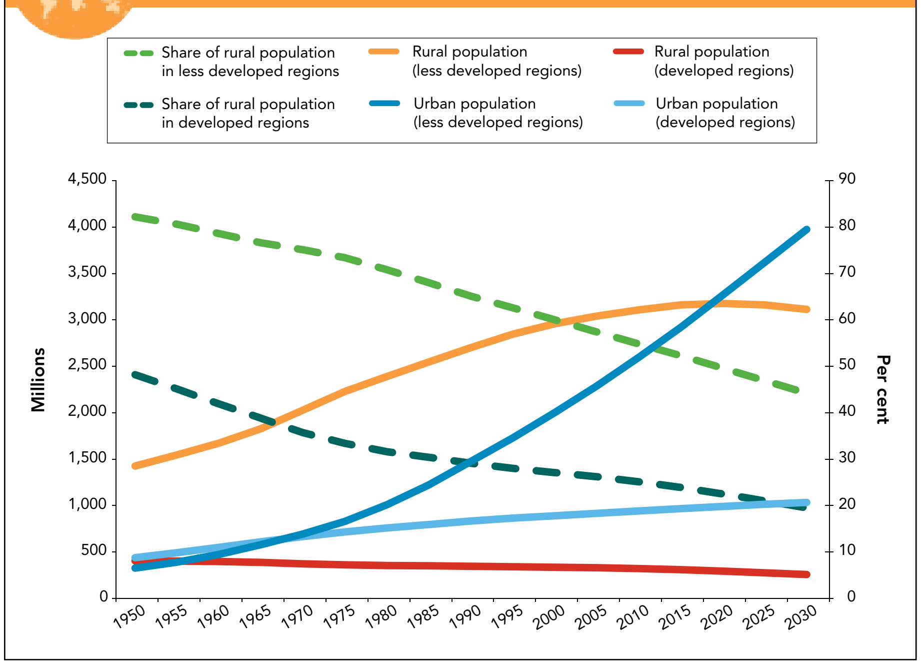
RURAL DEVELOPMENT

Rural and urban population, 1950-2030



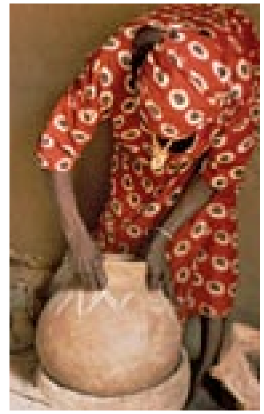
Source: UNDESA (2005 and 2006).

Note: Developed regions comprise all regions of Europe plus Northern America, Australia/New Zealand and Japan; less developed regions comprise all regions of Africa, Asia (excluding Japan), Latin America and the Caribbean plus Melanesia, Micronesia and Polynesia.

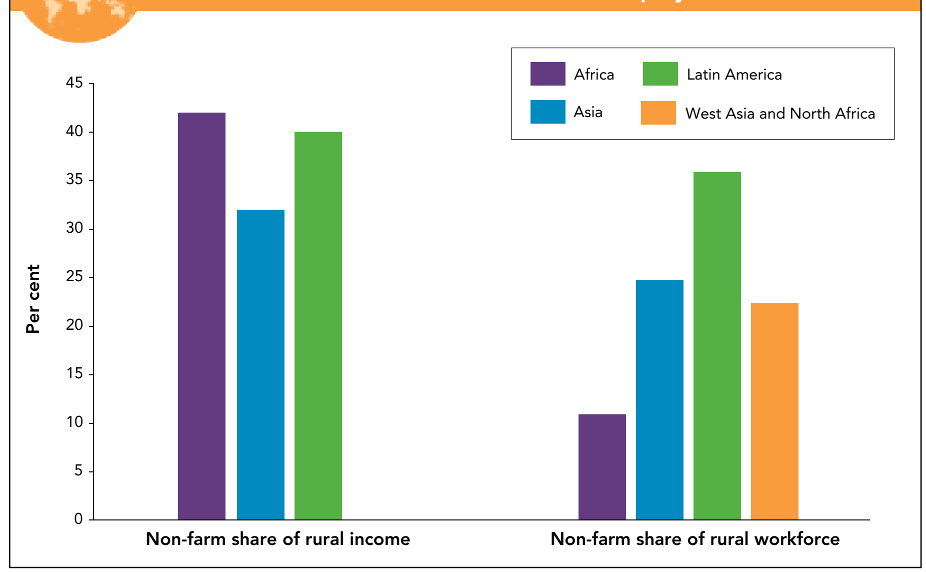
Population in developing regions will remain predominantly rural until 2020

After that, the size of the rural population is expected to decline due to slower population growth and rapid urbanization in most countries.

The share of the population living in rural areas is declining on all continents, although it is projected to remain above 50 per cent in South and Central Asia and sub-Saharan Africa until 2030.[18]

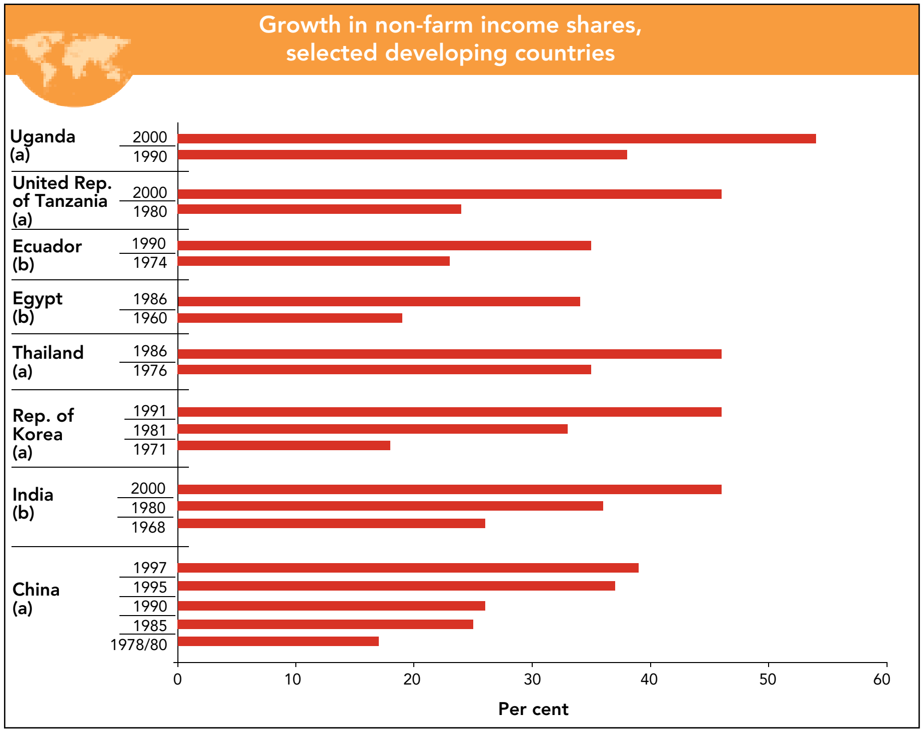


Non-farm share of rural income and employment



Source: Haggblade, Hazell and Reardon (2007).

Note: Estimates based on latest available census and survey data.



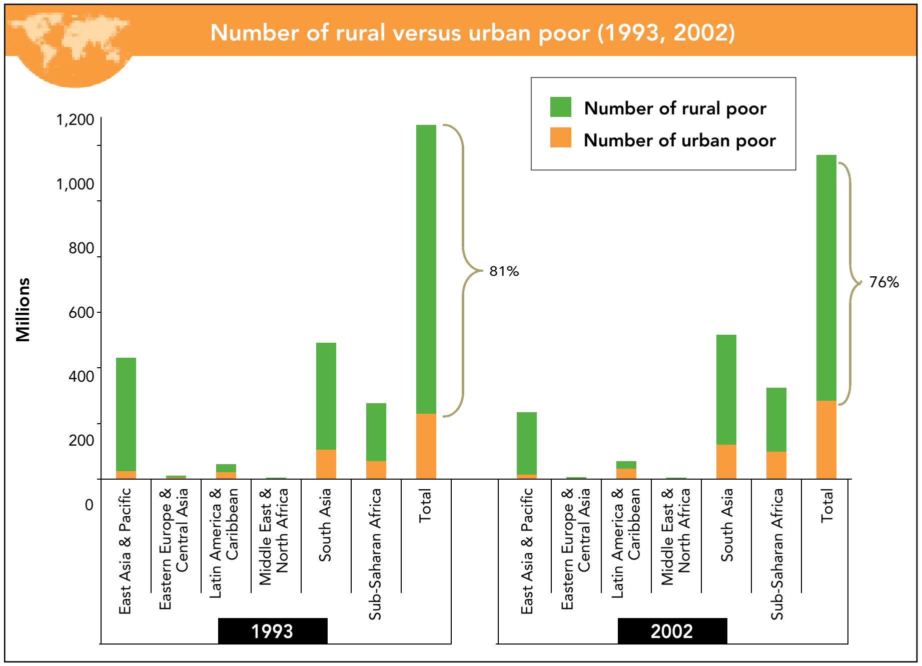
Source: Haggblade, Hazell and Reardon (2007).

Note: (a) Non-farm share of farm household income. (b) Non-farm share of rural income.

Non-farm income represents a significant and increasing share of rural income in developing countries

Non-farm income accounts for up to 42 per cent of rural household income, and non-farm employment up to one third of the rural labour force in the developing world. The non-farm share of household income is increasing over time. The sources of non-farm income are highly heterogeneous, including agro-processing, other manufacturing, trade and transport, construction, finance and personal services. Remittances account for a large share of non-farm income in some locations where mining is an important activity, as in Southern Africa.

The more dynamic the agricultural sector is, the more dynamic the rural non-farm sector tends to be due to strong linkages from agriculture to the rest of the rural economy. In settings characterized by a stagnant agricultural sector, rural households may be pushed to non-farm activities by lack of other opportunities.[19]



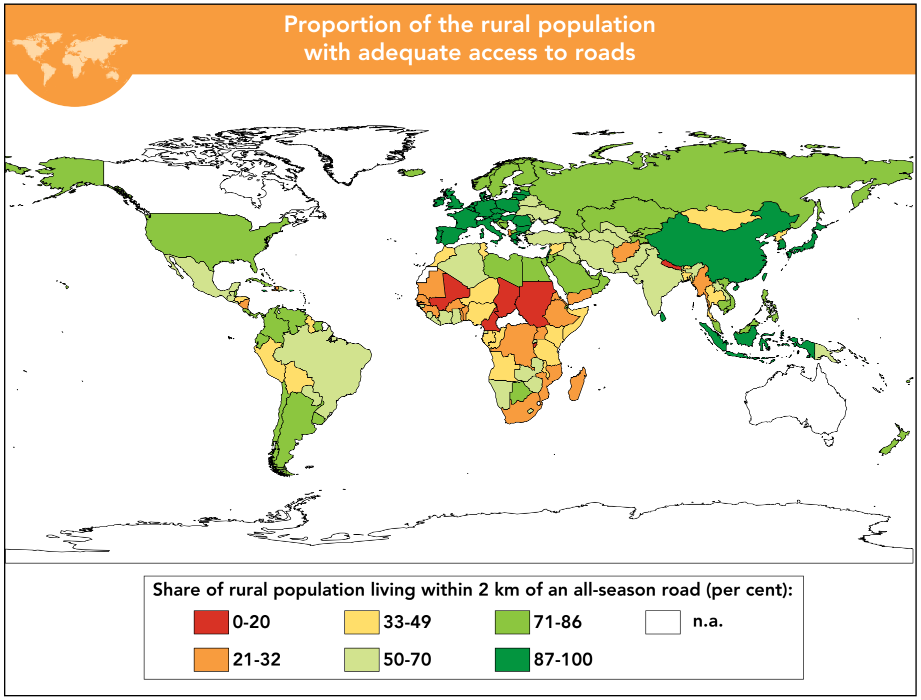
Source: Ravallion, Chen and Sangraula (2007).

Note: Data correspond to estimates of the urban-rural breakdown of absolute poverty measures (that is, using an international poverty line of 1 dollar a day) for the developing world, drawing on over 208 household surveys for 87 countries (representing 92 per cent of the population of the developing world), and exploiting the World Bank's Poverty Assessments for guidance on the urban-rural cost-of-living differential facing poor people, to supplement existing estimates of the purchasing-power-parity exchange rates for consumption.

Rural poverty rates have declined, but remain high in South Asia and in sub-Saharan Africa where the number of poor people has increased

The number of rural poor outweighs the number of urban poor by a large margin and poverty is still far more prevalent in rural areas. Policies to promote agricultural and rural development thus play a crucial role in poverty reduction. There are, however, important regional variations. In East Asia and the Pacific poverty is predominantly rural, whereas in Latin America and the Caribbean it is mostly urban.

The overall net poverty reduction observed in the 1993-2002 period is essentially due to a decrease of roughly 150 million in the number of rural poor. While this is partly due to rural-to-urban migration, the biggest factor has been a reduction in poverty within rural areas. In South Asia and sub-Saharan Africa, however, the absolute number of rural poor has increased over the period.[20]



Source: Roberts, Shyam and Rastogi (2006).

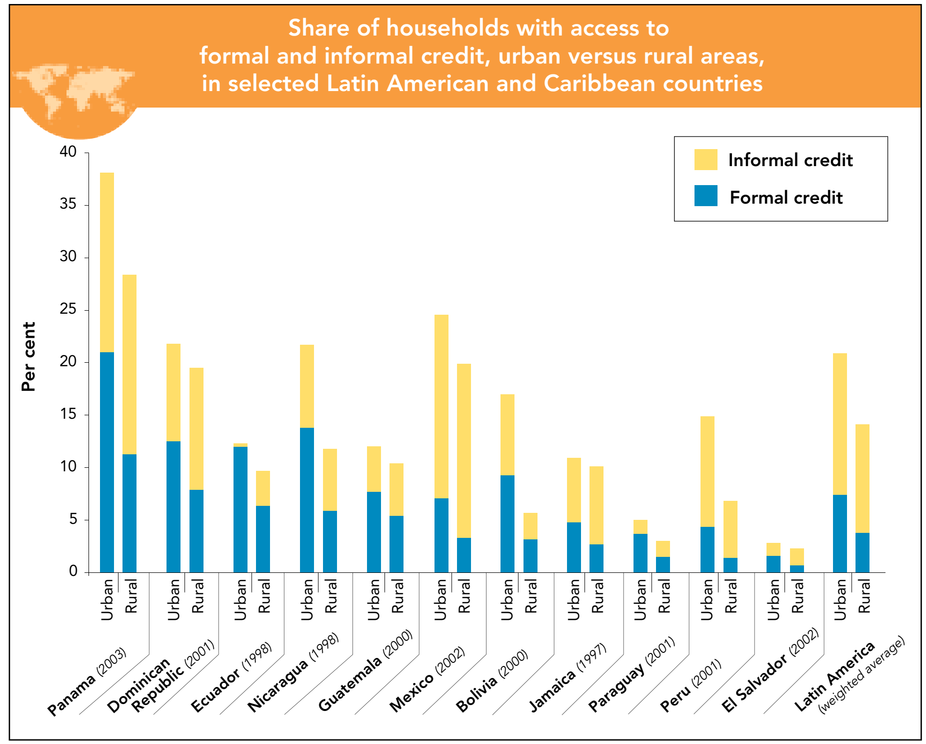
A large proportion of the rural population in many developing countries is still excluded from the economic opportunities arising from access to decent roads

Road access rates are lowest in sub-Saharan Africa, but there are also some countries in Asia and Latin America where access is very poor.

Inadequate access to roads increases a variety of costs, from obtaining inputs to transporting goods to market to finding buyers and monitoring contracts. It can also lead to poor farm households' having to rely on private health care if transport costs to reach public health-care facilities are too high.

"Poverty is still largely a rural phenomenon. The poorest countries are those with predominantly agricultural economies and societies, and the poorest people live mainly in rural areas."

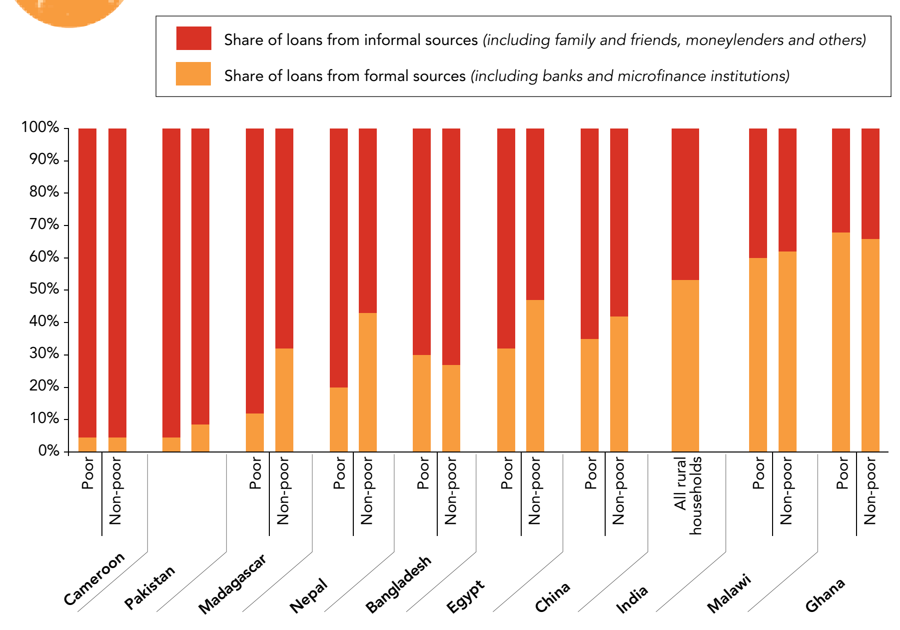
—Lennart Båge
President, IFAD



Source: Tejerina and Westley (2007).

Note: Date of most recent household survey year in parentheses.

Share of formal and informal loans in selected countries in Africa and Asia, rural poor versus rural non-poor households



Source: Basu (2006) for India, and Zeller and Sharma (1998) for all other countries.

"Ensuring the rural poor have the necessary tools to build better lives for themselves and their children is a crucial step towards halving the proportion of people living in extreme poverty by 2015."

Rural households in developing countries are still largely reliant on informal sources for their finance needs

In several Latin American countries, access to formal credit is only half as common in rural areas as it is in urban areas.

Informal lenders provide the bulk of the loans to rural households in many countries. Their dominance as credit source is even greater among poor rural households. In Pakistan and Cameroon, for instance, less than 5 per cent of the amount borrowed by poor rural households was obtained from formal lenders, including banks and microfinance institutions.

In general, access to credit has a positive impact on household income, technology adoption and food consumption. These in turn have important long-term effects on household productivity and on poverty rates.[21]

A number of institutional and product innovations have been developed to address the specific needs of rural finance in developing countries, with varying degrees and forms of support from public policy (see map).

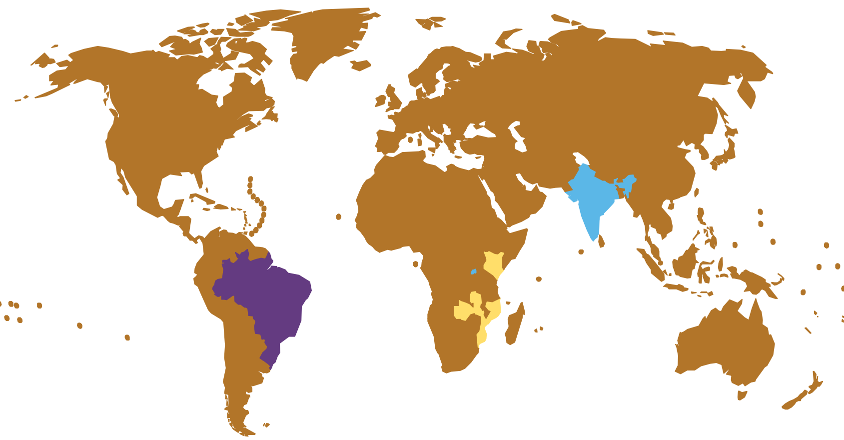
Innovative finance in rural areas

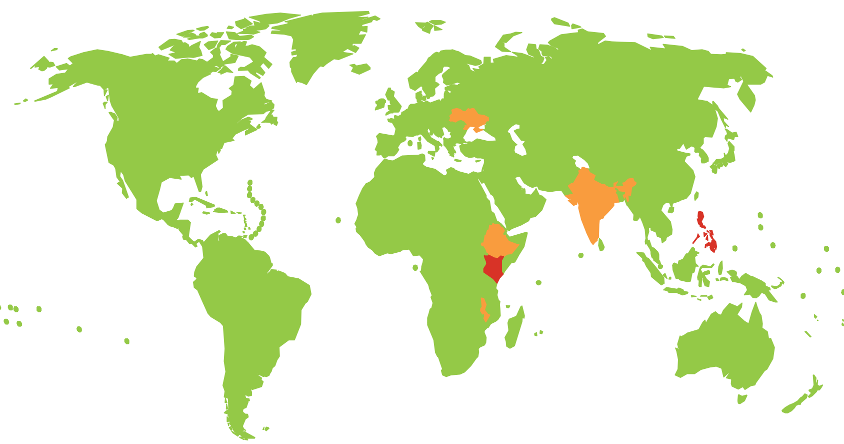
Mobile banking

In the Philippines, accredited rural banks are now permitted to offer electronically based financial services such as loan payments and collection of remittances. In Kenya, an innovative payment service (MPESA) allows customers without bank accounts to use their mobile phones to transfer money quickly, securely and across great distances, directly to another mobile phone user. [22]

Linking formal finance institutions to informal organizations

In India, a partnership between ICICI Bank, the country's second largest commercial bank, and a leading microfinance institution has been successful in linking the formal financial sector with poor microfinance clients. The approach is based on having microfinance institutions bear the responsibility of monitoring and recovering loans from individuals and self-help groups, while the commercial bank supplies credit and shares the risk. In Rwanda, CARE is helping mobilize the rural poor into village savings and credit associations and linking them to the existing network of credit unions in the country. [23]





Contract farming as source of smallholder credit

In contract farming, a processor or a marketing company issues the inputs to farmers on credit in order to help secure produce of sufficient quantity and quality. In Mozambique and Zambia, these arrangements are, in practice, the only source of input credit for small producers of cotton and tobacco. In Kenya, where rural financial services are better developed, financing of inputs by processing and marketing companies is critical for the production of many high-value export crops, including tea, sugar and horticultural products.[24]

Weather-index-based insurance for agriculture

Weather-indexed risk management products represent an innovative alternative to the traditional crop insurance programmes for smallholder farmers in developing countries. Insurance pays out directly to farmers (India, Ukraine) or to Governments and/or humanitarian agencies that in turn support the affected farmers (Ethiopia, Malawi). Payments are linked to a weather proxy for crop losses like rainfall deficit, eliminating the need for monitoring actual losses.[25]

Correspondent banking

"Correspondents" are commercial entities whose primary business is other than the provision of financial services—typically retail outlets, including lottery kiosks, post offices—but which also offer such services in partnerships with banks. The current generation of correspondent banking arrangements is able to utilize technology to enhance the range, scale and quality of services provided. In Brazil, banks have recently developed extensive networks of such correspondents. As a result, all municipalities have access to financial services, including in poor remote regions. At the same time, such arrangements have resulted in lower costs and shared risks for participating financial institutions.[26]

Endnotes

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