows. In Thailand, the government has engaged in a downstream strategy of promoting regional and sectoral integration between agriculture, industry and services. Government incentives and liberalisation encouraged private companies to develop production and food processing links with the agricultural sector, leading to the emergence of successful agro-businesses as major rural employers (including agro-processing, agricultural equipment manufacturers, and livestock feed and village retail shops) and a higher level of rural diversification than most other Asian countries. This process also allowed for backward linkages and gave rise to the manufacturing support sector in Thailand.

In Viet Nam, market reform and international integration allowed the country to switch from importing food to become a major exporter of cereals and, later on, high value-added agricultural products such as shrimp and fresh fruit. Viet Nam then built on this foundation to improve the business environment and attract manufacturing FDI into rural areas, exemplified by the recent expansion of Samsung factories in northern Viet Nam. Key elements of this success in both Thailand and Viet Nam include strong, early infrastructure investments in remote areas, the availability of finance in rural areas, high ICT connectivity, and early government liberalisation of the financial and telecom sectors. Another example is the Tanzanian Southern Agricultural Corridor (Box 8.6).

Many governments use Special Economic Zones (SEZs) to spur industry in rural areas. SEZs are spatially delimited areas that operate under a different administrative, regulatory and fiscal environment than other regions in order to overcome investment barriers that exist in the domestic economy (Farole and Akinci, 2011). They can take various forms, from export processing zones and economic processing zones to free economic zones or foreign trade zones. Governments in both developing and developed countries have been devising SEZs with typically one or more of these objectives: (i) attracting foreign direct investments; (ii) creating large-scale employment; (iii) supporting wider economic reform, commonly to develop and diversify export sectors without completely opening the national market; and (iv) providing space for policy experimentation.

Box 8.6. **The Tanzania Southern Agricultural Corridor**

Governments can also use policy tools and partnerships with the private sector to incentivise industrial clusters, global value chain creation, and other linkages between economic sectors. For example, in 2012, the Government of Tanzania, along with a range of foreign and domestic, private and public actors, launched the Southern Agricultural Growth Corridor (SAGCOT), a platform that brings together public sector investment in critical infrastructure and private sector investment to develop supply chains, distribution channels, and markets. It aims to overcome barriers to modern commercial agricultural development, to address co-ordination issues and bottlenecks, to empower smallholders as valuable links in the agricultural supply chain, and to explicitly link agriculture to the green growth agenda. SAGCOT has successfully built momentum among partners to prepare for action in the implementation phase and has received commitments for funding through a USD 50 million catalytic fund backed by the Tanzanian government and international donors, plus commitments by USAID and a range of private sector actors. Its future success will depend on further investment from public and private agents, the provision of financing by banks, and building the capacity of smallholders and their representative bodies to be part of the mix.

Source: Jenkins, B. (2012), *Mobilizing the Southern Agricultural Growth Corridor of Tanzania: A Case Study*, Harvard Kennedy School, Cambridge, MA, www.hks.harvard.edu/m-rcbg/CSRI/publications/report_48_SAGCOT.pdf.

The Asian Tiger countries have very successfully exploited the potentials of SEZs to contribute to national development. China in particular has developed many zones, such as Shenzhen which transformed a fishing village into a global industrial hub. Thailand also successfully established the Eastern Seaboard Development plan in the 1980s to attract Japanese firms and build automobile and high-value manufacturing industries for export. Today, about 60% of African countries have SEZs (Brautigam, Farole and Tang, 2010). Despite enjoying various fiscal exemptions, African SEZs, with the exception of Ghana and Mauritius, have largely failed to deliver significant benefits, however. They struggle to attract foreign direct investment due to their modest strategic and management plans and countries' overall unappealing political and legal landscape. Moreover, linkage creation between export-oriented and other local firms is difficult where regulations and tax regimes for the two differ significantly.

7. Inclusive infrastructure is critical for rural economic growth

The case studies show that those countries that are successfully developing have made significant improvements in closing rural-urban gaps in hard and soft infrastructure. Hard infrastructure includes basic public services such as water, sanitation, energy, electricity, transportation (roads, rail, bridges, airports, ports etc.) and ICT. Soft infrastructure refers to the range of human institutions that maintain the core social and economic standards in a country, such as health, education, social capital, and financial, regulatory, legal, and political systems. Together, hard and soft infrastructure form the foundation for economic growth and development.

Reliable and equitably distributed rural infrastructure increases productivity by allowing households to spend less time and energy on obtaining basic essential services and by improving human capital through health and education. The provision of basic services often benefits women by relieving them from tasks such as water and fuel collection and enabling them to instead pursue income-generating activities. Infrastructure investment also creates off-farm jobs for the rural population (such as in construction, transportation, and public services; see Box 8.7), creates demand for inputs and intermediary products that drive demand for labour in these sectors, and drives growth in myriad ways (for example, by facilitating the marketing and selling of farm goods and allowing factories to expand production due to reliable power supply).

Box 8.7. **Infrastructure and rural job creation**

Infrastructure investments can help solve the job-creation challenge through three main channels:

1. Developing the infrastructure creates jobs; many of them are less-skilled jobs in construction and transportation which match the labour profile of many developing countries. Currently about 1.1% of the labour force in developing countries works in the electricity and water sector and about 6.6% in the transport and communications sector.
2. Investments increase demands for inputs and intermediary products, which push up demands for labour inputs in these sectors.
3. Infrastructure investments drive growth that translates into more jobs, for example through farms expanding due to greater access to markets, or factories expanding production thanks to a reliable power supply. Ianchovichina et al. (2013) roughly estimate that a 1% increase in the stock of infrastructure will increase the number of jobs in SSA by 0.5%, and by 0.4% in Southeast Asia and the Pacific.

It is important to note that building soft infrastructure also involves incorporating inclusiveness into a country's institutions to ensure that they serve vulnerable groups such as women and minorities equally. For example, Viet Nam adopted a National Policy Framework for Gender Equality for the period 2011-20 to highlight the importance of gender equality for the socio-economic development of the country. In addition, the country has recently established lending institutions that specifically target women to ensure that they have effective access to bank loans (OECD Development Centre, 2015). The country also has a long-established Committee on Ethnic Affairs that focuses on supporting livelihoods for ethnic minorities, mostly residing in remote mountainous areas. However, its functions have been somewhat limited due to lack of funding.

Soft infrastructure also includes an equitable land tenure system and transparent property rights. In Tanzania, land reform was initiated during progressive liberalisation in the 1980s, when a policy aiming to raise confidence and foster farmer investments gave access to 33-year land leases, leading to improvements in agricultural dynamics and increases in agricultural productivity. In Viet Nam, land reform following the *Doi Moi* period and a land tenure law that extended land-use rights to 20 years for the production of annual crops and to 50 years for perennials played a significant role in raising agricultural productivity, increasing rural welfare, and supporting industrialisation.

Basic rural infrastructure (both hard and soft) is significantly more developed in the Asian countries (China, Thailand, Viet Nam) than in the African ones (Côte d'Ivoire, Tanzania). In 2010, rural access to water, electricity, and sanitation was respectively 90%, 95% and 63% in Viet Nam; 95%, 97% and 96% in Thailand; and 85%, 98% and 56% in China (World Bank, 2015). In comparison, access in Côte d'Ivoire was 68%, 37%, and 10% and 44%, 4% and 7% in Tanzania. Korea provides a strong positive example of the use of hard and soft infrastructure to drive industrialisation and growth. The Korean government embedded strategic investments in key infrastructure within its successive five-year economic development plans between the 1960s and 1990s. The first series of plans, which aimed to create export-led industry, included high investment in hard infrastructure to strengthen manufacturing capabilities as well as in human and technological development to drive the growth of heavy and chemical industries. Later plans invested heavily in technological innovation, building information infrastructure, and improving the higher education system to promote technology-intensive industries, leading to strong endogenous technological capability and a knowledge-based economy.

In particular, major investments in education have been key drivers of growth in Asian countries. Higher levels of education and health are strongly correlated with lower fertility and mortality rates and higher life expectancy – all drivers of demographic transition and structural transformation in rapidly developing Asian countries. In Viet Nam, high levels of educational attainment and vocational training have enabled the development of higher-value industries, such as electronics, and services in the face of globalisation. Since 2007, Viet Nam has also been investing heavily in building and repairing roads to establish official economic corridors between the north and the south, and between Viet Nam and its neighbours. In Thailand, high educational attainment has helped rural people upgrade to higher-value crop production and move from agriculture into other sectors, such as agro-industry, agricultural equipment manufacturing, and services supporting agriculture. In this sense, the provision of basic hard and soft infrastructure in rural areas is directly related to diversification and structural transformation, as well as to sustainable and inclusive national growth and development. However, to avoid over-investment in infrastructure (as in some regions of China) and to ensure that investment matches local needs, infrastructure projects should closely involve local government in design and implementation.

8. Gender equality is fundamental for rural development

Women are key players in agriculture and rural development in many countries. They made up 43% of the workforce in agriculture on average in developing countries in 2010 (World Bank, 2012a), are responsible for household food security, and act as the main caregivers. Yet, women's contributions are not fully acknowledged. Women continuously lack access to land, fertilisers, water for irrigation, seeds, technology, tools, credit, livestock, extension services, output markets and profitable cash crops. Women also have less access to education and health infrastructure and services, and take on more hours of formal and informal labour than men. For example, women in African and Asian developing countries typically work 12 to 13 hours more than men per week. In Kenya, only 5% of the female population are registered landowners and in Ghana, men's landholdings are valued three times higher than women's (World Bank, 2012a). Restricting

women's equal access to economic opportunities and resources constrains agricultural productivity, poverty alleviation, food security, rural livelihoods and rural development. It also adversely affects women and children's human development. It is estimated that endowing women and men with the same access to resources could raise total agricultural output by 2.5% to 4% in developing countries, and reduce the number of undernourished by 12% to 17% globally (Buvinic, Lunde and Sinha, 2010; FAO, 2011; World Bank, 2012a). Evolution of development approaches towards gender and the case studies show that while the most urgent needs of women should be met, efforts are also required to reduce gender discrimination on multiple fronts to create synergies across different areas (Box 8.8).

Legislation and the institutionalisation of gender equality are also critical in light of social norms, cultural dynamics, weak institutions coupled with low women's representation, and women's lack of awareness of their rights. They can especially help lower the barriers to women's rights to property. At the same time, they have to be implemented in a sustainable manner. Theoretically, women in Thailand, Viet Nam, Tanzania and Côte d'Ivoire all have equal legal rights to land and non-land asset ownership protected by law. Thailand and Viet Nam also ensure legal access to financial services for women. However, customary practices are strikingly different. In Côte d'Ivoire, sons are more likely to inherit land and men are usually given the sole right to administer common property. In Thailand, women face difficulties in acquiring loans as they must have the consent of their husband. In Tanzania, it is unclear whether laws on women's representation in land administration councils and on women accessing bank loans through land mortgage have actually been put into practice due to strong cultural gender discrimination (OECD Development Centre, 2015).

Box 8.8. **Targeting rural women in Bangladesh**

In Bangladesh, an integrated rural development programme was developed by the Bangladesh's Rural Advancement Committee (BRAC), and implemented in all 64 districts. This programme provided a comprehensive service to women in rural areas involving micro-credit, savings generation, training, skills development and awareness education, family planning, and public campaigns on health and education. It has had a positive impact on increasing women's income, savings, asset ownership and control, and overall well-being, in spite of persisting social norms that prevented women's socioeconomic participation. Through the income-related projects, women were able to run businesses and earn profits at a larger scale. From educational training sessions and meetings held outside of their villages, they enjoyed better mobility, exposure to new ideas and knowledge, and accumulated self-confidence. Ultimately, women's economic security was strengthened and women took on a greater role in the decision-making process, particularly within households. They also created a virtuous cycle by re-investing their income into food consumption, children's education and health, asset accumulation (from poultry and livestock to sewing machines and handlooms), financial investment, and household well-being. Overall, BRAC programmes have induced substantial changes in women's lives by facilitating material, perceptual and relational empowerment at individual and household levels.

Source: Banu, D. et al. (2001), "Empowering women in rural Bangladesh: impact of Bangladesh Rural Advancement Committee's (BRAC's) programme", *Journal of International Women's Studies*, *2*(3), 30–53.

Finally, the types of comprehensive rural development proposed in the New Rural Development Paradigm, as well as in the Sustainable Development Goals (SDGs), will require more and better financing for women to translate them into action. Women are often invisible in government budgets, agricultural and rural development spending, and budget decision-making processes. Women are not only marginalised from government budgets, but also from foreign aid. Although gender-focused aid has been on the rise since the launch of the Millennium Development Goals, there is much room for improvement (OECD DAC, 2014). The total annual average amount of official development assistance (ODA) to support gender equality and women's empowerment[2] committed by the OECD Development Assistance Committee (DAC) donors in 2012 and 2013 was USD 25.9 billion, which was only around one-quarter of all sector-allocable aid, both of which are not mutually exclusive (OECD DAC, 2015). Gendered aid is heavily concentrated in education and health. For example, 60% and 51% of bilateral aid that targeted gender equality went to the education and health sectors respectively in 2009-10 (OECD DAC, 2013). Meanwhile, donor investment in women's economic empowerment has remained unchanged since 2007. Therefore, sufficient funds should be provided by developing and developed countries alike to promote inclusive rural development that values women's empowerment and gender equality.

9. Inclusive policy approaches are necessary to reduce rural poverty

Over the past few decades, several of the case study countries have made remarkable progress in reducing poverty. China is the clearest example, where extreme poverty (the proportion of those living under USD 1.25 a day in purchasing power parity) decreased from 60.73% of the population in 1990 to 6.3% in 2013 (World Bank, 2015). Extreme poverty was only 0.31% in Thailand and 3.93% in Viet Nam in 2010. In comparison, in Tanzania it declined from 72% to 43.5% from 1990 to 2010, while in Côte d'Ivoire it actually rose from 13.76% to 35% over the same period. The success of the Asian countries in reducing poverty compared to those in sub-Saharan Africa can be attributed to a variety of factors, including governance capacity, infrastructure investment, and early health and education policies that enabled demographic transitions and structural transformations. In Thailand, Viet Nam and China, early commitments to providing basic health care, education, and other public services played an important role in rapidly rising incomes and living standards.

All of the case study countries have shown a renewed commitment to addressing poverty and including vulnerable and minority populations in national development, although some have been more successful than others. Thailand made its first attempts at reducing rural poverty in 1980 using rural employment generation programmes and basic needs policy. In addition, it launched an agricultural production restructuring policy, which reduced the production of crops for which prices were declining, namely rice and cassava. More recently, Thaksin Shinawatra's administration in 2001 marked a return to rural-oriented programmes such as debt deferment, the provision of cheap credit and rice price guarantees to raise farmers' welfare. These have been followed by the One Tambon One Product programme (Box 6.1 in Chapter 6) and others that emphasised rural diversification and self-sufficiency.

In Viet Nam, rapid economic growth throughout the 1990s was not inclusive, benefiting the middle class and the richest households, but not those in the bottom income percentiles. While income mobility was high, it was also volatile, with one in five households falling below the poverty line; employment growth also lagged behind economic growth (OECD, 2014a). In 2008, the government adopted the National Targeted Program on New Rural Development (NTP-NRD) to address economic, social and cultural issues in remote and poor rural areas through multi-sectoral policies and local participation. Personal income taxes have had a relatively small impact on reducing inequality, but transfers from the central government to local governments produced a more equalising effect, albeit with mixed results in terms of satisfaction with public services. Social protection systems have also been extended, but important coverage gaps remain among the poor and ethnic minority groups, and informality remains a key challenge for universal extension.

Since the mid-2000s, the Chinese government has explicitly turned its policy attention towards lagging rural and remote regions and minority populations. This has been backed by large investments in rural hard and soft infrastructure and a majority of government transfers dedicated to rural areas, leading to a decrease in the rural-urban income gap since 2011. The new five-year development plan for 2016-2020 explicitly targets reducing poverty among the 70 million people still below the poverty line through multiple mechanisms, including more effective rural development policies such as more active efforts to extend credit to rural areas.

In Tanzania, the government re-oriented its policy to deal with rising inequality and poverty with the National Strategy for Growth and Reduction of Poverty (NSGRP) in 2005, which focuses on education, health and nutrition, quality of life, social protection, governance and accountability. While it has been limited by poor governance capability and policy fragmentation, it has been able to make some progress in reducing poverty and improving a range of welfare indicators.

After achieving much success in reducing poverty through growth in the 1960s and 70s, political instability and civil conflict in Côte d'Ivoire in the 1980s led to dramatic increases in poverty and undernourishment, particularly in rural areas. The country has made progress expanding rural access to an improved water source (70%) and building a relatively good road network compared to many other SSA countries. Over the past decade, the government has also been working on the implementation of universal healthcare, scheduled to start with a pilot in 2015. However, very low educational enrolment and attainment continue to handicap the Ivorian economy and prevent its evolution toward more productive and skilled jobs.

The case study countries clearly show that there is a role for government policy to address market distortions and imperfections that constrain rural development, and to go beyond what market forces can do to create productive jobs in rural areas. Government policy needs to ensure that basic public goods, including health, education, and infrastructure, are provided equitably across the population. In countries with high poverty, food insecurity, poor infrastructure, and low government capacity, this may involve designating transfers and subsidies to rural areas to protect the most vulnerable populations, such as women, children, the elderly and minority groups, and to enable them to meet their basic needs in order to live productive lives (Box 8.9). It may include various efforts to

increase agricultural productivity in order to reduce household vulnerability to food insecurity. In some cases, it may mean providing incentives to the private sector to provide key services in remote regions.

Government policy also has a vital role in addressing failures of the market to create enough productive jobs in rural areas. This may mean improving the flow of information and mobility between rural and urban areas, spurring the development of intermediary cities that can absorb rural labour, providing incentives for industries to locate in rural areas and for domestic and foreign investment to flow into rural areas, encouraging domestic private firms to invest in rural infrastructure and development, and so on. In all cases, government policy should explicitly target poverty in multiple dimensions (health and nutrition, education, other hard and soft infrastructure, job creation) and combat the exclusion of certain groups.

Box 8.9. **Conditional cash transfers boost rural health and education in Tanzania**

In 2010, the government of Tanzania implemented a conditional cash transfer programme to improve health and education outcomes in three poor districts. Relying heavily on local communities for implementation, the programme gave payments to poor households based on the number of children aged 0-15 and elderly aged over 60. In order to receive payments, households had to ensure that children under 5 visited a health clinic six times a year, that any children aged 7-15 were enrolled in school with at least 80% attendance, and that the elderly visited a health clinic at least once a year. Local management committees monitored households' compliance. The monitoring data show marked improvements in health and education in comparison to the control group, particularly for girls and for the poorest half of the treatment households. One of the most striking results was that households were more likely to use the benefits to reduce risk (e.g. by buying health insurance) than to increase consumption, and households invested more in livestock assets which they used to engage in small enterprises and in non-bank savings.

Source: Evans, D. K. et al. (2014), *Community-Based Conditional Cash Transfers in Tanzania: Results from a Randomized Trial*, http://doi.org/10.1596/978-1-4648-0141-9.

10. Rural development and environmental sustainability go hand in hand

Rapid development, industrialisation, urbanisation and changing consumption patterns in many countries over the past several decades have increased pressure on the environment, causing damage to human health and livelihoods, and creating barriers to welfare improvement and development (see Box 8.10 for two country examples). In China, industrialisation in the countryside, which was encouraged to absorb surplus labour, increase rural household income and provide operating revenues for local governments, has caused detrimental environmental problems. Rural factories typically burn raw coal and consume heavy amounts of water, but lack the advanced technologies, equipment and management expertise that can mitigate environmental pollution. As a result, they cause massive air and water pollution. In the mid-1990s, rural factories were estimated to emit up to two-thirds of China's air pollution (Tilt and Xiao, 2007), while over 80% of rivers in China have some degree of contamination and water has become public health risk. Two-thirds of rural population do not have access to piped water, which increases exposure to pollution-related illnesses. Indeed, the cost of health impacts (e.g. diarrheal disease and cancer) is expected to be around 1.9% of rural GDP (World Bank, 2007b).

Most rural and urban areas in Tanzania are highly dependent on wood or charcoal for cooking fuel. Improving wood fuel efficiency or finding alternative sustainable fuels could reduce indoor smoke pollution and consequently mitigate health risks, reduce deforestation, and have positive spillovers on soil conservation, watershed management, irrigation agriculture and biodiversity conservation (World Bank, 2009b). Also, problems of droughts and desertification pose great environmental challenges in Tanzania, particularly the agricultural sector and rural communities. In general, Tanzania has experienced decreasing rainfall and increasing temperature. At the same time, some areas in the country are subject to recurrent flooding. Agriculture is still a key sector in GDP and employment (Chapter 7), and also primarily rain-fed with low access to irrigation facilities. In this context, climate change is expected to reduce average crop yields by 13% for maize and 7.6% for rice by 2050 (Rowhani et al, 2010, recited from Maurel and Kubik, 2014); this in turn will affect rural income and increase the probability of migration, particularly for households that are highly dependent on agriculture (Maurel and Kubik, 2014).

Rural households are particularly vulnerable to negative environmental changes. Environmental goods such as water, forests and soil are key inputs for production in rural areas. Rural communities sometimes deplete some of these resources through activities such as slash and burn agricultural practices, or by chopping down forests for firewood for lack of other sources of fuel. Deforestation by over-logging or cutting of forest for commercial agricultural production or cattle farming can also lead to erosion and loss of fresh water reserves and biodiversity (Box 8.10). In addition to being an input for household production, the environment provides services that act as public goods such as carbon capture, landscape amenities, and biodiversity. Environmental degradation that undermines the provision of environmental services decreases the well-being of rural households. In addition, as rural households tend to be characterised by limited social capital; poor access to social services, job opportunities and income-generating activities; and high levels of deprivation, they are more vulnerable to environmental change, and have little capacity to adapt to or withstand negative environmental changes such as those associated with climate change. Rural development policies should therefore aim to promote economic growth and increase the welfare of rural households without compromising long-term environmental quality and the sustainability of natural resources.

Box 8.10. **The cost of deforestation**

Kenya's forest sector contributes to around 3.6% of national GDP annually by providing intermediary products and services for industry, goods for household consumption, and job opportunities. Kenyan montane forests, also known as its "water towers", store water during the rainy season and slowly release it during dry periods. This has a positive influence on the capacity of different economic sectors to cope with seasonal environmental and economic changes, and climate change. However, unregulated charcoal production, logging of indigenous trees and livestock grazing among others have led to massive deforestation. Between 2000 and 2010, water availability decreased by around 62 million cubic metres every year. By 2010, the negative impact of deforestation on the economy was estimated to be more than four times the cash revenue of deforestation. In addition, reduced river flows cost the agricultural sector an estimate of KES 1.5 billion and hydropower generation an estimated KES 12 million in 2010.

Source: UNEP (2012), "Deforestation costing Kenyan economy millions of dollars each year and increasing water shortage risk", http://tinyurl.com/pvyc497.

Sustainable management of natural assets in developing countries requires balancing short and long-term benefits to create stable growth paths and human well-being. On account of the high economic relevance of natural resources for several developing economies and especially their rural communities, increasing awareness among the public and private sectors of the negative environmental impact of some of their practices, and setting limits on resource exploitation, will have positive benefits in the longer term. Setting limits on emissions or establishing technology standards (e.g. imposing the use of catalytic convertors in cars to reduce pollution) may reduce short-term growth in some resources-related sectors, but will help to create a stable growth path, maintaining productivity over the long term. Finding ways of creating growth despite restrictions on natural resources exploitation will raise productivity and product quality up the value chain (World Bank, 2012b).

In addition to economic growth, the protection of natural assets is crucial for the provision of ecosystem services, which are indispensable for the quality of life. If growth is at the cost of ecosystem services, the quality of air, water, soil and other assets key for human health and well-being are at risk, creating sizeable costs for the economy in the long run. This is particularly true in rural areas, where the poorest segments of the populations live and are vulnerable to low environmental quality more than others, as they are not able to pay or access higher quality resources (such as bottled water and less-polluting stoves).

Biodiversity and ecosystem services can represent a valid growth engine for rural areas and provide new opportunities for job creation and diversification. The abundance of natural areas and biodiversity-rich ecosystems should be exploited in a more efficient way, developing new strategies to capture the value from these assets. Community-based forest management and ecosystem-based adaptation, for example, promote biodiversity and natural assets conservation while also delivering benefits to local communities. Eco-tourism represents another potential economic asset, which is already benefitting many developing countries (OECD, 2012a). Furthermore, evidence shows that green policies can have a net positive effect on employment, with net gains ranging between 0.5 and 2% (ILO, 2013). The contribution to net employment is particularly relevant for rural development as it mainly concerns sectors such as agriculture, forestry, fisheries, energy and resource-intensive manufacturing.

Green growth can provide a valuable contribution to raising energy access and security (OECD, 2012b). A key element of green growth strategies is their ability to promote the use of clean and efficient technologies and energy, and to scale up energy access to many rural locations, creating local and global environmental benefits. In rural areas, the adoption of off-grid power generation through small hydro or solar power has huge potential impact (see section below). On the one hand, it avoids the costs of installing and maintaining grid infrastructure. On the other, it ensures better air quality and lower greenhouse gas emissions (OECD, 2013c). While achieving higher energy efficiency and promoting the use of renewable resources, green growth can reduce dependency on fossil fuels, fostering long-term energy security. Fossil fuel dependence has financial and political risks for developing countries, deriving from price volatility of fossil fuels themselves. Moreover, projections to 2050 suggest that developing countries' impact on climate change will grow at a faster rate than OECD ones (OECD, 2012b). Selecting low-carbon modes of development now will reduce the costs of greenhouse gas mitigation in the future.

These issues highlight a double-edged problem with regard to environmental sustainability in developing countries. On the one hand, the rural poor are especially vulnerable to environmental degradation and climate change, the effects of which are exacerbated since the majority depend on subsistence agriculture for survival. On the other hand, the rural poor also tend to use the environment most intensively. This situation prompts the need for rural development strategies that simultaneously account for both socio-economic and environmental factors and make the most of policy complementarities. Moreover, it further highlights the relevance of strategies that not only focus on reducing environmental degradation, but also reduce adaptation costs associated with existing negative environmental impacts.

Technology offers transformational solutions for rural areas

Despite the daunting challenges touched on in many of the chapters of this report, there also exist significant, yet-to-be-tapped opportunities arising from advances in technology, science and social organisation. A key lesson is that harnessing these effectively will play a crucial role in assisting rural development strategies in the developing world. If well managed, technology and science can improve the quality of life of rural households; foster socio-economic development, especially by reducing transaction costs and increasing productivity; and promote urban-rural integration. Modernisation can be approached in different ways and might help in dealing with many of the structural challenges of the developing world, including climate change and environmental crisis, weak governance and corruption, food security, access to services and finance, and low agricultural productivity.

Today's world offers rural areas a wealth of opportunities linked to technological advancements that were not present just a decade ago. This final section explores various examples of technological opportunities with direct application to rural areas:

- information and communication technologies (ICTs)
- clean energy
- biofuels
- agricultural technology
- development and diffusion of vaccines and other health technology.

ICTs can bridge the rural-urban divide

The rapid rise in the global prevalence and importance of ICTs has created a range of new job opportunities in the rural world, while also enhancing traditional jobs. ICTs have revolutionised almost every economic sector, with many positive impacts on the rural poor. ICTs can create an open platform for interaction, information exchange and knowledge gathering, useful both at a micro (citizens/society and businesses) and at a more macro level (rural administrative units and regions). If exploited in efficient ways, ICTs can concretely improve the competitive position of the rural sector in the economy. Increasing Internet access is clearly the key to the ICT revolution and the first step in harnessing the many socio-economic improvements on offer (Box 8.11). Today, a little over one-third of the

world's population has access to the Internet, equivalent to 2.7 billion people. According to estimates, expanding access in the developing world to the level of developed economies would create 140 million new jobs, allow 160 million people to exit poverty and reduce child mortality by hundreds of thousands of lives all over the world (Deloitte, 2014).

Box 8.11. **Connecting the world: Facebook and the Internet.org project**

In 2014, Facebook, in partnership with leading global technology companies, launched an ambitious new project called Internet.org – the goal being to expand Internet access and make it affordable across the world. The first part of this global effort is focused on decreasing connectivity costs, especially by exploiting partnerships with local mobile operators to develop new models for Internet access. Promising early results are already being seen, from the Philippines to Paraguay.

The second element is to increase coverage. Between 80% and 90% of the world, mainly urban and semi-urban areas, is already covered by standard 2G or 3G networks. The remaining 10% to 20% of the world which lacks coverage are the most remote rural. As it is simply uneconomical and impractical to build urban infrastructure in such remote areas, Facebook is instead investing in new advanced technologies to overcome physical barriers to connectivity, including beaming Internet to the ground from space or from high altitude solar-powered unmanned aircraft. The potential benefits in terms of Internet access for rural people are huge.

Source: Internet.org website, https://www.internet.org, accessed 3 November 2015.

Sub-Saharan Africa, in particular, has already witnessed a broad expansion of ICT applications in the last two decades, both in terms of networks and quantity of services provided, with the Internet becoming an important part of many national economies in the region. Many factors have been instrumental for ICT success in sub-Saharan Africa, especially the privatisation of ICT provision. This has spurred private investment in infrastructure and created competition among operators and providers. As the services provided continue to evolve, new infrastructure and instruments will be needed in order to keep up and cash in.

In several parts of the world, ICT has been used to increase access to various types of public services that are lacking in rural areas. Several countries are engaged in building distance-learning networks that increase access to education and bring higher-quality and more relevant educational materials to students and educational providers. For example, in 2003, China's Ministry of Education (MOE) launched the "Distance Education Project for Rural Schools" to promote the exchange of educational resources between rural and urban areas and to improve the quality of basic education in rural, and particularly western, areas of China (McQuaide, 2009). As part of an effort to build a distance-learning network in rural areas, from 2004 to 2007 the MOE constructed 402 000 multimedia "education kiosks" in remote areas, established 208 000 satellite stations that transmit free education materials three times a week in key rural primary schools, and built 45 000 multimedia classrooms in rural junior secondary schools for students to study information technology (KPMG International, 2010).

Besides education, ICTs have also helped increase access to health services in rural areas. For example, Malawi's RapidMS programme uses mobile phones to transmit children's nutritional data from local clinics to a national nutritional surveillance system, decreasing costs for data collection, leading to advanced data sharing and reducing child mortality (UNDG, 2010).

Business-to-business e-commerce has the potential to help producers in developing countries access new customers directly through the Internet (Humphrey, et al., 2003). The spread of ICTs can also help to remedy market information asymmetries by improving famers' access to information on prices, data on crops, weather, credit facilities, and market opportunities (Cecchini and Scott, 2003). Mobile banking has provided opportunities to increase the availability of financial services in remote, under-served rural areas. In Kenya and South Africa, there has been considerable growth of mobile phone banking in recent years, bringing financial services to rural areas where the cost of providing banking services is high due to lack of infrastructure and isolation (Ondiege, 2013). In 2007, Safaricom, a national mobile telephone operator in Kenya, introduced a service to enable money transfers between mobile phones. Use of this service doubled in the space of a year: from 5 million people in 2008 to 10 million in 2009 (Ondiege, 2013). Subsequently, Safaricom partnered with a bank to start a service linking bank accounts to mobile transfer accounts, thereby enabling the bank to grow its deposit base and increase banking penetration within the population (Ondiege, 2013). The service is used by over 17 million Kenyans (two-thirds of the adult population) and has since expanded to offer loans and savings products (The Economist, 2013).

At the social and institutional level, ICTs have the potential to increase levels of social capital in rural communities by allowing more effective communication and increasing participation in local decision-making processes. The Internet, when physical infrastructure is adequate, has highly inclusive properties that increase rural-urban linkages and facilitate the integration of rural areas into regions and national processes. The spreading use of e-government platforms also gives rural citizens the possibility to interact directly with administrations and to raise awareness of issues relevant at the local level, giving potential to increased government accountability and governance capacity.

Clean sources of energy offer a range of rural development opportunities

Ensuring energy supply is key for rural development. The energy sector in the rural developing world currently has two major drawbacks: the extensive use of traditional sources of energy, such as wood and agricultural residues, and the uneven distribution of advanced energy sources, such as petroleum products, electricity and many others. This is inefficient and also poses several threats to the environment as well as to people's health. According to the World Health Organization, almost 2 million people die every year from pneumonia, chronic lung disease and lung cancer, which are closely linked to the exposure to indoor air pollution from cooking using coal and biomass (WHO/UNDP, 2009). Accessing better, cleaner and more sustainable energy sources is not only conducive to socio-economic development, but also to human and environmental health.

Connecting remote communities to electric grids is sometimes very inefficient economically, due to their remoteness, sparse population and relatively low average energy demands (Hermann and Welsch, 2014). Decentralisation of energy provision, through hydropower, wind or solar power, is a viable option for supplying remote areas with sustainable sources of energy. Moreover, relying on these clean sources of energy can create policy complementarities (such as through green growth – see above) and reduce negative environmental impacts (Brown et al., 2011):

- **Wind power**: Considering the environmental challenges that the rural world is currently facing in most developing regions, wind power can offer a valid sustainable solution for electricity production. Turbines used to convert wind into energy do not degrade air or water quality, and also avoid CO_2 emissions. Moreover, this energy production does not require any extraction, transportation, storage or combustion throughout the entire process. Together with that, wind power is modular: turbines can be scaled up or down according to need. In this way they can power a single farm, an entire rural community or even larger centres, efficiently responding to specific energetic needs. Rural areas are particularly suitable for wind power applications as they often have large areas of open land. Wind plants also offer income diversification opportunities to landowners who decide to host them, increasing their income per acre of land and generating additional tax revenues for local communities. Finally, wind turbines have a very small footprint and do not preclude other types of land uses: crops may still be planted and livestock grazed.
- **Solar power**: Solar power offers a range of benefits for rural development, but also some costs. Several technologies currently take advantage of solar energy: the most relevant are photovoltaic (PV) power systems and concentrating solar power (CPS) systems. All solar applications are environmental friendly as, like wind power, they do not degrade air and water, do not emit CO_2 and do not require any extraction, transportation, storage and combustion activities. They provide a scalable source of energy that can either be sized to satisfy the needs of an entire rural community through off-grid applications or a much greater area thanks to grid-connected installations. The main disadvantage of solar plants is the cost. The capital required to create a solar plant to power large areas may be a major issue, particularly in the context of poor rural communities in the developing world. Another constraint is that solar power is not available at night and poor weather may cause fluctuations in solar energy provision. To address the non-continuity of solar power supply, batteries or other forms of energy storage are needed, thus adding to the cost.
- **Hydropower**: hydropower converts the kinetic energy stored in flowing water to electricity, improving the access to electric power in remote rural areas unable to connect to the national grid. Hydropower technologies are a well-established and mature technique, but sometimes come with environmental costs, particularly when they require large dams.

Biofuels can be a motor of rural development

The exploitation of sustainable biofuel technologies[3] offers several opportunities, including rural job creation (from growing raw materials to their processing), livelihoods options for rural households, improved energy efficiency, better health through environmental preservation and increases in productivity. Other indirect benefits include rural infrastructure improvements, diffusion of knowledge and skills, and increases in rural productivity and quality of life (Sheelanere and Kulshreshtha, 2013).

Expanding biofuel industries allows farmers to diversify their agricultural production, enabling them to become more oriented towards market activities instead of subsistence. Some of these products might also be directed to export markets or to other communities or regions. At the same time the production of biofuels generates side products and residues that are very precious for other types of activities. Glycerine, for example, is not only a by-product of biodiesel production, but also widely used in the pharmaceutical and cosmetics industries (IEA, 2010).

Greater access to energy also directly affects the quality of the health sector, bringing light to clinics, and power to refrigerate drugs and use medical technologies and instruments, thus widening the possibilities for treatments and tests. It also has knock-on effects for education, poverty alleviation and a better local environment. Furthermore, biofuels can save rural women and children time by not having to collect fuelwood and other time-consuming household activities. This can improve gender equality, giving women the option of seeking work and education outside the household. Locating biofuel industries in rural areas is fundamental for ensuring the assets generated improve local livelihoods through investment in education and health care.

In Southeast Asia, increasing oil prices, limited fossil fuel resources and environmental sustainability challenges mean there is a huge demand for alternative energies. Biofuels could be the answer, with big room for improvements in the near future. A first generation of biofuel technologies has already been overtaken by a second one; a third wave of technologies is likely to be made available in the coming years (ATKearney, 2014).

Incentives in sub-Saharan Africa are different. Several governments in the region see biofuel production as a means of boosting economic growth, rural development and energy security (Gasparatos et al., 2015; Box 8.12). The region's high dependence on traditional biomass and imported liquid fossil fuels makes biofuels' potential for energy security very attractive. They are particularly convenient for landlocked countries, where imports can be more difficult and expensive. Private sector investors are also increasingly perceiving biofuels as a lucrative commodity. Since 2005, huge flows of foreign investments have been directed to the acquisition of land for biofuel expansion, taking advantage of the specific and favourable climate and characteristics of the environment in sub-Saharan Africa.

Box 8.12. **Biofuel strategies in Africa**

The factors driving biofuel exploitation in Africa include the potential for reducing deforestation and environmental degradation, as well as the high prices of fossil fuels and the need for energy security. This potential is even higher considering the abundance of land and the favourable climate for biofuels production in Africa. The continent's climate is suited to growing crops such as sugar cane, castor and jatropha, which have much bigger fuel content than the crops cultivated in temperate zones for biofuel production.

The desire to develop a clear strategy for exploiting biofuels led to the creation of the Pan-African Non-Petroleum Producers Association (PANPP), also known as Green OPEC, in 2006. The goal of the PANPP was to bring together several interested countries to exchange information, share knowledge and co-operate on the development of biofuels in Africa. The Green OPEC has also been endorsed by the African Union, which considers biofuels as a key part of the sustainable energy strategy for the continent.

The African Union is currently actively sponsoring the creation of enabling policy and regulatory frameworks and guidelines to develop this new strategy, with the conviction that this will represent a key step towards the eradication of poverty in the region. Individual African countries are then encouraged to design their own national biofuels strategies based on their specific natural endowments, land tenures and socioeconomic needs. Currently a number of governments are already giving tax benefits and other types of similar incentives to investors, promoting the creation of biofuel farms and taking advantage of the large availability of suitable land.

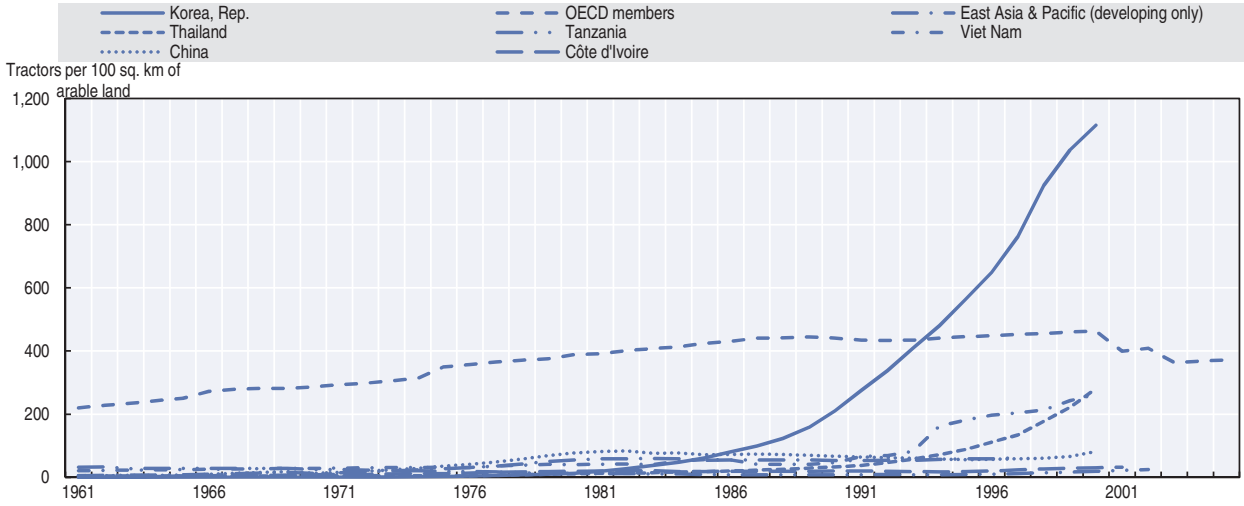
Source: Gasparatos, A. et al. (2015), "Biofuels in sub-Sahara Africa: Drivers, impacts and priority policy areas", http://doi.org/10.1016/j.rser.2015.02.006.

Modern agricultural technology can boost small-scale farming

Many opportunities exist for increasing the role of agriculture in both the rural and national economy of developing countries. These opportunities are mainly technology-focused – but not necessarily high-tech. While in developed countries, agricultural modernisation has been taking the form of mechanisation, biological selection, use of chemicals, and specialisation; in poorer countries, these methods have spread very unevenly due to their high cost. For example, throughout the 1990s Thailand and Viet Nam, two of our case study countries, have been catching up remarkably with OECD countries in terms of the number of tractors – though by no means as fast as Korea – while African countries have barely made any progress (Figure 8.1). The very large majority of farmers in sub-Saharan Africa are still farming manually or with animal traction.

Modernisation in developing countries is thus mostly achieved through less costly methods, such as enhancing farmers' access to a combination of higher yielding crops, inputs (e.g. fertilisers) and irrigation systems, alongside efforts to fight crop pests, enhance soil fertility and improve water management. However, these improvements, the main pillars of the Green Revolution, have been spreading unevenly across developing countries. While Mexico, India, Brazil and several Southeast Asian nations have had noticeable success, despite persistent areas of extreme poverty and undernourishment, in Africa they have been adopted patchily and to a limited extent due to governance issues, inadequate infrastructure, and physical limitations, such as water availability and specific geographical constraints.

Figure 8.1. **Agriculture machinery: Number of tractors**



Source: World Bank (2015), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 14 Oct 2015.

In the light of the threats posed by climate change, new thinking is needed to address the issue of unsustainable water use, including the management of canal irrigation, the adoption of micro-irrigation technologies, the use of advanced methods for water lifting and the application of ICTs. The innovative use of technology will need to adapt to different contexts and case-specific realities. In Tanzania, for example, improving the adoption of modern agricultural technology and irrigation systems will be key for increasing the income of a growing rural population and limiting the effects of high fertility rates.

Technologies include water-saving options, which aim to increase the benefit generated by each litre of water; and storage techniques, aiming at making more water available and for coping with seasonality, uncertain rainfall, flooding and droughts. Small-scale, low-cost options are the most affordable solution in the majority of rural areas of the developing world, which often lack investment capacity and infrastructure on which to build. Low-cost sprinklers and micro-irrigation technologies such as bucket and drum kits and micro-tube drip systems can also help both smallholders and larger agro-businesses by increasing agricultural output and food security. Their installation, maintenance and use also offer employment opportunities, both on and off farm, in rural areas. Taking advantage of these efforts would be a good starting point for developing a sustainable water management strategy.

Agricultural modernisation policies fail when resources are insufficient, such as poorly trained and equipped extension officers who do not have the means to reach out to scattered rural communities; when technology is not suited to local needs and capabilities; and when incentives are inadequate. Where they have been successful, the key ingredients have included strong political commitment; farmers' involvement in the development of new techniques – which may be supported by ICT-based knowledge transfers – and in policy dialogue through capable farmers' organisations; modernising the management of farms; and providing some form of financial security to farmers, e.g. affordable access to credit,

stable linkages with agro-industries or subsidies. For instance, greater productivity will only translate into higher incomes if the costs of increased access to inputs (e.g. interest paid on loans) are kept low enough to allow for net incomes to increase and open the possibility of investing in these modern means of production.

Finally, crop breeding and food engineering provide opportunities to increase resilience to climate change, to increase sustainable food production, and to address food insecurity, especially in the context of increasing population pressures in most parts of sub-Saharan Africa (Box 8.13). Genetic modification enables the creation of new seeds that are more resistant to many of the predicted hazards of climate change, particularly droughts and flooding. Some new seeds also require less water, pesticide, and fertiliser use, helping to address environmental issues. Genetic modification can also increase the nutritional value of certain crops, such as "Golden Rice," which contains high levels of vitamin A. Such crops can help alleviate nutritional deficiencies and increase the health or poor rural populations in developing countries.

Technological innovations are, in the vast majority of cases, driven by the private sector, leaving governments to catch up. Therefore, part of the challenge for policy makers is to identify and mobilise the vast and rapidly-developing opportunities that technology presents for rural development to incorporate them into policies. Government also has a large role to play in providing the underpinning infrastructure that supports the spread and use of such technology. This includes investments in physical infrastructure such as electricity and information systems, investments in soft infrastructure such as health, education, and R&D, as well as regulatory systems such as intellectual property rights and enabling legislation.

Box 8.13. **The "Mercedes" cocoa variety: Promoting modernisation through local research in Côte d'Ivoire**

The cocoa sector in Côte d'Ivoire employs some 800 000 producers, sustaining about 8 million people directly or indirectly. It accounts for 15% of gross domestic product (GDP) and 40% of exports.

The "Mercedes" cocoa variety, developed by the National Agricultural Research Centre (CNRA) in Côte d'Ivoire, takes 18 months to reach maturity – instead of up to 6 years for traditional varieties – has larger beans, and yields between 1.5 to 3 tons per hectare. The "Mercedes" variety was developed using non-genetically modified methods and was blended with local varieties to make it more resistant to local diseases. Producers gave it the name of "Mercedes" in recognition of its upmarket quality. The introduction of the variety ahead of the 2013-14 crop season led to a record harvest of 1.7 million tons, up from 1.4 million the previous year, boosting revenues by 20% to about EUR 2 billion. Importantly, this performance is also thanks to good rains and the price support system in place in Côte d'Ivoire.

Source: Abidjan.net (2014), "Le Cacao Mercedes a permis à la Côte d'Ivoire d'atteindre une production record en 2014 (DG CNRA)", http://news.abidjan.net/h/511929.html; Blas, J. (2010), "Falling cocoa yields in Ivory Coast", www.ft.com/cms/s/2/28e00036-67a0-11df-a932-00144feab49a.html.

Development and diffusion of vaccines and other preventive health technologies

Immunisation is considered one of the most pressing needs in the developing world. Despite the existence of several programmes for diffusing immunisation vaccines – e.g. the World Health Organization's Expanded Programme on Immunization vaccines (EPI) – big disparities in terms of access to newer vaccines persist between rural and urban areas in the developed and developing world.

Technology transfers and local medical production can be effective ways to tackle these disparities while building local capacity. Over the years technology transfers to developing countries have significantly increased vaccine supply, sometimes even resulting in lower prices for vaccines, as documented by several surveys commissioned by the World Health Organization (WHO, 2011). Establishing local manufacturing for vaccines may not be always cost-effective, but establishing a vaccine policy can help countries identify how and when to foster local production. The creation of joint ventures, acquisitions and establishment of multinational subsidiaries in developing countries are becoming more frequent and represent one of the possible ways of transferring technology, also promoting local R&D. The lack of R&D capacity in the developing world is indeed the biggest constraint to vaccine technology transfer, as perceived by both technology recipients and donors (WHO, 2011). Creating an enabling local environment for health technology diffusion and for research infrastructure to operate is key in tackling this issue.

There is also scope for international efforts to develop health technologies that are relevant for developing countries (Box 8.14). For example, the Gates Foundation's Global Grand Challenge is seeking to fund innovations that can tackle some of the main health challenges in developing countries.[4]

Box 8.14. **Developing and diffusing a new meningitis vaccine for Africa**

Meningitis A is a disease that kills nine out of ten people who contract it. A major epidemic ravaged 25 sub-Saharan African countries between 1997 and 2000, killing 25 000 people and debilitating more than 250 000. African ministers of health and the WHO met in 2000 and determined that a vaccine for this particular African strain could be developed, as there were vaccines for meningitis strains that affected developed countries. They also determined that the vaccine should not cost more than fifty cents a dose if it were to be affordable for mass dissemination. However, pharmaceutical companies were not interested in developing such a low-cost vaccine.

In 2001, the Gates Foundation gave the NGO PATH (an international, non-profit global health organisation based in Seattle) a grant of USD 70 million to find a solution. PATH specialises in the development and distribution of innovative, low-cost health solutions to people in developing countries. PATH's strategy is to identify a need, to explore whether a health technology exists or could be developed to address that need, whether it can be obtained at an affordable cost, and what is necessary to deliver it to the target population. PATH funded a Dutch research institute to work on part of the vaccine, and bought a piece of the necessary technology from the US Department of Agriculture. It contracted with an Indian company which makes serum to manufacture the vaccine. To help the company produce the vaccine at low cost it funded part of the production equipment. PATH also worked with the WHO to train personnel in health ministries in the affected countries. The vaccine was produced by 2010, and 75 million people were inoculated between 2010 and 2011, with several more million planned for the following years. This solution demonstrates what is possible when all the necessary elements can be brought together.

Source: OECD (2014b), *Making Innovation Policy Work*, OECD Publishing, Paris, http://doi.org/10.1787/9789264185739-en.

In addition to vaccines, other preventive health measures are crucial. Transformative technologies for clean water, waste management and latrines that are environmentally-friendly, cost-effective, culturally-appropriate and sustainable are needed to meet basic needs and improve livelihoods. Alongside these technological innovations, educating children and adults in hygiene through participatory activities, in-depth training of community workers, use of mass media, house-to-house visits and public-private partnerships with hygiene-related industries can strengthen the dissemination of the technologies and promote better sanitation and hygiene practices (WaterAid, 2013).

Conclusion

This chapter has distilled many lessons and exciting new opportunities from the preceding chapters, including technology, a greater focus on the role of women, and new agents including private sector, international donors, NGOs, and rural communities themselves. Confronted with this evolving reality, policy makers in developing countries are increasingly seeking solutions to promote a more balanced and inclusive development process. They are watching the experience of other countries with interest, in the hope of replicating successful experiences. However, they may prove difficult to emulate without detailed attention and adaptation to local conditions and the changing global context. The New Rural Development Paradigm for developing countries, outlined in the next chapter, suggests a way forward.

Notes

[1] In fact, the government drew on various foreign experiences, including *Saemaul Undong,* in devising the programme.

[2] OECD DAC measures aid for gender by employing the Gender Equality Policy Marker (GEPM) in its Creditor Reporting System. Donors mark their projects (and thus the project budget) as GEPM 0, 1 or 2. Projects with GEPM 0 are those that do not target women and gender. GEPM 1 projects have gender equality as a significant but secondary objective. Hence, it can have other objectives including gender equality. GEPM 2 projects explicitly target gender equality. In this sense, gender focused aid does not necessarily exclude aid with other objectives.

[3] Biofuels are defined as "energy carriers derived from the conversion of biomass to provide sustainable inputs for heat, power, and transport applications. Biofuels can be liquid, solid or gaseous. The principle sources of biomass are agriculture and forestry" (UNIDO, 2013).

[4] See http://gcgh.grandchallenges.org.

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Chapter 9
A new rural development paradigm for developing countries in the 21st century

The lessons from the history of rural development and the real experiences of developing countries help shape a new paradigm for rural development (NRDP). This chapter presents the framework for the new paradigm, which is context-specific, multi-level and multi-agent. It contains eight key components, and includes a menu of 25 policy tools which offer opportunities for rural development in the 21st century. The chapter also outlines seven steps needed to implement the paradigm through a prioritised, well-sequenced and realistic strategy in individual developing countries.

The previous chapters have demonstrated the need for a new rural development paradigm (Box 9.1) tailored to today's global context. In this chapter we present a framework for this paradigm.

Box 9.1. **What is a paradigm?**

A paradigm is a philosophical or theoretical framework for how something should be done or thought about. Paradigms provide a "lens" through which a particular subject should be viewed or analysed, based on a set of normative judgments and assumptions and in relation to pre-defined goals.

The New Rural Development Paradigm needs to reflect the new set of challenges and opportunities for rural areas in developing countries

The New Rural Development Paradigm (NRDP) needs to incorporate the new set of challenges and opportunities that developing countries face today, as well as the lessons learned from both developed and developing country experience. Table 9.1 summarises the key elements of the old paradigm, the new challenges and opportunities for rural areas in the developing world, and what these mean for the NRDP if it is to deal with those challenges and opportunities.

The NRDP provides a framework for building rural development strategies for developing countries in the 21st century (Figure 9.1). It is based on the lessons drawn from the previous approaches and theories on rural development (Chapter 3), the general rural development experience of OECD countries (Chapter 4), Korea's rural development strategy (Chapter 5), and the case studies in Asia (Chapter 6) and Africa (Chapter 7).

Overall, the NRDP aims for rural development strategies that are tailored to the specific socio-economic, political, and institutional characteristics of each country. It also involves a multi-level and multi-agent approach. A multi-level approach not only implies recognising the different roles of national and sub-national authorities, but also enabling adequate co-ordination mechanisms that improve the policy delivery process. This approach also implies the participation of sub-national and local government, as well as local communities, in designing rural development strategies. After all, these actors are best suited to identifying actual policy needs as well as potential policy complementarities. A multi-agent approach implies identifying the roles and the incentives of different agents influencing rural development processes. These agents include government, the private sector, NGOs, international donors and foreign investors, and representatives of rural communities.

Table 9.1. **The evolution towards a new rural development paradigm**

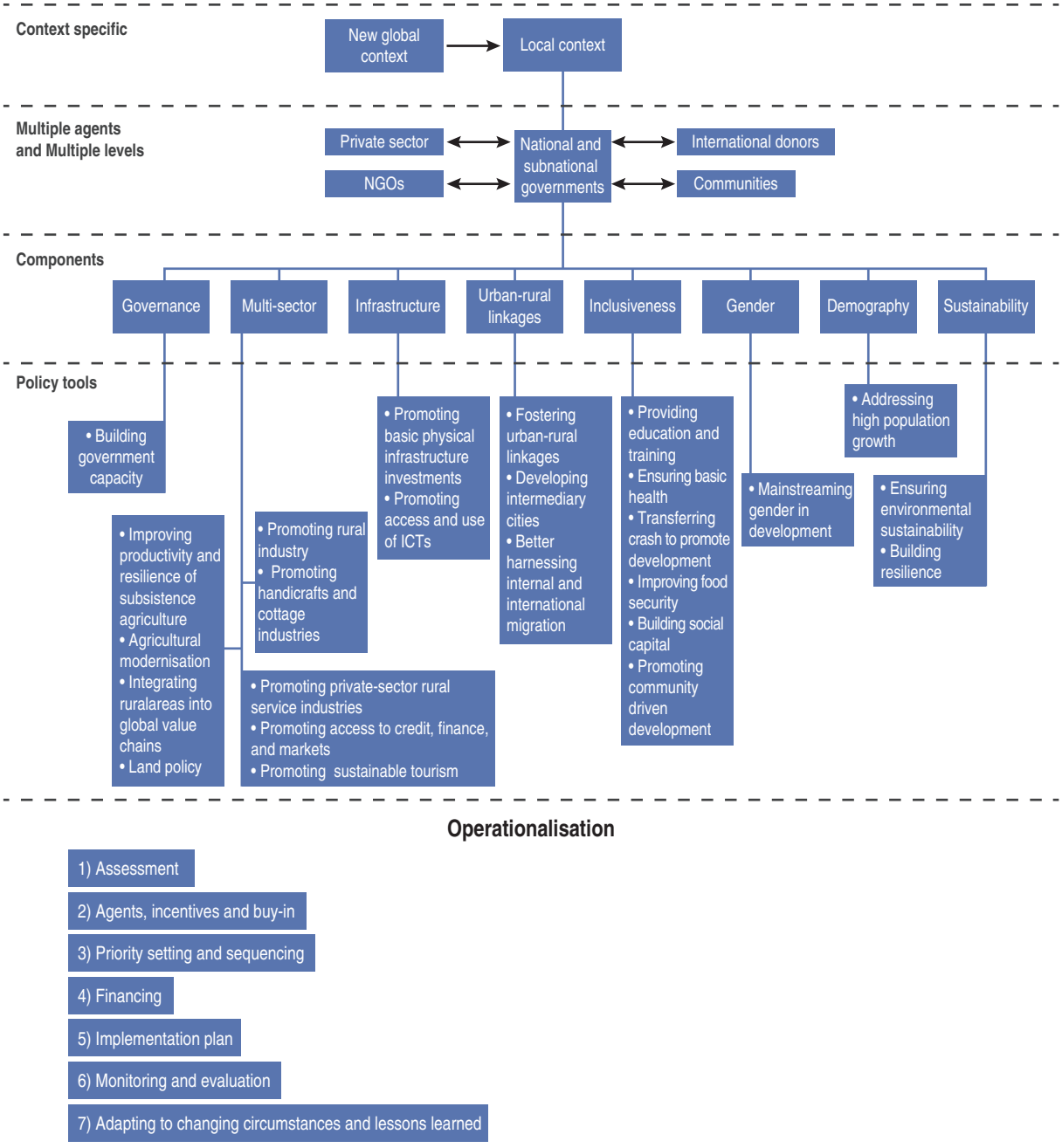
Old paradigm	New challenges and opportunities	New Rural Development Paradigm
Economic focus • Shift from agriculture to industry as main driver of development (1950s-1960s) • Agricultural modernisation (1960s-1980s) • Integrated rural development (1970s onwards) • Structural adjustment (1980s-1990s) • Sectoral investment programmes (1990 onwards) • Local economic development (1980s), evolved into rural territorial development programmes in the 2000s • Rural diversification (2000s onwards) • Comprehensive rural development framework (2000+)	• Industrialisation and export-led manufacturing is not likely to be main driver in most developing countries in a more open globalised world and in context of strong competition from China • Agriculture not able to provide sustainable livelihoods for growing populations in many countries with rapidly increasing people-to-land ratios	• Tailored to the specific conditions (natural, economic, social, and institutional)resources of each country • Considers the role of rural areas in relation to cities and regions; embeds their development within a country's broader national strategy • Multi-sectoral. Measures should target all economic sectors that can contribute to productive growth, enhance the viability of rural areas, and help people meet basic needs, including agriculture but also rural industry, services, tourism, ICT industry, etc.
Governance and institutional focus • Top-down from 1950s to 1970s • Increasing awareness of the role of women (1970s) • Community based development (1980s onwards) • Gender and development (1980s onwards)	• Increasing awareness of the fragility of many developing states: limited capacity to implement strategies and administer remote rural regions • Increasing recognition of the importance of addressing gender inequalities in all stages of development policies and programmes and in giving women property rights and more control of resources for development	• Multi-level: co-ordination in planning and implementation across local, regional, ministerial, and central government; top-down approaches combined with bottom-up initiatives • Multi-agent: participation and collaboration of broad set of actors and stakeholders and communities, private, public, national, and international, as well as local communities and the local population • Inclusive of women's rights and critical roles in economic and social development
Poverty, inequality, and social welfare focus • Basic needs (1970s onwards): improving economic opportunities and social protection for poor and vulnerable • Millennium Development Goals (2000-2015) focused on poverty eradication and targeted improvement in basic social conditions in developing countries	• Rising income inequality and spatial disparities in resource distribution in most countries creating social unrest, undermining trust in government • Recognition that MDGs overlooked economic underpinnings of development, as well as environmental sustainability	• Focused on basic needs and inclusive growth. Explicit measures should guarantee basic needs for the most impoverished and vulnerable populations; production-based measures alone do not ensure inclusive growth • Builds human (health, education) and social capital, while including economic elements in crafting social policies (cf. the Sustainable Development Goals)
Environmental focus • Sustainable livelihoods (1980s-1990s): need for strategic intervention to enhance livelihoods and key role of social capital • Sustainable development (1990s to present)	• Awareness of global warming • Increasing awareness of population pressure on the environment • Increasing population in developing countries (particularly rapid in SSA and Middle East) puts pressure on job creation and resources	• Focused on role of environment in sustaining both livelihoods and economic growth • Guided by the Sustainable Development Goals: a strong focus on environmental sustainability and an economic basis for livelihoods in addition to social goals • Prioritises demographic pressures in development strategies
Technological focus • Technological advances in agriculture, mechanisation and seeds (Green Revolution in 1960s and 1970s +)	• New technological opportunities in ICT, increasing connectivity, access to markets, lower-cost access to services, energy and other inputs, etc. • New technological opportunities in nano and bio technology	• Creative use of advances in ICT and bio technology to reduce some of the constraints and to improve outcomes. It should include applications in agriculture, industry, services, government and social organisation

The NRDP is based on eight components (shown in Figure 9.1):

- **Governance**. A consistent and robust strategy is not enough if implementation capacity is weak. It is thus important for an effective strategy to build governance capacity and integrity at all levels.
- **Multiple sectors**. Although agriculture remains a fundamental sector in developing countries and should be targeted by rural policy, rural development strategies should also promote off-farm activities and employment generation in the industrial and service sectors.
- **Infrastructure**. Improving both soft and hard infrastructure to reduce transactions costs and strengthen rural-urban linkages is a key part of any strategy in developing countries. It includes improvements in connectivity across rural areas and with secondary cities, as well as in access to education and health services.
- **Urban-rural linkages**. Rural livelihoods are dependent on the performance of urban centres for their access to goods, services and new technologies; the exposure to new ideas; and for temporary employment or even permanent employment. Successful rural development strategies do not treat rural areas as isolated entities, but rather as part of a system made up of both rural and urban areas.
- **Inclusiveness**. Government policy should explicitly target poverty and inequality in multiple dimensions (health and nutrition, education, other hard and soft infrastructure, job creation) and combat the exclusion of certain groups.
- **Gender**. Improving rural livelihoods should take into account the critical role of women in rural development, including their property rights and their ability to control and deploy resources.
- **Demography**. High fertility rates and rapidly ageing populations are two of the most relevant challenges faced by rural areas in developing countries today. Although the policy implications of these two issues are different, addressing these challenges will imply good co-ordination across education, health and social protection policies, as well as family planning.
- **Sustainability**. Taking into account environmental sustainability in rural development strategies should not be limited to the high dependence of rural populations on natural resources for livelihoods and growth, but also their vulnerability to climate change and threats from energy, food and water scarcity.

Policy actions are required to address the issues raised in each of these components. These policy actions will vary within and across countries depending on the context and will change as national economies evolve. The lower part of Figure 9.1 links 25 of the most relevant policy tools for rural development to each of the components of the NRDP. These policy tools are discussed in detail in Chapter 10.

Figure 9.1. **A New Rural Development Paradigm for developing countries**



How can the NRDP be put into practice?

The NDRP can be implemented through seven steps, outlined in Figure 9.1.

Assessing the rural and national situation

The first step is to carry out a full assessment of the current situation in both rural areas and the national economy, including existing policy actions affecting rural populations directly or indirectly, as well as the outcomes of previous rural policies. This will identify potential areas of intervention and help to set the objectives of the rural development strategy. The rural assessment needs to be integrated into the national context. The initial analysis should be followed by more detailed analysis of the conditions in the target country through research and interviews with domestic and foreign experts and actors.

The assessment will need to look beyond traditional measures of income. Modern views of development stress the need to understand development as a multidimensional process that involves and affects multiple aspects of people's lives, not simply their incomes (Chapter 3). To illustrate this assessment phase, we have developed a system for categorising all developing countries according to their institutional and structural issues, such as the capability of government, population dynamics and environmental sustainability. The table in Annex 9.A1 shows how each developing country can be categorised according to these elements:

- Rural population: share of the population living in rural areas. Countries are subdivided into three groups as follows: rural population higher than 67%; rural population between 34% and 67%; rural population less than 34%.
- Natural resources: within each level of rural population (above), countries are then grouped in terms of the amount of rents coming from natural resources, as a percentage of GDP.
- Demography: the groups created using the first two criteria are then categorised by their progress in the fertility transition process. They are divided into five categories according to their total fertility rates. Countries expecting a rapid population increase, such as many SSA countries, will face challenges in job creation and providing sustainable basic services and food security. In contrast, many Asian countries are facing rapid population ageing and will need social cohesion policies and strategies adapted to the shrinking work force.
- Fragility: countries are colour-coded according to their level of fragility, from "very high alert" to "very stable". In fragile states, developing and implementing a sustainable rural development strategy is difficult due to weak implementation capacity. As such, in very high alert and high alert states it will be much more difficult to have successful strategies. The latter does not imply that these countries should be ignored, but instead that additional efforts should be put in place in order to guaranty policy delivery.
- Landlocked countries: these countries in Africa (14 out of 54) and elsewhere pose additional problems in that they generally have higher costs for transporting

products into and out of their countries. As can be seen in Annex 9.A1, 15 out of 33 landlocked countries are also on alert, high alert, or very high alert for fragility.

- Climate change vulnerability: measures vulnerability to climate change by considering six life-supporting sectors: food, water, health, ecosystem services, human habitat and infrastructure. Within each of the sectors vulnerability is measured by three components: the exposure of the sector to climate-related or climate-exacerbated hazards; the sensitivity of that sector to the impacts of the hazard and the adaptive capacity of the sector to cope with or adapt to these impacts. For those countries expected to be affected the most, some key tools could be included in the strategy, such as spatial planning and risk maps (for prevention) and disaster funds, drought/flood insurance, adaption plans, developing of drought resistant crops and water sharing agreements (for adaptation).

Understanding the situation in each country is necessary for developing a context-specific approach to rural development. For example, countries expecting a rapid population increase, such as many SSA countries, will face challenges in job creation and providing sustainable basic services and food security. In contrast, many Asian countries are facing rapid population ageing and will need social cohesion policies and strategies adapted to the shrinking work force. In fragile states, developing and implementing a sustainable rural development strategy is difficult due to weak implementation capacity – here the focus should be on basic needs and governance, first and foremost. Landlocked countries pose additional problems in that they generally face higher transport costs for exports. Therefore, their rural development strategies need to explicitly address how to overcome this constraint by developing effective transport corridors as well as focusing on exports of high value to weight products. For those countries expected to be affected the most by climate change, the strategy could include some key tools, such as spatial planning and risk mapping (for prevention) and disaster funds, drought/flood insurance, adaption plans, developing of drought resistant crops and water sharing agreements (for adaptation).[1]

Identifying actors and building buy-in

The second step is to identify the most relevant actors involved in the formulation and implementation of a rural development strategy, and the incentives for these actors to contribute to the strategy and rural development overall. Actors include the target population, various levels of government, the domestic and foreign private sectors, members of civil society, and others, such as foundations, international NGOs, and donor agencies.

Proper engagement with these actors is critical for several reasons. It is necessary to build their ownership and buy-in both for designing the overall strategy and for achieving its various objectives. It is especially essential to get input from the target population in order to understand their needs, concerns and preferences. These two elements are critical for developing a strategy with broad-based support.

The rural development strategy needs to consider the incentives for different actors to participate. In this respect, *Saemaul Undong* can offer valuable lessons on fostering collective action and accountability. Also, the Tanzania case study shows that support from foreign donors needs to be part of a coherent national strategy. Too many pet projects by

donors can divert the limited capabilities of national governments. Therefore, strategies must address the issue of incentives of domestic actors as well as other financial sponsors, including multilateral banks and private agents, to avoid overlapping and wasted resources.

Prioritising and sequencing the strategy

The third element of the process is to develop a strategy. A strategy is an action-oriented plan that includes an analysis of the current environment or situation (i.e. the assessment proposed above), an overall plan for dealing with challenges, and resources to achieve a set of goals.

Development strategies are designed to give an overall vision and direction to the development path of a country, compile policy reforms and anticipate their coherence and effectiveness. A development strategy consists of more than just a package of policies and reforms. Strategies set out development goals and how the means available for public action – including legislative and regulatory reform, policy implementation modalities, financial outlays, service delivery – can contribute to achieving them.

Key elements of a strategy include taking into account major structural challenges, identifying how the strategy will build incentives for participation, creating mechanisms for monitoring and accountability as well as for adjusting the strategy as circumstances change. It is critical to be pragmatic in developing strategies that take into account what can be done in the usually very constrained political economy context of each country. This involves careful consideration of trade-offs and complementarities of policies across different issues and stakeholders.

Setting priorities and sequencing policies are a critical component of the strategy. The illustrative set of policies outlined in the next chapter can serve as an initial reference point for the kinds of policies that may be relevant. However, they and other policies will need to be adapted to the specifics of the country context. Constraints in physical, financial and political resources limit the number of actions and reforms that a government can pursue at any given time. The identification of binding constraints during the diagnostic stage can therefore assist in this initial priority-setting process.

Stakeholder prioritisation is an important element for successful strategies. In setting priorities it is essential to gather national stakeholders together to identify the most appropriate and coherent strategy. The process transfers the ownership of analysis from assessment team to policy makers, by providing a platform to assess the pertinence and viability of recommendations and translate recommendations into policy actions. This approach taps in to local participants' tacit knowledge of the political economy of the country and constraints, to focus on implementable priorities and concrete actions.

Complementarities among policies, where impacts are inter-dependent, also suggest the need for proper sequencing of reforms. For example, some policies such as physical infrastructure development and education and training will be crucial for the success of other tools, such as taking a global value chain approach for agriculture development and industrialisation (see Chapter 10). Thus the strategies can start with early and sustained use of these overarching policy levers. The key is to implement programmes that can have a snowball effect so that initial successes lead to greater successes. This is why it is critical to have strong capacity to implement and adjust strategies as conditions change.

Financing

Financing is a key consideration when building an overall development framework, given that many governments in developing countries have weak capacity for resource mobilisation. As for the Sustainable Development Goals, in most cases it will also be necessary to obtain foreign funding from multilateral financial institutions, donors, foundations, and even foreign financial institutions and the private sector for those components that can produce revenues necessary to repay loans (Box 9.2).

Box 9.2. **Financing for development**

Financing for development (FfD) will become more critical to achieve the Sustainable Development Goals as a greater range of financial resources have to be mobilised to address a wider array of development goals and targets. Development finance in the post-2015 context should go beyond using traditional means like official development assistance (ODA) and also involve both public and private actors in both developed and developing countries. In this context, the OECD, in particular the Development Assistance Committee (DAC), has been actively involved in pushing forward the following three agendas: modernisation of ODA, adoption of the concept of the Total Official Support for Sustainable Development (TOSSD) and domestic tax reforms in developing countries.

ODA will still remain a crucial source for development, more so for the countries most in need including fragile and conflict-affected countries, least developed countries (LDCs), and landlocked countries. Donors will be continuously exhorted to reach the 0.7% ODA/GNI target while using ODA to leverage private investment. In December 2014, the DAC agreed to modernise the reporting of concessional loans and adopt different discount rates for concessional loans given to different income groups. This new method will incentivise lending on highly concessional terms to LDCs and other low income countries by being counted more as ODA.

The OECD DAC has also adopted a new statistical measure entitled TOSSD which will complement, but not replace, ODA. The TOSSD will potentially cover the diversity of resource flows extended to developing countries and multilateral institutions for the purpose of sustainable development from official sources and interventions. This will also include resources mobilised by official interventions from the private sector. Capturing different resource flows will also enhance the effectiveness of development cooperation, transparency and accountability of development finance, and the measurement of resource flows for the SDGs.

In addition to ODA and TOSSD, the OECD has stressed the need for strengthening tax systems to mobilise domestic resources in developing countries so as to provide governments with sustainable and reliable resource revenues to finance the SDGs. Better taxation will also enhance government capacity, accountability and responsiveness, promote growth, generate investment funds, and reduce aid dependency. The OECD already has a strong Tax and Development Programme and a Task Force on Tax and Development. Going beyond its member countries, OECD will also provide its expertise on the tax system to the international development community.

Source: Adapted from OECD (2015), "Measuring total official support for sustainable development", www.oecd.org/dac/financing-sustainable-development/Addis flyer - TOSSD.pdf and OECD DAC (2014), "Background paper: The imperative to increase ODA to countries most in need", http://tinyurl.com/ptjasse.

Countries with high natural resource rents (e.g. almost one-third of the countries in sub-Saharan Africa, see Annex 9.A1), must focus on making the best use of these rents by:[2]

- Sterilising the rent income to avoid de-industrialisation through the Dutch disease phenomenon by slowly bringing revenues into the country.[3]
- Ensuring transparency in the exploitation and distribution of the rents.
- Using rents to fund development strategies. These strategies will need mechanism to adapt for revenue fluctuations owing to volatility in commodity prices.

Remittances are another important potential source of financing. Remittance flows into developing countries are sometimes even larger than aid flows or foreign investment (Page and Plaza, 2005). Transfers from urban migrants to their rural families are also significant. Governments and other development actors can develop institutions and other mechanisms to reduce the transaction costs of remittances, as well as to encourage the use of these resources for broader local development. Examples include providing matching funds for remittances that are channelled into specific types of projects, or using those funds to leverage additional foreign finance, for example by using remittance-backed development bonds.

Implementation

Once the plan is set and resources made available, the next step is implementation. This is the meat of the whole strategy, and will involve the use of the types of policy tools that target the policy components listed in Figure 9.1. This list of policy tools is illustrative, i.e. it constitutes a set of some of the most relevant policy actions used for rural development, rather than an exhaustive list of policies. In practice, the policy tools used by policy makers will depend on the existing capacity for implementation and of course the specific context of the rural areas considered within the strategy. Moreover, the policy tools selected for implementation may change according to changes at the local, national, or international level. This is the subject of the next and final chapter.

Monitoring and evaluation

Mechanisms for monitoring and evaluation should be embedded in the strategy and considered right from the design phase. Monitoring, accountability and adjustment are central to effective strategies as they track progress and ensure timely correction if things go off-track. In addition, the strategy should allow for later adjustment to changes in both internal conditions such as droughts, floods, political change and civil strife, as well as external effects such as a slump in commodity prices.

Adapting to changing circumstances and lessons learned

The final step is to adapt the rural development strategy to changing circumstances and lessons learned during the implementation process. As discussed in previous chapters, rural areas are not static; they constantly evolve according to changing conditions at national and international levels. Rural development strategies need a robust design that allows them to adapt to changes while minimising adaptation costs.

Conclusion

The objective of the new paradigm is to provide policy makers with a broad framework for thinking through the elements that need to be taken into account in developing effective rural development policies. These policies should improve the welfare of rural population and contribute to a country's overall inclusive economic and social development, while taking into account environmental sustainability. However, as the report repeatedly emphasises, policies and strategies have to be tailored to the specifics of each country's situation and adjusted over time as conditions change. This requires detailed analysis of the natural, economic, social and institutional capital as well as direct work with the target populations, government, the private sector and other key stakeholders. It is not a process that can be directed from abroad. It requires deep local knowledge of the specifics of the country and consultations and negotiations with relevant local agents from communities to different levels of government.

Notes

[1] The Multi-dimensional Country Reviews (MDCR) conducted by the OECD Development Centre are one example of a detailed, analytical-based approach to assessing the situation and binding constraints for development in a given country. For details see www.oecd.org/dev/mdcr.htm.

[2] For more information on natural resource management and global value chains, please see the works of the OECD Development Centre's Policy Dialogue on Natural Resource-based Development (PD-NR) (www.oecd.org/dev/natural-resources.htm) and the OECD Initiative on Global Value Chains, Production Transformation and Development (www.oecd.org/dev/global-value-chains.htm).

[3] Dutch disease refers to the negative impact on an economy of any activity that gives rise to a sharp inflow of foreign currency. Inflow of foreign currency leads to currency appreciation; this in turn makes the country's products less competitive in the export market, leads to a higher level of cheap imports, and deindustrialisation as industries (apart from those involving resource exploitation) are moved to cheaper locations (Financial Times, 2015).

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Annex 9.A1
Benchmarking matrix of key structural, social, and institutional characteristics of developing countries

Countries have been classified according to the following criteria:

- **Rural Population**: first the group has been classified looking at the share of population living in rural areas (World Development Indicators). Countries are subdivided into three groups as follows:
  - Rural population higher than 67%
  - Rural population between 34% and 67%
  - Rural population less than 34%
- **Natural Resources**: the second criterion allowed grouping countries within each level of rural population in terms of the amount of rents coming from natural resources, as expressed in percentage of the GDP (World development Indicators). In particular we checked whether rents were higher or lower than 10%, after excluding the ones coming from forestry.
- **Demography**: the groups created following the first two criteria have then been vertically cut by looking at their progress in the fertility transition process. Total Fertility Rates have been divided into five categories, from higher than five to lower than two (World Development Indicators).
- **State fragility**: countries are coded according to their level of fragility and classified as: Very High Alert (VHA), High Alert (HA), Alert (A), Very High Warning (VHW), High Warning (HW), Warning (W), Less Stable (LS), Stable (S) and Very Stable (VS). Our index is adapted from the existing Fragile States Index but includes only the following relevant six dimensions:
  - Group Grievance: Tensions and violence among groups within the state
  - Legitimacy of the State: Corruption and other measures of democratic capacity
  - Human Rights: Level of protection and promotion of human rights
  - Security Apparatus: Internal conflict and the proliferation of non-state armed groups
  - Factionalised Elites: Conflict and competition among local and national leaders
  - External Intervention: Levels of foreign assistance as well as imposed interventions

- **Climate change vulnerability:** the countries underlined are the ones with a high score in vulnerability to climate change (higher than 0.50), as derived from the Notre Dame Global Adaptation Index. It measures vulnerability to climate change by considering six life-supporting sectors: food, water, health, ecosystem services, human habitat and infrastructure. Within each of the sectors vulnerability is measured by three components: the exposure of the sector to climate-related or climate-exacerbated hazards; the sensitivity of that sector to the impacts of the hazard and the adaptive capacity of the sector to cope with or adapt to these impacts.
- **Landlocked countries:** the asterisk indicates when a country is landlocked.

Table 9.A1.1. **Benchmarking matrix of key structural, social and institutional characteristics of developing countries**

	Rural population>67%		34%<Rural population<66%		Rural population<33%	
	Natural resource rents <10% of GDP	Natural resource rents >10% of GDP	Natural resource rents <10% of GDP	Natural resource rents >10% of GDP	Natural resource rents <10% of GDP	Natural resource rents >10% of GDP
TFR[1]>5	Burundi (A)* Malawi (VHW)* Niger (A)* Timor-Leste (A) Uganda (A)*	Burkina Faso (VHW)* Chad (HA)*	Gambia (HW) Mali (VHW)* Somalia (VHA)	Angola (VHW) Congo, Dem. Rep. (VHA) Nigeria (HA) Zambia (HW)*		
4<TFR<5	Afghanistan (VHA)* Comoros (VHW) Ethiopia (A)* Kenya (HA) Mozambique (HW) Rwanda (A)* Tanzania (HW)	Eritrea (A) South Sudan (VHA)*	Benin (W) Cameroon (A) Côte d'Ivoire (HA) Guinea-Bissau (HA) Liberia (VHW) Madagascar (VHW) Senegal (HW) Sierra Leone (HW) Sudan (VHA) Togo (VHW)	Congo (VHW) Equatorial Guinea (A) Guinea (HA) Mauritania (A)		
3<TFR<4	Samoa (W) Swaziland (VHW)* Tajikistan (A)* Zimbabwe (HA)*	Papua New Guinea (HW)	Central African Republic (VHA)* Guatemala (HW) Sao Tome and Principe (HW)	Ghana (W) Yemen, Rep. (HA)	Djibouti (VHW)	Bolivia (VHW)* Gabon (HW) Iraq (HA)
2<TFR<3	Bangladesh (A) Cambodia (A) India (HW) Lesotho (W)* Nepal (A)* Sri Lanka (HA)	Guyana (W)	Belize (W) Bhutan (VHW)* Botswana (LS)* Cape Verde (W) El Salvador (W) Grenada (W) Haiti (A) Honduras (HW) Indonesia (HW) Jamaica (W) Kyrgyz Republic (A)* Morocco (HW) Namibia (LS) Nicaragua (HW) Pakistan (VHA) Panama (LS) Paraguay (HW)* Philippines (A) Seychelles (HW) South Africa (LS) Syrian Arab Republic (VHA)	Ecuador (HW) Egypt, Arab Rep. (HA) Kazakhstan (VHW)* Lao PDR (VHW)* Turkmenistan (VHW)* Uzbekistan (A)*	Argentina (S) Colombia (VHW) Dominican Republic (W) Jordan (VHW) Mexico (HW) Peru (HW)	Algeria (VHW) Libya (HA) Mongolia (LS)* Suriname (W) Venezuela, RB (VHW)
TFR<2	Viet Nam (HW)		Albania (W) Armenia (HW)* Bosnia and Herzegovina (VHW) China (VHW) Georgia (A) Macedonia, FYR (HW)* Mauritius (S) Moldova (VHW)* Montenegro (W) Myanmar (HA) Romania (W) Serbia (HW)* Thailand (VHW)	Azerbaijan (VHW)*	Belarus (A)* Brazil (W) Bulgaria (LS) Costa Rica (S) Cuba (HW) Hungary (LS)* Lebanon (A) Tunisia (A) Turkey (VHW) Ukraine (HW)	Iran, Islamic Rep. (HA) Malaysia (HW)

Note: [1]TFR stands for total fertility rate and measures the number of children that would be born to a woman if she were to live to the end of her childbearing years and bear children in accordance with current age-specific fertility rates (World Bank definition).

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Chapter 10
Policy tools for the New Rural Development Paradigm

Together, a new rural development paradigm founded on eight components – governance, multi-sector policies, infrastructure, urban-rural linkages, inclusiveness, gender equality, demography and environmental sustainability – can contribute to balanced and sustained rural development in developing countries. This final chapter highlights some key policy tools to help implement these components, illustrated by examples from across the developing world. The choice of policies will depend on the context, however. The assessment and prioritisation process outlined in Chapter 9 will help determine the most suitable tools for each country.

The previous chapter has outlined the overall framework and implementation steps involved in the New Rural Development Paradigm for developing countries (NRDP). The framework presented in Chapter 9 included 25 policy tools linked to the eight components that make up the NRDP (Table 10.1). In this final chapter we describe each of these policy tools in turn, and give some examples of their implementation. Because rural contexts vary enormously across the developing world, however, these are just illustrative of the types of policies that can promote rural development. Some will be more important or suitable than others, depending on the context. The assessment and prioritisation process outlined in Chapter 9 will help determine the most suitable tools for each country.

Table 10.1. **Policy tools for implementing the NRDP**

Component	Policy tools
Governance	Building government capacity
Multi-sector rural development	Agriculture • Improving productivity and resilience of subsistence agriculture • Agricultural modernisation • Integrating rural areas into global value chains • Land policy Industries • Promoting rural industry • Promoting handicrafts and cottage industries Services • Promoting private-sector rural service industries • Promoting access to credit, finance, and markets • Promoting sustainable tourism
Infrastructure	• Promoting basic physical infrastructure investments • Promoting access and use of ICT
Urban-rural linkages	• Fostering urban-rural linkages • Developing intermediary cities • Better harnessing internal and international migration
Inclusiveness	• Providing education and training • Ensuring basic health • Cash transfers to promote development • Improving food security • Building social capital • Promoting community driven development
Gender	• Mainstreaming gender in development
Demography	• Addressing high population growth
Sustainability	• Ensuring environmental sustainability • Building resilience

Enhancing governance

Strengthening institutional capacity is important for translating rural development strategies into successful outcomes by allowing effective use of resources at all levels of government. Key areas for capacity building include, but are not limited to, macroeconomic management, legislation and regulation, debt management, tax administration, statistics, and the delivery of public services (IMF, 2002). Although there is much agreement among

international organisations that building good governance is necessary for development and poverty reduction, the issues to be addressed, in what sequence, and by whom, are highly dependent on the contextual realities of individual countries, and often involve trade-offs (Grindle, 2004). Before implementing any governance reforms, efforts should be made to understand which factors contribute to successful interventions under specific situations, and which ones will be the most efficient and have the greatest impact (Grindle, 2004). For example, a study of the role of the state during Viet Nam's *Doi Moi* period concluded that "a reasonably predictable political environment and social stability may be more important than adopting a formal legal framework of the kind that underpins market economies in more developed countries" (van Arkadie and Mallon, 2004).

Governance capacity can be increased through better co-ordination across and within different levels of government. As shown in the Korean case study (Chapter 5), the creation of the Central Government Council for *Saemaul Undong* acted as a platform for co-ordinating the various ministries involved in rural development, such as the Ministry of Agriculture and Fisheries, Ministry of Health and Social Welfare and Ministry of Education. This co-ordination mechanism allowed policy complementarities to be exploited across ministries and avoided overlapping or contradictory policy actions. In addition, as local offices were established to disseminate the projects and to monitor the progress of *Saemaul Undong*, monitoring and evaluation of outcomes was possible at the local and national levels.

Promoting multi-sector rural development

Rural areas that are strong in multiple sectors are more likely to thrive. Tools need to not only target agricultural development, but also to promote off-farm activities and employment generation in the industrial and service sectors.

Developing agriculture

Within the agricultural sector, policies to improve the performance of agricultural modernisation and subsistence agriculture are key elements of the policy toolkit. Policy tools can be broken down into the following areas:

- improving productivity and resilience of subsistence agriculture
- modernising agriculture
- integrating rural areas into global agricultural value chains
- reforming land policy

Improving productivity and resilience of subsistence agriculture

Improving the productivity of smallholder farmers engaged in subsistence agriculture can translate into higher household revenue, which can in turn contribute to improving rural livelihoods and reduce the risks associated with food insecurity. The productivity of households engaged in subsistence farming is commonly determined by their asset position, along with constraints in access to certain goods and services (Baiphethi and Jacobs, 2009; World Bank, 2008a). Households that lack core endowments such as land, water, and

human capital find it harder to move away from subsistence farming and to engage in commercial farming activities. In addition, limited access to both markets and basic production inputs tends to limit the productivity of smallholder farmers and make it harder to switch to commercial crops that have a higher market value and bring in more income. Indeed, the costs of moving away from subsistence farming can be really important. For instance, an analysis of farmers in Madagascar estimated that the costs for farmers of moving out of subsistence farming could represent more than one year of their output valued at market prices (Cadot, Dutoit and Olarreaga, 2006).

Increasing the productivity of subsistence farmers can be achieved through a combination of various policy actions seeking better access to land through land reforms (see below) and more efficient land rental markets; improved access to water resources by providing irrigation infrastructure and promoting water management systems; stronger human capital through extension services, vocational training, and broader access to formal education through conditional cash transfer programmes; greater access to rural financial services such as credit, in order to buy key production inputs like fertiliser, and insurance to limit the risks associated with bad weather or switching to higher-value cash crops. In addition to these policy actions, programmes promoting the adoption of new farming technologies can bring important productivity gains. For instance, the CRIAR programme in Bolivia (Box 10.1) provided non-reimbursable vouchers to finance 90% of the total cost of an agricultural technology selected by the farmer. Results of the evaluation of this programme show that participants increased their annual value of production per hectare by 92% and the value of the production sold by 360% (Salazar et al., 2015).

Box 10.1. **The CRIAR programme in Bolivia**

Bolivia's CRIAR programme began in 2011, partly financed by the Inter-American Development Bank and implemented by the Ministry of Rural Development and Land. The programme targeted smallholder agricultural producers in rural areas who were highly vulnerable to food insecurity. These producers were given vouchers to finance 90% of the total cost of an agricultural technology of their choice. The CRIAR programme had significant positive impacts on productivity, household income and food security because the technologies increased production per hectare significantly and because farmers were able to move into producing higher-value crops. It is important to note that the programme depended heavily on local participation for implementation, using community leaders to provide households with information and organising "fairs" that brought together producers with technology providers. Data collected during the programme suggest that inaccessibility to credit markets, the lack of access to information, liquidity constraints and low levels of education were the most important constraints limiting technological adoption by the farmers.

Source: Salazar, L. et al. (2015), "Food security and productivity: impacts of technology adoption in small subsistence farmers in Bolivia", http://publications.iadb.org/handle/11319/6783.

Modernising agriculture

Agricultural modernisation policies aim to improve yields and productivity in order to increase the availability of food. Ancillary objectives typically include improving farmers' income or promoting exports. Such policies have been central in all successful experiences

of agricultural and rural development, as initial levels of technological, financial, human capital in rural areas are typically low.

There is still substantial potential for increased agricultural mechanisation to improve productivity, and new technologies offer opportunities for maintaining high yields while ensuring sustainability. For example, food engineering has the potential to create crops with higher yield potential that require less fertiliser and provide more nutritional value, or that are drought, heat, and flood-resistant, thereby mediating impacts on food security and poverty. Advanced water management technologies can yield benefits such as water-saving options, increasing the benefit generated by each litre of water, water storing techniques, and micro-irrigation (see Chapter 8). However, the adoption of such technologies relies on government policies, such as investment in research and training.

Agriculture modernisation by itself is not systematically welfare-enhancing for rural dwellers, however. It needs to be framed within a comprehensive economic and social development strategy aiming at improving rural outcomes as a whole. Firstly, intensive use of certain inputs, such as factory-made fertilisers or pesticides, can have damaging impact on human health, the environment and biodiversity, as well as yields. Secondly, improving the performance of the agricultural sector does not necessarily translate into sustainable rural development: in Côte d'Ivoire, where rural development was expected as a spin-off of proactive agricultural development policies, the benefits of modernisation were mostly captured by urban consumers and a narrow segment of "bigger" farmers, with only a few benefits accruing to small farmers and their dependents (see Chapter 7). Finally, as with the case of industrialisation, latecomers to agricultural modernisation tend to capture fewer benefits. The uneven progress of modernisation worldwide has created growing productivity gaps between agricultural systems in the industrialised and more advanced countries, and those in many developing countries. In a context of increased openness of markets, the latter have been exposed to competition with low-cost food imports and low prices. Coping strategies such as diversifying into cash crops and focusing on short-term returns often resulted in lower maintenance and investment efforts, and an erosion of food security. Therefore, policies promoting agriculture modernisation should be implemented as part of a broader rural strategy that factors in both local and external factors while considering the development of non-farm employment opportunities.

Integrating rural areas into global agriculture value chains

Global value chains (GVCs) are an interesting option for developing countries since they can act as a platform for enhancing productivity, improve quality and diversify exports. To enable value chains to contribute to rural development requires the adoption of new product varieties, infrastructure to shorten the distance to consumers and policies to boost smallholder capacity (Box 10.2). Table 10.2 provides a typology of typical upgrading strategies and concrete examples of policy measures for agriculture.

Strategies for upgrading the country's position in global agricultural value chains require the participation of multiple actors. International lead firms are essential players for integrating into and upgrading for global value chains; governments can create the incentives to attract them to invest and build linkages with local firms. Participation of smallholder farmers in GVCs strongly depends on agricultural productivity and trust between value chain actors. Mechanisms such as contract farming can foster beneficial

arrangements between the lead firm and smallholder farmers, as shown by the success of Olam International in sub-Saharan Africa (AfDB, OECD and UNDP, 2014). Development partners can support local enterprises in the form of loans, equity and guarantees.

Table 10.2. **Typology of upgrading strategies**

Type of upgrading strategy	What it means	Examples
Process upgrading	Improving chain efficiency	Introduction of irrigation to rice paddies (process upgrading, von Braun and Webb, 1989)
Product upgrading	Improving product quality	Shift to organic cotton production (process and product upgrading, Eyhorn et al., 2005)
Functional upgrading	Changing the mix of functions performed	Coffee farmers adding value by processing their cherries (Bolwig et al., 2008) and shortening the chain by removing intermediaries (Singh, 2008)
Horizontal co-ordination	Development of relationships among actors within functional "nodes"	Formation of new fish traders' groups (Walker, 2001) and strengthening of producers' groups (Naved, 2000)
Vertical co-ordination	Developing relationships among actors between nodes	Horticultural production on a contract (Raynolds, 2002) and the provision of extension services and credit in kind by a maize processing firm (Simmons and Winters, 2003)
Chain upgrading	Applying existing skills to a new chain	Farmers moving from mixed agriculture to fish farming (Naved, 2000), or fishers shifting from targeting anchovies and tilapia for the local market to Nile perch for processing and export in Tanzania (Kadigi et al., 2008)
"Upgrading" of the enabling environment	Changes to the external governance of the value chain	Changes to policy, law, institutions, support organisations, for example, reduced local government sales taxes for beekeepers' produce in an Indian state and the revision of matrilineal inheritance legislation in Ghana (Walker, 2001)

Source: Mitchell, J., C. Coles and J. Keane (2009), *Trading Up: How a value chain approach can benefit the rural poor,* www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/5656.pdf.

Some chains provide greater opportunities for upgrade than others. Most cash crop chains are characterised by hierarchical and captive governance structures which offer limited opportunities for moving up the value chain. Product differentiation and quality upgrading are essential for value added in both producer and buyer-driven agricultural value chains (Box 10.2).

Box 10.2. **Examples of product differentiation and quality upgrading for value-chain integration**

In Côte d'Ivoire, the *Qualité-Quantité-Croissance* programme has resulted in a new standard of quality known as "*Origine Côte d'Ivoire*". In 2013, 81% of cocoa exports from Côte d'Ivoire were in the highest Grade 1 category and a national brand of quality assurance was created. Buyer-driven chains in the agricultural sector may offer more scope for expanding along the value chain. Blue Skies Limited in Ghana is one example – it cuts and packages fresh fruit locally and then flies the produce to European retailers, reaching the consumer within 48 hours of harvesting.

Source: AfDB, OECD and UNDP (2014), *African Economic Outlook 2014: Global Value Chains and Africa's Industrialisation,* http://dx.doi.org/10.1787/aeo-2014-en.

Regional and developing markets can provide new impetus for expansion thanks to their lower costs of participation. For example, Morocco's citrus exports are increasingly shifting from traditional European markets to the Russian Federation where standards are lower and less costly to monitor (Bamber and Fernandez-Stark, 2013). Similarly, margins for South African producers selling to other African countries and Asian and Middle Eastern supermarkets are often equivalent to margins from selling to European counterparts thanks to the reduced costs of inputs, audits and monitoring afforded under less stringent standards (Barrientos and Visser, 2012).

Integrating the GVC approach into a development strategy entails a four-step framework (Bamber et al., 2014; UNCTAD, 2013):

1. Appraise value chains that offer potential for integration and those that are currently operating within the economy.
2. Assess ways to increase value-added or participation in the value chain (Table 10.2).
3. Analyse the potential barriers that existing policies might pose to value chain development.
4. Develop appropriate policies based on the preceding analysis.

Reforming land policy

Effective land policy increases incentives for landowners to invest, enhance their access to credit, as well as create a form of insurance against adverse shocks. Non-inclusive land policy can become an agent for social unrest, as evidenced by the civil war in Côte d'Ivoire (Chapter 7). Land policy focusing on the conditions for the productive use of land may include: 1) registration and titling; 2) land taxation; 3) the regulatory framework that impedes or facilitates land sales and land rentals; and 4) altering the distribution of land ownership (Pons-Vignon and Solignac-Lecomte, 2004).

Land policy is also crucial for ensuring ethnic and gender equality. Gender inequalities in land rights are often commonplace in developing countries, where women lack access to land rights or are restricted to land rights by male family members. Making land policy equitable will require comprehensive reforms that tackle the gender dimension from the early stages of the reform programme. Improving women's access to education and legal information, and enabling their voices to be heard through female representation in land administration institutions also contribute to gender equity in land access. In some cases, affirmative action may be necessary to overturn deep-rooted discrimination in social institutions.

Where land is fragmented, as in the case of many transitioning countries such as Viet Nam, land consolidation can help improve agricultural productivity through economies of scale, enable land conversion for rural non-farm economic use, and improve management of natural resources. Comprehensive land consolidation is often the most effective instrument, yet depending on local conditions, other approaches such as simplified consolidation, voluntary group consolidation, and individual consolidation initiatives may be more effective (FAO, 2003). While data on land use are extremely

limited in many developing countries, new technologies such as New Very High Spatial Resolution, combining satellite images with local skills, can allow better mapping of land use and agricultural plots at much lower cost (Imbernon, Kabore and Dupuy, n.d.).

Developing industries in rural areas

Promoting rural industry

In addition to enhancing the role of agriculture in rural development, the promotion of rural industry is a central element in the process of structural transformation. By diversifying the rural economy, off-farm employment opportunities can be created that can supplement or replace agricultural income, reducing risk and building resistance to external or internal shocks, crises and seasonal income fluctuations. In many cases, non-farm employment can bring higher returns than farming, and thus provides an important tool to reduce rural poverty. Rural industries range from small-scale cottage activities to medium-scale village enterprises and larger-scale enterprises, and examples include food processing, tourism, construction, utilities, and handicrafts.

The success of rural industries depends heavily on their level of connectivity to markets (Box 10.3); they can therefore be supported by improvements in transportation infrastructure, better regional economic development planning, and by increasing the economic linkages between rural and urban areas (including improved mobility and the enhanced flow of resources and information). Some rural populations also face significant entry barriers to non-farm employment, which can be improved through the provision of credit (for example, through micro-finance) and other financial institutions and mechanisms. Additionally, both central and local governments can encourage industries to relocate to rural areas by providing financial incentives such as tax discounts (as in Special Economic Zones, see Chapter 8), reduced land rents, discounts on equipment, etc., and by improving basic infrastructure and services in rural areas.

Box 10.3. **Clustering in rural Indonesian micro-enterprises**

In Indonesia, small and medium-sized enterprises (100 workers or less) and micro-enterprises (less than 5 workers), including those in agro-processing, textiles and footwear, wood products and furniture, paper products, and others, have used clustering to become more competitive (Burger, Kameo and Sandee, 2001). Dense networks of middlemen link cottage industries and distant markets, as well as local traditions of trust and mutual dependence among traders and artisans have been key elements of success for these industries, helping to overcome diseconomies of small scale and isolation (Weijland, 1999). In Indonesia, the majority of small- and medium-sized enterprises are in rural areas and employ 90% of the country's workforce, especially women and youth (Tambunan, 2008). Private and public institutions have sometimes played a key role in helping these businesses flourish, by providing assistance such as loans and venture capital, support for technological upgrading, and subsidies (Tambunan, 2008). However, multiple studies conclude that good linkages to urban areas and to national and international markets are a key factor for determining the success and sustainability of rural industries, and thus the most important government policy to support rural industries may be to improve connectivity and mobility (Burger et al., 2001; Tambunan, 2008; Weijland, 1999).

Promoting handicrafts and cottage industries

Developing handicraft and cottage industries can help diversify the livelihood of rural residents. Furthermore, they often use locally-available inputs and are ideal for entrepreneurs lacking start-up capital (Weijland, 1999). Policies to promote handicraft industries will have to work in tandem with other policies. Small and medium-sized enterprise policies will benefit the larger-sized rural enterprises. Moreover, clustering can give small-scale industries economies of scale and expand their market access (Box 10.3). Japan's One-Village-One-Product, and Thailand's One-Tambon-One-Product (Chapter 6) are successful examples of community-based initiatives that have leveraged local specificities and cultural heritage to develop and market many handicraft products. In some countries, such as Thailand and Viet Nam, rural handicrafts have been heavily dependent on the export market and international tourists. As such, trade policy, international marketing as well as tourism promotion will all have important implications for creating demand for developing handicraft and cottage industries. Ultimately, whether households are able to diversify their off-farm income sources depends on whether the economic context gives incentives for diversification and whether households have the capacity to respond to these incentives (Hung Pham, 2006).

Government policy has an essential role to play in providing the hard and soft infrastructure that allows individuals to access better jobs outside agriculture and to make more productive decisions regarding household resources. These include investments in health and education, basic public services (water, sanitation), transportation and ICT connectivity, financial services, and the development of standards necessary for quality certification of exports. However, the government's ability to influence structural transformation in rural areas depends heavily on its institutional and administrative capacity and on its ability to co-ordinate across levels of government and with other public and private actors.

Developing services in rural areas

Promoting private-sector rural service industries

The growth of service industries (or the tertiary sector of industry) in rural areas can fill gaps in the delivery of social services and play an important role in generating non-farm income. Examples of major private service industries include transport, commerce, information and communications technology (ICT), health, education, other professional services, tourism, finance, logistics, and personal services.[1] The main role of government policy in this arena is to provide an enabling environment for the growth of service industries, for example by removing barriers to the entry of private service providers and, perhaps most importantly, by ensuring adequate physical, regulatory, and legal infrastructure to support these industries.

In many of these sectors there is often a role for provision by the private sector or through public-private partnerships. Therefore, it is also necessary to consider the policy and incentive regime required to facilitate these partnerships.

Promoting access to credit, finance and markets

Ensuring that rural populations in developing countries have access to financial services and in particular to credit has been shown to be vital for modernising and diversifying rural economies and integrating them into larger markets, for increasing agricultural productivity and intensification, and for giving the most vulnerable and insecure segments of the rural population the means to escape the poverty trap (Baffoe et al., 2014). However, rural populations, especially small and marginal farmers and those located in the most remote areas, often face severe constraints in accessing these two elements.

Financial services take various forms, such as credit, savings, insurance, remittances, money transfers and leasing. Better access to financial services can improve welfare, contribute to poverty reduction, protect people from economic shocks and integrate them into the national economy (UN, 2006). The spread of financial services to rural areas has been challenged by high transaction costs, high credit risk, high illiteracy rates, and the lack of rural-oriented staff (Sharma and Tewari, 2014). For example, while expanding rapidly, mobile banking services are still mostly concentrated in urban areas, and their penetration into rural areas is hindered by sparse network signals in remote areas. In addition, in some countries mobile banking has been hindered by government regulation and by opposition from the formal banking sector.

Credit generally refers to financial capital resources in the form of assets, financial reserves, or loans, and is needed to finance the use of inputs in agriculture that increase productivity and thus have the potential to significantly increase farm income. Such inputs include fertilisers, improved seeds, irrigation, insecticides, additional labour, machinery, and other technologies. Improving access to these inputs is especially vital for rural populations given that issues of soil fertility, degradation, and water use limit increases in agricultural output (Gordon, 2000). Farmers also require credit for agricultural upgrading; for example, to finance the transportation, storage and processing necessary to market agricultural products (Ololade and Olagunju, 2013). In addition, enhancing the availability of credit to rural populations can help alleviate some of the uncertainty and risk that farmers face due to seasonal dependence, price uncertainty, poor infrastructure, etc.

Government policy can help enhance the availability of credit (and thus inputs) in rural areas by providing technical assistance and giving incentives for institutions such as regional rural banks, co-operatives, commercial banks, non-banking financing companies, micro-finance institutions, and others to serve rural populations and to adapt rules and policies to the needs of rural populations (for example, collateral), especially those that may face greater challenges in obtaining loans (women, minority groups, the young and less educated). In addition, government-sponsored programmes can help provide training to aid rural populations in obtaining credit and using it appropriately.

Promoting sustainable tourism

Promoting tourism in rural areas can contribute to employment creation and the development of off-farm activities. Many rural regions are rich in amenities such as wildlife, landscapes, and cultural heritage that are attractive to tourists. However, in order to properly develop a sustainable touristic sector in these regions, certain policy actions may have to be implemented. On the one hand, public investment can help to overcome

some of the main challenges in rural areas, such as the lack of adequate infrastructure, limited accessibility (long distance from markets), and low capacity and skills. In addition, government help in marketing rural amenities can increase tourist flows and also trigger private investment. Government actions are also important to limit the impact of tourism on environmental quality and sustainability. This can be achieved through adequate environmental regulation along with the promotion of eco-tourism. Government should involve the community during the planning and design of policy actions. This will not only contribute to preserving local values and lifestyles, but will also be key for making sure that the economic benefits of tourism reach the local population (Simmons, 1994). See Box 10.4 for the country experiences in sub-Saharan Africa.

Box 10.4. **Careful design to enhance the rural development benefits of tourism**

Partnerships between the national government, international agencies, the private sector, and local communities can have the potential to bring inclusive solutions for developing rural tourism. Previous experiences in Southern Africa have shown that these types of partnerships have resulted in activities generating both employment and income and in some cases can even promote environmental conservation (Ashley and Roe, 2010; Roe, Grieg-Gran and Schalken, 2001). However, other studies show less optimistic results. For instance, a case study of Ngamiland, northern Botswana explored the effects of an eco-tourism joint venture between a community-based organisation and the private sector (Lepper and Schroenn Goebel, 2010). It concluded that despite creating additional sources of income and supporting livelihood diversification, the impacts on employment were limited by capacity constraints within the local labour force, and the lack of demand for additional labour. Thus only 11% of the households in the beneficiary communities benefitted from the partnership. Rural strategies embedding tourism should thus consider how local agents and the community will benefit from international partnerships and foreign investment.

Closing the infrastructure gap

Developing infrastructure systems must be at the heart of any rural development strategy. A good rural infrastructure system provides the foundation and synergies necessary for the successes of other policy tools such as value chain upgrading, rural industrialisation, promotion of tourism and services. Thailand, for example, prioritised infrastructure development in rural areas from the early 1950s, first through connective infrastructures, before moving on to electricity, education, water, health and ICT facilities (Chapter 6).

Promoting basic physical infrastructure investments

Better infrastructure can also translate into better access to health and education services. For example, reducing transport costs can increase the catchment area of and attendance at medical facilities and schools.

Financing rural infrastructure development will require large-scale and sustained investment (Box 10.5). Adopting a spatial approach to infrastructure development can cut down costs. The synergy obtained from bundling multiple infrastructure interventions into a geographical area or along an economic corridor will make the aggregate investments

more effective than when they occur in a piecemeal manner (Briceño-Garmendia and Foster, 2009; Torero and Escobal, 2005). Moreover better spatial planning can reduce the future cost of land clearing and resettlement for infrastructure projects. Involving local government in design and realisation of the investment is also vital to ensure better matching of projects with actual local needs.

Box 10.5. **Financing the closure of Africa's infrastructure gap**

Addressing Africa's overall infrastructure needs will require USD 93 billion a year; the funding gap stands at USD 31 billion a year (Morella, Foster and Banerjee, 2008). Investments also have to be sustained, as preventive maintenance is much more cost-effective than paying for rehabilitation. Currently, one-third of Africa's overall infrastructure needs are due to poor maintenance. While resource-rich countries can tap into resource rents to finance these projects, many governments, especially those in fragile states, will not be able to meet this demand. International partners have been actively involved in financing African infrastructure through the US's recent Power for Africa programme and China's continued investments in the region. However public-private partnerships – while commonly used for national infrastructure projects – may not be suitable for rural infrastructure investment due to weak capacity of local government and lower rate of private returns.

Better transport logistics can enhance rural populations' well-being by improving access to markets and services. For farmers in rural areas, good transport translates into lower costs for marketing agricultural products, as well as better access to production inputs, financial services (e.g. credit), and information and technologies. For instance, the World Bank (2008b) estimates that a hypothetical rural road project in Madagascar that reduces transport costs by around 75 USD/ton would raise household incomes in the most remote locations by approximately 50%; these benefits follow not only from lower effective price of imported consumption, but also from non-farm earning opportunities in populated centres. Moreover, better access to markets can increase farmers' revenue by reducing their dependence on intermediary traders, allowing them to position their products higher up the value chain (Abdi, 2004). Producers of perishable goods in isolated areas are sometimes forced to sell their produce to traders at a fraction of the market price due to limited ability to transport goods to market (Dennis, 1998). For example, in southern Tanzania, very poor road infrastructure prohibits farmers of cashew nuts from selling directly at the main shipping port of Mtwara due to high transport costs. Instead, small farmers sell directly to traders, who have a strong bargaining position for negotiating prices (Bah et al., 2003).

Transport logistics are commonly improved through better infrastructure, which in turn reduces the costs associated with transporting goods and people. Improvements in infrastructure are not the only means for enhancing transport logistics, however. They can also be enhanced by increasing the diversity of modes of transport available, as well as by better connecting transport networks with trade hubs such as ports.

Promoting access and use of ICT

The advent of new and innovative ICT services provides important opportunities to support rural development policies in a range of areas, including governance, health and education, and market accessibility. Chapter 8 has already discussed the rural development potential of ICT. However, the success of ICT projects depends on the availability of basic information infrastructure, including Internet access and a stable power supply. To this end, privatisation of telecom sectors can reduce communication costs and improve access to ICT services by the poor (Box 10.6), while government regulation and incentive schemes can help encourage the private sector to expand access to the most isolated areas (Cecchini and Scott, 2003).

Box 10.6. **Advantages of private sector involvement in ICT**

Private sector participation can bring flexibility, responsiveness, efficiency and market-led solutions. Private investment also builds technological know-how. Co-operation with the private sector can contribute to greater access to ICTs, adaptation to changing circumstances, construction of infrastructure, delivery of ICT-based services, and financial sustainability (OECD, 2005). In Africa, the private sector has driven the expansion of ICTs through rapid growth in private investment, which increased from USD 5.4 billion in 2000 to USD 13.5 billion in 2007. Burkina Faso witnessed a boom in its mobile telecoms sector after it was deregulated in 1998, with three private operators sharing the market. Between 2006 and 2007, mobile telephone charges experienced a moderate downward trend but the sector still generated an estimated XOF 54 billion in 2006 and 91.1 billion in 2007. It also created jobs and tax revenue, making further positive contributions to the economy (OECD/AfDB/UNECA, 2009).

Source: OECD (2005), *Good Practice Paper on ICTs for Economic Growth and Poverty Reduction*, www.oecd.org/dac/35284979.pdf; OECD/AfDB/UNECA (2009), *African Economic Outlook 2009*, OECD Publishing, Paris, http://dx.doi.org/10.1787/aeo-2009-en.

Strengthening the links between urban and rural

Rural-urban linkages are important drivers of economic activities, and are central for understanding the dynamics of rural livelihoods, such as the diversification of farm and non-farm activities and income sources, mobility, migration, and the diffusion of technology and innovation (Akkoyunlu, 2015). A dualistic view of rural versus urban areas in policy making does not reflect the reality of rural-urban interdependencies.

Fostering urban-rural linkages

There is a variety of ways that government policy can play a role in fostering rural-urban linkages. One way is simply by improving the flow of goods, people and information between rural and urban areas, for example by investing in transportation and ICT infrastructure or by removing other barriers such as tariffs or restrictions on mobility. Another is by promoting the development of intermediary cities (see below). Government can also take rural-urban linkages into account when making policy and develop a spatial planning approach that promotes co-ordination among local administrations at the regional level (Box 10.7).

Box 10.7. **Rural-urban linkages in Indonesia**

The Indonesian Government considers rural-urban linkages as part of its development strategies in order to promote a balanced regional development. For instance, the Medium Term Development Plan (2015-2019) includes the implementation of programmes that link rural production centres to urban market. Other examples include the Agropolitan Development Programme which focuses on improving institutions, human resources and basic infrastructure of certain urban areas that act as key poles for promoting growth and enhance peasant prosperity; the District Potential Product Programme that aims to improve the regional capacity and develop potential commodity; and the One Village One Product Programme that aims to increase market access by forming partnerships with private sectors and other economic actors (Mulyana, 2014).

Source: Mulyana W. (2014), *Rural-Urban Linkages: Indonesia Case Study*, Working Paper Series, 126, Working Group: Development with Territorial Cohesion. Territorial Cohesion for Development Program. Rimisp, Santiago, Chile.

Developing intermediary cities

Small towns and intermediary cities have a key role to play in rural development:

- They can serve as logistic points, mediating the flow of goods and services between rural hinterlands and larger cities (Haggblade, Hazell and Reardon, 2007). During this process, intermediary cities can foster competition among wholesalers and middlemen (Rakotoarisoa, Iafrate and Paschali, 2011).
- They can provide the agglomeration economies necessary to develop labour-intensive industries such as textiles and agro-processing or services (Christiaensen, De Weerdt and Todo, 2013).
- They can serve as markets for products from rural areas and stimulate agricultural productivity through technology diffusion (Reardon, 2013).
- They can provide the scale necessary to invest in public services for the surrounding areas.
- They offer more accessible opportunities for finding and commuting to off-farm employment, thereby increasing and diversifying rural livelihoods (Owusu, Abdulai and Abdul-Rahman, 2011). Indeed, empirical studies have shown that in rural Kagera (Tanzania), one in two individuals who exited poverty between the 1980s and 2000s did so by transitioning from agriculture into the rural non-farm economy or intermediary cities; only one in seven became less poor after migrating to a large city (Christiaensen, De Weerdt and Todo, 2013).

Developing small towns and intermediary cities requires a systemic approach that strengthens their respective roles in the urban hierarchy. Local governments will need to work with national government to identify their local characteristics and comparative advantages to fit their functions into the national system. Connective infrastructure will be needed to link these areas with both the rural areas and the primary cities. This is crucial to generate economies of scale and integrate intermediary cities into the supply chain of products. The 2016 *African Economic Outlook*, produced by the African Development

Bank, the OECD Development Centre, and the United Nations Development Programme, will be dedicated to sustainable cities and structural transformation in Africa.[2] The main objective will be to discuss how cities can drive Africa's structural transformation in a sustainable manner.

Financing small towns and intermediary cities will require innovative solutions. On the one hand, efficient land-use planning will be crucial to avoid expensive re-settlement costs, which could account for up to 50% of infrastructure budget. On the other hand, local and central government can tap into several sources: central government transfers, private domestic and foreign investment as well as remittances. A study of four Latin American countries shows that the majority of remittances go to secondary towns and cities (Orozco, 2009); remittances have also been a major source of financing for many other Asian intermediary cities (Roberts, 2014). Resource-sharing arrangements between cities or with businesses can lower costs, ensure better-managed services and recover some of the costs of installing services from developers and landowners. Natural resource extraction can also provide the financing and attraction necessary to develop secondary cities. For example, following the discovery of gas reserves in the Gulf of Siam, Thailand has concentrated on developing the Eastern Seaboard development zone, which has attracted Japanese automobile firms and fostered the petrochemical industry in the region. Likewise, Brazil has expanded from the competitiveness in mining-related industries around the city of Belo Horizonte to build an industrial complex that is continuously expanding its tertiary sector, especially in ICT, biotechnology, business tourism, fashion and jewellery making (Feferman, 2014).

Better harnessing internal and international migration

A critical element of rural development is the migration of people out of rural areas to seek work in urban areas or abroad. Historically, this has been one of the most effective ways for rural people to improve their livelihood opportunities. This was the case in the historical development experience of OECD countries (Chapter 4), including Korea (Chapter 5). It has also been a very important mechanism in countries such as China, which has experienced the largest internal migration in history, with more than 300 million rural workers and their families migrating to urban areas in search of better jobs and livelihood opportunities (Chapter 6). However, as noted in Chapter 2, while rural to urban migration continues to be very significant in developing countries, it has become much less effective because the manufacturing sector in most developing countries is not growing as fast as during the Industrial Revolution in developed countries. While there are now more jobs in urban services, the urban sector is no longer able to absorb large migration from rural areas. As a result, rural to urban migration in most developing countries has led to the growth of large slums around major cities.

In addition to improving livelihood opportunities in rural areas to reduce the need for migration, there are several ways in which governments can make the most of migration for the benefit of rural areas:

- Invest in the type of education and skills that will help people get better jobs when they migrate to urban areas or abroad. Investment in basic health services and education and training can give people skills to take with them if they migrate.

- Improve information on job opportunities or benefits in migrants' places of destination, as well as better support mechanisms. In the case of international migration this can also include negotiating special visas or work permits.
- Create mechanisms for transferring remittances from people who have emigrated to urban areas or abroad back to their rural areas, and develop programmes that match these remittances as an incentive for sending them.

Targeting inclusiveness

Social policies are a key part of the policy toolkit, as rural development requires policies that go beyond what can be achieved with purely economic policies. Inclusive social policies include education, basic public health, income support transfers, food security safety nets, temporary work programmes, and community development.

Providing education and training

The ultimate goal of providing education for all is to ensure better livelihoods and sustainable development. Education and training contribute to rural development in a number of ways. First, education enables individuals to acquire basic literacy and skills. This also facilitates adoption of new technologies and practices, thereby improving productivity in the case of farmers and agricultural production. Second, it can also promote higher pay, off-farm employment and economic development of rural areas, particularly for rural populations who receive vocational training. Education also contributes to better quality of life, youth employment, women's empowerment within and outside of the home, and a reduction in birth rates, thereby lessening demographic pressure on natural resources, the environment, and the demand for more job opportunities (Moulton, 2001; UNESCO, 2012).

Education in rural areas requires special attention as such areas are often overlooked by development schemes and have little budget support. Rural schools tend to be sparsely distributed and lack soft and hard infrastructure, including equipment, sanitation and transportation facilities, educational materials, and enough teachers. Also, it may be costly in terms of time and expense for rural households to send their children to school. Some parents prefer their children to provide labour at home instead of going to school. Girls in rural areas usually have lower enrolment and completion rates in all levels of education than boys. There is also less supply of tertiary and vocational than primary education in rural areas (Moulton, 2001).

Potential areas of government intervention include the provision of incentives for rural households to send their children to school (e.g. conditional cash transfers, targeted subsidies for girls and vulnerable groups, school meals); involvement of parents in school management; gender sensitivity, for example employing female teachers, separate toilets for girls; upgrading infrastructure and the curriculum; as well as structured data collection, monitoring and evaluation processes (see Box 10.8). Strengthening education opportunities in rural areas also requires interventions in other sectors: agriculture, health, gender equality, environment, energy, transport and ICT. For example, improvements in agricultural productivity and access to water and electricity will free up children to attend schools.

Box 10.8. **Nepal's Welcome to School Initiative**

Supported by UNICEF, the Nepal government, NGOs and village facilitators, this initiative launched in 2004 aims to bring girls and children from disadvantaged communities back into schools and improve teaching and learning environments. Cultural norms, low quality of education and teacher training, and lack of accountability to community households had all reduced school attendance rates. The programme includes policy development support, gender auditing, a monitoring system, public advocacy, and local-level planning and partnerships. The Ministry of Education and Sports of Nepal provided scholarships for first-time learners and for girls as incentives. It also used media at the national, regional and community levels to promote participation. This programme proved successful in raising enrolment rates, particularly for girls, through collaboration, strong local participation, and the long-term commitment of different stakeholders.

Source: United Nations Development Group (2010), *MDG Good Practices.*

Advances in ICT may also improve access to education and training, stronger management processes and accountability, and more qualified teaching personnel. ICTs can support distance education to ensure greater access to education and dissemination of information. Such education covers a wide range of topics from business management, farming (e.g. agricultural production, storage, processing, marketing, food safety) and teacher training, to economics, all of which contribute to social and economic rural development. It also provides education at all levels, from primary, secondary, tertiary and vocational to university. Distance education particularly benefits rural women, who obtain practical skills appropriate for generating income (UN Millennium Project, 2005; UNESCO, 2012). The Computer Based Functional Literacy Programme developed by Tata Consulting Services tackles adult illiteracy in India, for example. This programme uses an e-learning system to help people to learn reading, writing and arithmetic skills. The combination of visual and sound patterns helps students recognise the words. This programme is now available in nine languages and is also implemented in South Africa and Burkina Faso (Tata, 2011).

Ensuring basic health

The outcomes of improving health in rural areas include greater productivity, job opportunities, wages, quality of life and sustainability. Better health contributes to national development through higher school enrolment rates and learning ability of children, more available resources by reducing medical expenses, improvements in workers' health and even better use of natural resources such as land. It is critical to tackle ill health amongst the poor and rural population, who are hit harder by poor health as they tend to rely on physical labour for income. Also, they face shortages of health facilities and professionals, a lack of resources and infrastructure, unequal access to health services and information, and environmental conditions that spread diseases (Strasser, 2003; World Bank, 1993; World Health Organization, 2002).

There is a wide range of actions that can strengthen basic health. They include routine screening and treatment of diseases, education on sexual and reproductive health, integrated management of childhood illness and immunisation, investment in healthcare

equipment, facilities, and research and development, and human resource training (UN Millennium Project, 2005). Recent ICT innovations offer promise for meeting the needs of rural patients and their caregivers. For instance, Malawi's Rapid SMS programme uses mobile phones to transmit children's nutritional data from local clinics to a national nutritional surveillance system. Coupled with the growth in mobile phone technology in Africa, this programme saved time and costs for data collection, improved data sharing, prompted quick feedback on children's health, and helped to reduce child mortality (United Nations Development Group, 2010).

Cash transfers to promote development

Both formal and informal transfers (monetary and non-monetary) play a major role in supporting the livelihoods of people living in rural areas of developing countries by helping households mediate risk and by promoting household investments in productive activities. Remittances from migrants support rural households and economies by providing additional income, by creating a safety net against unpredictable events such as environmental catastrophes, as well as by building migrant associations that improve local communities. Government transfers also play a critical role in several ways. An increase in the share of general revenues allocated by the central government to local governments in rural areas can help reverse urban bias, and allow local authorities in rural areas to improve the provision of services to their populations. Earmarked transfers provide funds for emergency relief and for investments in critically needed projects and programmes such as food security, health and education for vulnerable populations. Temporary work programmes also offer support. For example, the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) has been implemented in India since 2006 with the aim of ensuring livelihood security in rural areas. This programme provides l00 days of guaranteed wage employment to every household whose adult members volunteer to do unskilled manual work. It has helped to enhance income security, reduce distressed migration from traditionally migration-intensive areas, empower women and provide employment opportunities to the marginalised (Government of India, 2014).

Conditional cash transfer programmes can be both an effective way to improve health and education outcomes in poor rural areas, while allowing rural households to make more rational and productive decisions regarding their livelihoods (Box 8.7 in Chapter 8). Researchers argue that cash-based transfer approaches can be more cost-effective than in-kind methods, have the potential to be less corruptible, do not negatively distort local markets, and generate multiplier effects by spurring local economic activity and investment (FAO, 2014; Harvey, Slater and Farrington, 2005). On the other hand, cash transfers can also cause inflation, disadvantage women if they are less able to keep control of cash, and may be more easily diverted to other purposes in areas where corruption is high (Harvey, Slater and Farrington, 2005).

Improving food security

Household food insecurity undermines rural development in multiple ways – including by contributing to the occurrence of poverty and disease and by lowering individuals' ability to lead productive lives. Low levels of agricultural productivity, low incomes, and

the lack of roads, infrastructure, safe drinking water, primary health care and education all contribute to food insecurity (POST, 2006). Government policies that can enhance food security include maintaining food stockpiles in case of harvest failures, and developing special arrangements on access to food supply with other regions and countries. Safety net programmes such as targeted direct feeding programmes, food-for-work programmes, and income transfer programmes have had some success in improving access to food and food security. Direct food aid programmes involve transfers to households of food or coupons for buying food; food-for-work programmes provide food in exchange for public works; and income transfer programmes provide cash transfers to households on the condition that they take certain actions that increase food consumption and nutritional status (Salazar, et al., 2015). Of the three, conditional cash transfer programmes generally present the greatest evidence of positive impacts on food security and nutritional outcomes (see above). However, safety net programmes have the disadvantage of building reliance on continued subsidies or transfers, and are thus not sustainable in the long term. In contrast, policies that aim to increase agricultural productivity can reduce household vulnerability to food insecurity in the longer-term by generating higher yields and more food available for consumption, as well as generating higher income with which to purchase food (Salazar, et al., 2015).

Building social capital

Social capital is crucial for achieving poverty alleviation and sustainable human and economic development. It increases personal well-being and generates positive externalities with the potential of improving the livelihoods of rural households. It also brings massive socio-economic benefits for rural societies by reducing transaction costs, facilitating co-operative behaviour, and consequently promoting knowledge sharing. Networks of trust and reciprocity do not only benefit the people inside them, but also those outside. For all these reasons policies should not only aim to increase the level of social capital in rural communities, but also to avoid eroding the existing stock of social capital.

There are several ways through which social capital can be promoted by policy. Policies that have social capital promotion as one of their underlying goals include educational policies, welfare provision, family and community services, sport and arts, communication and the provision of essential services. More specific policies include public campaigns and more flexible work arrangements to encourage greater civic participation; school size changes and the increased availability and scope of extra-curricular activities; welfare system changes and the devolution of responsibilities from central to local governments and to the non-government sector, families and individuals; changes in the delivery of public services in order to involve local people much more; subsidies to promote household and public Internet telecommunications services; and facilitating access to networks and information platforms (Productivity Commission, 2003).

Promoting community-driven development

A classic example of how social capital can be built in rural areas is through the community-driven development (CDD) approach (Box 10.9). It considers local rural communities as development partners, not beneficiaries, and gives them direct control over

decisions and resources. The principles of local empowerment, local capacity building, transparency and participation are heavily embedded in the approach. CDD in general focuses on social points of entry, and common objectives therefore include provision of social infrastructure and services (notably health and education), employment generation, poverty alleviation, social inclusion, social capital building (e.g. co-operation, trust and networking) and improvements in governance mechanisms. Most importantly, CDD-based strategies are able to adapt to the particular needs of the locality.

Certain elements of Korea's *Saemaul Undong* programme, credited by some with significantly raising rural incomes and welfare in Korea in the mid-1970s, were also based on the CDD approach. It valued the development of social infrastructure and services, local communities displayed a strong sense of ownership and leadership, and the approach was built on the social capital of mutual co-operation and trust. It also further enhanced social capital through consensus building and collective action. However, the community-based aspect was just one of the many elements behind the improvements in rural welfare in Korea during this period (Chapter 5).

Box 10.9. **The Nepal Water Irrigation Programme**

This programme, which took place in the Sindhu Palchok District of Nepal, was designed by the Nepal Water and Energy Commission Secretariat, and the International Irrigation Management Institute in Nepal, and funded by the Ford Foundation. Its core feature was integrating farmers, their knowledge and expertise, into the irrigation development process. Farmers would work collectively to identify the stakeholders, design and implement the project, monitor and evaluate the process, and disseminate relevant information to all. This community-driven feature helped farmers build on their existing social capital, enabling them to be the main agents of change and strengthen their managerial capacity. The project also included an ingenious training programme, in which farmers from different communities in similar settings participated in joint workshops to share knowledge, discuss relevant issues such as water management and governance structure, and visit relevant sites.

This project was successful in increasing agricultural productivity, enhancing the productive capabilities of the irrigation systems and cultivating new varieties of crops as the irrigation system became more stable. It also strengthened local social capital, including ownership, leadership and mutual co-operation. Farmers even set up consulting firms and offered training sessions which further increased their income.

Source: Ostrom (1994), summarised in Saraceno (2014).

The empirical evidence on the effectiveness of CDD has been mixed (Saraceno, 2014). Despite their good intentions, many programmes have not been able to become self-sustaining or effective in improving rural welfare. In order for a CDD approach to be successfully implemented, the following challenges should be borne in mind: focus on economic dimensions in addition to welfare and social development; help repair the root causes of state, market and social failures; and ensure effective mechanisms of checks and balances to prevent unequal power structures from benefitting the local elites more than others (Mansuri and Rao, 2013; Rodriguez-Pose and Tijmstra, 2007; Saraceno, 2014).

Promoting gender equality

Statistically, women produce 20% to 30% less than men although they comprise 43% of agricultural labour force in developing countries on average. Also, only 10% to 20% of land holders in developing countries are women (FAO, 2011). Traditionally, women have been held back by a general lack of resources, opportunities and representation, in addition to gender stereotypes perpetuated by social norms. Relevant policies can help overcome gender-specific constraints that reduce agricultural productivity and food security, lower household income, slow poverty reduction, impede the well-being of families and communities and repress women's empowerment and equality. Ensuring gender equality is important in removing this systematic gender discrimination.

Mainstreaming gender in development

There are two ways to promote women's empowerment and gender equality in development. The first is to implement gender equality policies that directly target women. Policies should intervene in a number of areas, including sexual and reproductive health, property rights, employment opportunities, human security, institutional reform, political participation and representation, data collection, and monitoring and evaluation of development projects. Concrete policy actions include the enactment of legislation to guarantee equal opportunities and eliminate discrimination; enforcement of quota systems for better representation; public campaigns; provision of legislative and financial support women's collective actions (Box 10.10); integration of women's groups in the decision-making process; and collection of gender-disaggregated data for policy design and monitoring (FAO, 2011; UN Millennium Project, 2005).

Box 10.10. **The developmental power of giving women access to credit**

A well-known example of the empowerment of rural women is the rural credit programme intiatied by the Grameen Bank and the Bangladesh Rural Advancement Committee (BRAC) in Bangladesh. While targeting the entire rural population, this programme provided women, who were mostly excluded from economic participation and more often poor and landless, with microcredit. It required women to form small groups to encourage members to make mandatory savings, discuss the use of loans and repay debts. This programme had positive influences on children's school enrolment and nutritional well-being, household spending, and increase in female self-employment and assets.

Source: Banu, D. et al. (2001), "Empowering women in rural Bangladesh: impact of Bangladesh Rural Advancement Committee's (BRAC's) programme", *Journal of International Women's Studies*, 2(3), 30–53.

Secondly, gender issues should not be confined to a certain sector, but should be mainstreamed into all stages of development policies and programmes as a cross-cutting issue. Tools to achieve this, both institutionally and in practice, include gender analysis that explores the cause, state and effect of gender inequality; gender responsive budgeting that applies a gender lens to analysing the content as well as the process of budget making; setting gender indicators and collecting measurable data and results for gender equality; gender audits and scorecards that assess organisational accountability and planning on

gender issues; seeking gender champions and experts who drive the agenda; and framing gender equality results-based frameworks (UN Women, 2014).

Tackling demographic challenges

Demographic dynamics and how they are harnessed play a very influential role in the fortunes of countries. Many of the fastest-growing economies, especially in East Asia, have successfully implemented voluntary family planning programmes to reduce birth rates.

Addressing high population growth

While strong state leadership helps governments pursue longer-term family planning goals amidst political, religious and cultural concerns, their successes are ultimately attributable to their inclination toward activism instead of coercion. Successful family planning programmes typically consist of multiple components:

- Expanding education systems, especially to the female population. More educated parents tend to have a preference for smaller families in order to focus on quality. Higher wages as a result of education also increase the opportunity cost of parents' time spent on raising an additional child rather than going to work. Educated women tend to have better access to information and to reproductive health services that help them avoid unwanted pregnancy. Education also empowers women *vis-à-vis* their husbands, who, in countries characterised by high fertility and higher extent of poverty, typically want more children than their wives (Lutz, 2014).
- Meeting the unmet demand for contraceptives. Government can legalise the production, distribution and use of contraceptive drugs and devices, and legalise abortion. Public health facilities can act as distribution outlets to popularise these technologies, in many cases with government subsidising the cost.
- Improving the quality of health infrastructure to reduce the uncertainty involved in raising healthy children.
- Campaigning to persuade households, political and religious groups on the importance of smaller family and birth spacing.
- Providing financial incentives for having smaller families. For example, the Thai government gave preferential loans to communities with low fertility rates, and Korea also gave similar fiscal and economic incentives to households.
- Eradicating gender bias from law, economic opportunity, health, and culture.
- Complementing family planning with income-generation policies in order to avoid the need for larger families to provide labour in agricultural households.

It is also important to implement sustained and gradual family planning rather than impose it wholesale. Population stabilisation always lags behind a decrease in fertility. Countries experiencing rapid population growth will have a higher share of people in the childbearing age bracket and a lower share of older people with higher mortality risk; thus their population will continue to grow despite fertility decrease.

On the other hand, once fertility reaches a critically low level, experience from OECD countries has shown great difficulty in reversing the trends because of all the economic, social and family conditions that favour smaller over bigger families. Thus rapid population ageing becomes a great concern for countries implementing family planning once they have completed the demographic transition. For instance, on 29 October, 2015 the Chinese Communist Party (CCP) announced the termination of the one-child policy; its enactment will allow all couples to now have two children. The proposal will be enacted after approval by the top legislature. This decision was taken to balance population development and respond to the ageing population (Xinhuanet, 2015). However, it is not certain how much impact the new policy will have at this stage.

Ensuring environmental sustainability

Policies for environmental sustainability include those that protect the environment, and those which build rural resilience to environmental change.

Supporting environmental sustainability

Environmental sustainability is important in promoting sustainable agricultural and rural development, and there are several ways government policies can improve it. First, governments have a role to play in overcoming market deficiencies that prohibit individuals, households, and businesses from taking the true environmental costs into account in decision making, and thus reducing their impact on the local natural resource base and on global warming. Some governments use regulation mechanisms such as carbon taxation to curb pollution and meet emissions targets, or shift investment from more environmentally harmful forms of energy toward renewables such as wind and solar power. Government policies can also give economic incentives for sustainable resource use and agricultural practices by individuals and businesses.

Secondly, policies should address actions contributing to environmental degradation and encourage more environmentally friendly agricultural and living practices. They can contribute to secure livelihoods, social and economic development, and in particular, more benefits for the poor and the marginalised groups. The policies should also be integrated into national development strategies to improve consistency and certainty. Relevant policy areas include education on the importance of protecting the environment and avoiding short-term actions that undermine longer-term environmental sustainability; environmental fiscal reforms and charges that can improve both efficiency and social equity; compensation for providing environmental services, sustainable land management and integrated water resource management (OECD et al., 2013).

Building resilience

Climate change is predicted to affect the poorest people in developing countries the most. Extreme heat waves and droughts are expected to affect Africa and Southeast Asia more severely than other regions. Droughts, floods, heat waves, sea-level rise and storms associated with global warming are more likely to cause hardship in heavily agriculture-dependent areas with poor hard and soft infrastructure and weak government capacity.

Governments have a vital role in helping rural areas become resilient in the face of the harmful effects of climate change.

Many rural regions – especially remote or difficult-to-reach areas – are highly vulnerable to climate change because of their low capacity to cope with potential impacts. In these areas, climate change effects have the potential to cause severe food and water shortages, widespread disease, and vicious cycles of poverty that will cause large-scale migrations. Rural development strategies must aim to increase the resilience of these areas in several ways. By increasing local governance and institutional capability, communities will be better able to respond to extreme weather events that adversely impact the population. By improving the quality of infrastructure in rural areas, they will be better able to communicate about, prepare for, and respond to major adverse environmental shocks. Finally, by engaging in policies that support diversification in rural areas, governments can also make populations less reliant on agriculture for survival, and thus less vulnerable to environmental shocks.

Box 10.11. **Resilience building in the Sahel**

Rural households in the Sahel are exposed to high ecological fragility, mainly due to climate change effects such as drought and more erratic rainfall, which put millions of people at risk of starvation every year through their negative impact on farm activities.

In June 2012, the European Commission hosted a high-level meeting to launch the idea of an alliance to fight people's vulnerability. On 6 December 2012, the Global Alliance for Resilience (AGIR) was officially launched in Ouagadougou and adopted by Sahelian and West African governments, regional organisations, UN agencies and civil society. The strategy aims at creating a "shared understanding of resilience" to foster and facilitate the regional agenda on food and nutritional security, with the goal of achieving zero hunger in the next 20 years through four strategic pillars:

1. restore, strengthen and secure livelihoods and improve social protection for the most vulnerable communities and households
2. strengthen nutrition of vulnerable households
3. sustainably strengthen agricultural and food productivity and incomes of vulnerable households and improve their access to food
4. strengthen governance for food and nutritional security.

The success of the strategy will depend on its ability to identify and target people needing help. AGIR distinguishes groups on the basis of their economic situation and vulnerability level, with women being given specific attention due to their predominant role in food production, income generation, education, health and child nutrition.

Source: RPCA (2013), *Global Alliance for Resilience AGIR-Sahel and West Africa Regional Roadmap*.

Building resilience is a key step in promoting socio-economic development and to securing people's livelihoods in remote areas that are highly dependent on agriculture and hugely exposed to environmental and structural challenges. In particular, climate change is negatively affecting rural farmers' ability to plan and their productivity due to continuous shocks, putting food security at risk. Building resilience means giving poor households, often exposed to economic risks, instruments and viable mechanisms to help them react, with active support by the government and local partners (Box 10.11). Resilience building

has an especially important role to play because of the repetitiveness of crises, which sends the poorest households into a downward spiral, giving them insufficient time to recover from one crisis before the next one hits. In the face of such shocks, the only possibility that people have is to put in place negative coping mechanisms, such as eating less, selling the already limited productive assets available or taking on debt, which in turn increases the level of vulnerability to expected future shocks.

Conclusion

This chapter has provided 25 policy tools for addressing the issues raised by the New Rural Development Paradigm and its eight different components. This set of policies, implemented within the framework of the NRDP, can help achieve rural development objectives and the Sustainable Development Goals in the long run. However, it should be noted that the policies enumerated in the toolkit are just illustrative. As proposed by the NRDP, policy actions should be designed and implemented according to the specific context of each country. This implies that policy tools will vary within and across countries, and that not all the tools discussed here will be relevant for all countries. Moreover, policy tools will have to evolve in time in line with changes at local, national, and international levels. These changes will further imply investing in innovative solutions and new policy actions.

Notes

[1] For discussion on the role of private healthcare and education, please see Forsberg, Montagu and Sundewall (2011); Hanson and Berman (1998); Mills, et al. (2002); and Smith, Brugha and Zwi (2001). For private healthcare see Cheney (2005); Crawfurd (2013); Joshua (2014); and World Bank (2013).

[2] The 2016 *African Economic Outlook* will be launched in the first quarter of 2016. For more information on the *African Economic Outlooks*, please visit www.africaneconomicoutlook.org/en.

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