# World Congress – Opening Statement

Thomas Elhaut,
Director, Asia and Pacific,
International Fund for Agricultural Development

Ladies and Gentlemen,

1. Sustainable and equitable development must indeed be a key focus area, especially for the successful fast growing Asia and Pacific region. With the weight of agriculture in the region's economies and growth performance, it is also most appropriate to confer about the contribution of agricultural and rural economies to such sustainable and equitable development. And it is indeed right for the business community of agricultural and rural finance service providers to step up to its responsibility and meet that challenge - looking at the two bottom-lines of the rural finance business: shareholders' as well as social returns.

2. This is why the International Fund for Agricultural Development, IFAD, as an International Finance Institution (IFI) and agency of the United Nations specialised in agriculture, wants to be associated with this Second World Congress on Agricultural and Rural Finance as well as its follow-up, together with the other partners in this undertaking.

3. In my remarks I offer to focus on 7 issues:
   a. The centrality of agriculture,
   b. The challenge of poverty reduction,
   c. The problem of inequality as a threat to sustainability,
   d. Increasing risks,
   e. The longer term context of climate change,
   f. What all of this means for rural finance, and
   g. The broader service requirements of agriculture.

4. Let me start with the role of agriculture in sustainable and equitable development – reminding us that with the Millennium Declaration the international community equates development with poverty reduction.

5. The majority of the poorest people live in rural areas, with predominantly agricultural livelihoods. In Asia, agriculture continues to employ the majority of people, and especially the rural poor; it generates a significant share of national income, as well as export earnings; and though its share in GDP is decreasing, in <u>nominal</u> terms it is still growing - with China last year possibly as the sole exception. We all know that for growth to reduce poverty it must be at the level of 7 to 8%; and that encompasses 3 to 4 % agricultural growth.

6. Furthermore, the financial crisis some 10 years ago highlighted that the rural sector constitutes the productive safety net when the modern sector of the economy shrinks, and when traditional safety nets have been eroded by poverty and where fiscal safety nets do not exist. In Thailand 1.5 million people left the modern sector of the economy at the time of the financial crisis; and a few years ago 800,000 people still had not made their way back yet, as the modern sector of the economy starts to show absorptive capacity problems for unskilled labour, as well as increasing real wage rates. Thus: agriculture and agricultural productivity growth are essential for economic development.

7. Let me highlight, though, that Asia as a whole will reach its Millennium Development Goal of reducing poverty by half by 2015, but that performance is uneven among countries. East Asia needs to sustain its aggregate growth as well as its agricultural growth; while South Asia needs to increase its agricultural growth. It is hard to visualise such a scenario without well-functioning comprehensive rural finance systems that offer a range of savings and credit products, to secure access to productive resources.

8. But ... where and when Asia exceeds the goal of reducing poverty by half, inequality is increasing, some times very rapidly. Relative poverty increases; the wealth gap grows; economic transformation creates its winners and also its losers. This inequality compromises social balance, and undermines the very sustainability of the economic development model that generated it in the first place. This inequality expresses itself as inequality in income, but more fundamentally it relates to inequality in opportunities, in access to productive assets and returns to such assets. This is where rural finance, and especially microfinance, offers a tested strategy by triggering a virtuous spiral of capital/asset accumulation, savings and reinvestment; and where private-public partnerships such as equitable contract farming offer new promises.

9. Further down the time horizon, the remaining half of the rural poor, and the subjects of inequality in 2015, will live in remote, vulnerable and less-favoured areas. They will have low levels of agricultural productivity and very limited scope for economic diversification. Most of these people will be indigenous people, an overwhelming majority of women, and many elderly people as well as young people with a grim future, if nothing is done about the quality, productivity and competitiveness of rural livelihoods. Weak institutions and lack of voice and choice compound their problems. We all appreciate the complex and entrenched nature of that type of poverty; and the formidable challenges it poses for financial services and financial system innovation. These people in those areas require new financial services products and new approaches if we want to reach and engage at reasonable transaction costs, and if we do not want them to fall out of the societal basket. On the other hand, treating them as producers, providers of valuable environmental services, custodians of biodiversity and

proprietors of valuable traditional know-how, raises their dignity and ultimately their quality as citizens – rather than marginalising them. We need to innovate now, to be effective in 2015.

10. This brings me to my third point, after poverty and growing inequality: increased risk and vulnerability in the region. The dividends of multi-year poverty reduction efforts (hard work) are wiped out, almost over night when: a financial implosion affects Thailand, HIV AIDS reduces labour productivity in PNG, avian flue wipes out women's savings in Vietnam, floods wash away land in Bangladesh, earthquakes destroy houses in Pakistan, a tsunami destroys coastal livelihoods in Indonesia, climate change modifies regional comparative in China, and conflict cancels out the potential nutritional benefits of remittances in Nepal. This is a heavy inventory of diverse risks with high probability (actually increasing certainty). It is a dramatic call for a more complete, comprehensive landscape of financial institutions that include insurance and other risk reduction and transfer mechanisms. This is where financial innovation and our preoccupation with outreach will need to be at their best, knowing that rural people can afford premiums only up to a point. Not addressing inequality and not managing risks poses a high threat to sustainability.

11. Let me say a few more words about implications of climate change. Agriculture is essential for poverty reduction and agricultural productivity growth helps mitigate inequality, but climate change increases risks for the farmers. Developing countries may very well see a 9% decline in their agricultural output, lost to climate change. On the other hand, some types of agriculture activate climate change. This is agriculture, both, as the victim and as one of the relative perpetrators of climate change. Therefore adaptation to climate change, for agriculture, must embrace: adjustment to shifting agricultural comparative advantage (with winners and losers) to deal with the consequences; as well as adopting new, greener agricultural models to mitigate the causes of climate change. The long term outlook for energy prices may, in this context, offer a real opportunity ... finally a real business opportunity for the rural poor, the small farmers, ... a reversal for producers that have seen agricultural commodity prices decline in real terms for as long as they can remember - and pro-urban and pro-consumer policy biases were not strange to this predicament. The adjustment to shifts in comparative advantage as well as the opportunities offered by bio-energy pose interesting financial product, financial infrastructure and financial sector policy innovation challenges; and, maybe, particularly for the traditional agricultural banks. And there are of course also the related emerging opportunities for the agricultural finance services providers in terms of partnering with clean development financing mechanisms and carbon markets - a level of sophistication that is maybe not immediately within reach.

12. But financial services alone will not make the day. The "rural finance ++" is taking significantly greater proportions. Other accompanying investments in agricultural research, agricultural knowledge transfer systems, agricultural value chain management capacity

development, as well as rural infrastructure to reduce private sector risks are enabling conditions for financial innovation to generate dividends and to become sustainable. In this wonderful Thailand, the Chaipattana Foundation that spearheads his Majesty the King's self-sufficiency economy philosophy, as well as the BAAC, our chief host-institution, offer shining examples of this deep understanding. I hope that their example and a deeper understanding of their success, combined with the longer term outlook for quite remunerative agricultural commodity prices, will enable agriculture ministers across the globe to make a convincing case to their colleagues the finance ministers, your Excellency, to increase investment in agriculture as a public good and to enact financial sector policies that reduce agricultural poverty by fostering innovation within a market-based financial system. This will allow us to exceed the goal of halving poverty ... and on a sustainable, because equitable, basis, with agriculture as an engine of greener growth, a truly productive sector.

13. In conclusion:

a. For fast growing Asia, agriculture is central for economic development, its sustainability and equity.
b. We are on track to reduce poverty by half, provided we increase agricultural productivity.
c. We need to address growing inequality and manage increasing risks.
d. We need to factor-in climate change.
e. And all this requires a wide range of financial services, in a competitive market-based rural finance system, boosted by innovation.
f. And effective rural finance services require a broader range of accompanying agricultural support measures, and above all an enabling policy framework.

14. Your Excellency, distinguished delegates, ladies and gentlemen, I thank you for your attention, and wish this Second World Congress on Agricultural and Rural Finance resounding success and a lasting impact on how markets bring new and complete rural finance services to the poorest producers so that we reduce rural poverty by half, or eliminate it altogether, by 2015. .... Why not?

15. Thank you.