

## Revitalized Agriculture for Balanced Growth and Resilient Livelihoods: Towards a Rural Development Strategy for Mon State

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### 1. Introduction

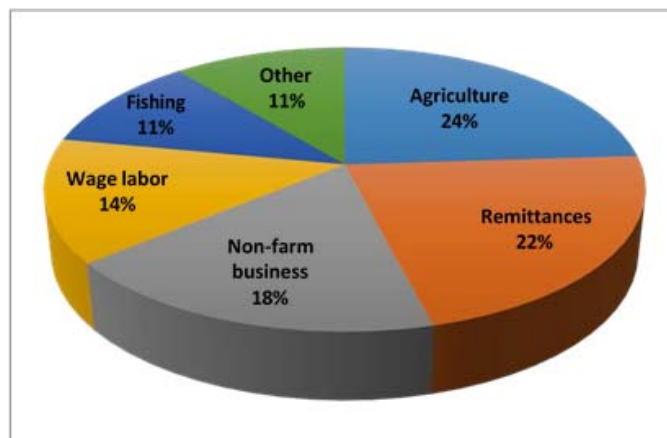
The purpose of this policy brief is to provide national and state-level policymakers, private sector investors, civil society and donors with an analysis of the rural economy of Mon State and pathways to improved prosperity for its population. The analysis is based on a representative survey (the Mon State Rural Household Survey 2015) of 1680 rural households, which comprise 73% of Mon State's 2 million residents, and extensive interviews with farmers, traders, processors, local leaders and government officials.<sup>1</sup>

### 2. Structure and challenges of the Mon State rural economy

The main sources of rural household income in Mon, in order of importance, are agriculture (24%), remittances (22%), non-farm business (18%), wage labor (14%), and fishing (11%) (see Figure 1). Outmigration of labor to Thailand has been the dominant feature of Mon State's economy over the last decade, but agriculture has not performed to its full potential. The two main crop sectors in the state, rice and rubber, have both been hindered by low yields, low prices, and inefficient processing, leading to

relatively small scale. With 31 percent of individuals aged 15-45 migrating, rising wages are further eroding farm competitiveness and profitability. Low agricultural profitability is thus both a cause and a consequence of high levels of migration. Even parts of the Mon State economy that are quite dynamic, such as construction, are heavily dependent on remittances. Donor investments

Figure 1. Shares of livelihood activities in rural household income



Major investments in education, both formal and vocational training, necessary to support growth of a modern economy, are also lacking. The analysis in this report identifies options for more balanced growth and a vibrant economy in which returning migrants can invest and/or find employment.

In order to achieve this vision of balanced and sustainable growth, policy and investment focus will be required in two key areas: (1) Stimulating agricultural growth and sustainable management of natural resources; (2) strengthening the enabling environment through provision of infrastructure, public services and

<sup>1</sup> For detailed analysis and policy discussion, refer to the full report-- *Revitalized Agriculture for Balanced Growth and Resilient Livelihoods: Towards a Rural Development Strategy for Mon State*. For complete technical analysis, refer to *Rural Livelihoods in Mon State: Evidence from a Representative Household Survey*. This brief utilizes the approach set forth by Myanmar agriculture whitepaper, *From Rice Bowl to Food Basket: Three Pillars for Modernizing Myanmar's Agricultural and Food Sector*, by the National Economic and Social Advisory Council (NESAC).

institutional development. The remainder of this brief sets options for doing so in greater detail. These are not a rigid set of prescriptions, but a set of initial recommendations *towards* a Rural Development Strategy for Mon State based on analysis of current evidence.

### 3. Growth opportunities for agriculture and fisheries

**Revitalization of rubber**, the main cash crop in Mon State. Almost one in five rural households own a rubber plantation. The world price of rubber spiked during the late 2000s, leading to a significant increase in planted area. The result is that about half of rubber trees in Mon State are too young for tapping. Meanwhile, world prices have fallen to levels roughly 20% below their ten-year average.

Squeezed between falling prices and rising costs of labor, the profitability of rubber farms is now compromised. Profitability is further compromised because of the low quality of processed rubber, resulting in discounted prices from international buyers relative to Myanmar's neighbors. Revitalization of the rubber sector will require coordinated investments to upgrade production practices and improve efficiency and product quality throughout the value chain in order to achieve competitiveness in international markets.

**Develop high value fresh produce.** Fruit and vegetable crops are each grown by about one in ten farmers in rural Mon State, and each generate a sixth of all crop income. Their high profitability makes them attractive alternatives to rice and rubber, but lack of access to irrigation constrains their expansion. Mon State is famous nationally for fruit crops such as pomelos, mangosteens, rambutans and durian. However, the lack of consistency in quality as well as reliable certification standards has prevented such crops from entering international markets and competing with neighboring Thailand. Vegetable production volumes remain low, and Mon vegetables hold only a minor share of Myanmar's market. Lack of technical knowledge in terms of input requirements and pest control methods makes vegetable farming somewhat risky. The dissemination of knowledge, improved varieties, water-efficient irrigation techniques and adequate commercial inputs is a prerequisite of further development in the fruit and vegetable sectors.

**Improve rice productivity.** Rice is the most important crop in Mon State, contributing about half of all agricultural incomes. The majority of paddy is grown in the monsoon season as only 5% of the state's 700,000 acres of paddy land is irrigated and able to produce in the

dry season. Average paddy yields are low: high-yielding varieties from other parts of Myanmar are not well adapted to Mon State's late and long monsoon floods, and fertilizer use is less than half of the officially recommended amounts. Snail infestation has been blighting harvests in coastal areas for the past few years. In the short run, the provision of extension and financial services can bolster yields through better input use and pest management. In the medium run, investment in water management infrastructure to prevent salinization and flooding may be necessary to keep coastal areas productive. Greater investment in crop irrigation may also be needed to boost land productivity. Any investment in large infrastructure should be preceded by careful assessment of long-term economic viability.

**Modernizing land and input markets** is a key step towards the development of a high-performance crop sector. In 2015, only 30% of farm households held an official title (Form 7 or Form 105) for their agricultural land. Continued effort in land titling is needed to facilitate the emergence of a vibrant land rental market for efficient land allocation. A dynamic seed sector geared towards local agro-ecological conditions could rely on a network of private seed multiplication farms producing certified seeds and seedlings not just for paddy but also for vegetables, fruits and rubber. Similarly, developing quality control for fertilizers and other agro-chemicals can promote optimal input use. Effective quality control of inputs is also a step towards adhering to domestic and international food safety standards.

**Expand access to loans for machinery and seasonal input purchases.** Extending MADB loans and encouraging private banks to lend to farmers cultivating non-paddy crops is essential to encourage farm income diversification. Current loans to rice farmers (MMK 150,000 per acre for up to ten acres) are insufficient to cover the costs of recommended input use at current prices, and strict loan repayment schedules leave many farmers reliant on high-interest bridge-loans from pawn shops or private lenders. A review of loan cycle and repayment schedule is an appropriate step towards catering loans to farmers' needs.

**Strengthened agricultural extension services** rank high among the priorities to ensure dynamism in the Mon State farm sector. For all crops farmed in Mon State, there is a need to disseminate improved varieties that are adapted to Mon climatic conditions and have been tested in the field. In the current changing agricultural landscape, establishing local agricultural research stations, demonstration farms and specialized extension staff that cater not only to rice and rubber sectors, but also other

crops such as fruit crops, vegetables or pulses, should be seen as a priority. In addition, delivering business training to farmers can help develop a dynamic and commercially viable agricultural sector.

#### **Improve management of marine capture fisheries.**

These make a major contribution to the incomes of coastal households that are often landless, asset poor and with few other livelihood alternatives. With increased fishing effort, the productivity of coastal fisheries and hence the capacity to support fisher livelihoods is under threat. The Myanmar constitution supports the decentralisation of authority over coastal fisheries to States and Regions. This leaves scope for the state to establish fisheries governance and management mechanisms to sustain the coastal natural resource base, through co-management arrangements with local communities. Further, there is scope for raising incomes through improvements in small-scale processing, food safety, hygiene and packaging.

**Facilitate expansion of aquaculture,** still nascent in Mon State. With higher prices for local farmed fish compared to that sourced from the Delta, fish farming has the potential to generate high income streams and job opportunities. Several well-watered lowland areas suitable for fish farm development exist. Relaxing constraints on the conversion of paddy land into ponds could give rise to a thriving aquaculture sector.

#### **4. Create an enabling environment for balanced farm and non-farm growth**

Accelerated economic growth will require an economic and regulatory environment that fosters the development of profitable business activities. This entails a responsive local government able to channel investment in key infrastructure, promote strategic growth sectors, and provide efficient public services.

#### **Improve the budgetary and fiscal process at regional and union levels to enable locally-driven public investment.**

Although the 2008 Constitution devolves a taxation and budgetary power to regional governments, the budgetary process at the union level lacks channels for adequate regional participation and leads to inefficient resource allocation and coordination problems at the regional level. In addition, regional governments also have not taken full advantage of this devolution framework to take on all responsibilities under their purview. The Mon State Regional Government may consider capacity building of its ministries for them to effectively play the new role as provisioned by the Constitution.

**Improve access and reliability of infrastructure to support economic activity,** including in energy and transportation. Rapidly increasing traffic flows are putting a strain on major national and international road transportation arteries, and many rural areas are not well-connected to this network. Commercial links to international markets also need improvement: upgrading the port and the airport with storage, cargo-handling facilities, and adequate safety measures can yield dividends for Mon State's agricultural exporters and tourism industry. Currently, a little over half the rural population in Mon State has access to an electricity connection, and outages are frequent, although this is likely to improve in 2017 following the completion of World Bank financed investments in electricity generation. While large scale improvements in electricity supply will be private sector led, the Department of Rural Development has an important role to play in extending coverage to remoter areas.

#### **Mobilize savings and expand the formal credit market**

to enable business growth. In rural Mon state, only 13% of residents consider banks as the best option for keeping savings as opposed to, for instance, investing in gold, severely limiting available credits and financial intermediation for productive investment. In addition, 60% of loans come from moneylenders or friends and family with high interest rates. Migrants primarily use informal *bundi* channels to transmit remittances. While rural residents need to be sensitized to the benefits of formal banking including money transfers, private banks also need encouragement to extend their access and expand their financial services to rural population if Mon State is to unlock credit constraints.

#### **Promote productive investment by the private sector,**

to create remunerative employment opportunities. The existing Chambers of Commerce and Industry and trade associations can lead, with the regional government's support, in organizing business fairs and networking events, as well as exploring joint-ventures with businesses from other regions, states or countries. Registration and licensing requirements can be simplified to encourage business creation. The Mawlamyine Industrial zone could be supported through investments to improve its access to water. With partnership from private firms, technical colleges could be strengthened to focus training on key vocational skills integrated with on-job training.

#### **Strengthen regulatory frameworks for the construction sector**

to avoid jeopardizing the long-term sustainability of this rapidly growing sector. Clear and enforceable laws regarding construction permits, as well as sound building codes and regulations, are necessary to

prevent unlawful land occupations, ensure building safety and avoid legal disputes.

**Exploit the potential for the development of sustainable tourism.** Mon has a long coastline, a tropical climate, and a wealth of historical and religious monuments in relative proximity to Yangon and Bangkok. Currently only the golden rock at Kyaikto generates significant tourism flows, and the majority of Mon's potential as a national and international tourist destination remains untapped. There is need to undertake a comprehensive evaluation of the potential for different types of tourism in the State and necessary investment for physical (for instance, a well-regulated airport) and institutional infrastructure (for instance, inspection of eateries).

**Improved quality and access to education and health services** is a necessary condition for a long-term economic growth. With only 61% of the rural population having access to (often extremely rudimentary) local medical care, and only 37% to a local secondary school, the existing medical and educational infrastructure needs physical upgrading as well as greater human resource allocation. Public provision of social security programs enabling the poor to access basic medical and educational services is essential, as is greater investment in medical and educational facilities. There is one technical college located in Mawlamyine. Technical colleges tend to emphasize on higher-level learning, leaving vocational training inadequate. If the private sector in Mon State is to have a steady supply of capable workforce that is adaptable to workplace changes, vocational training programs, implemented in partnership with private sector and integrated with on-job training, can play an important role. Existing social safety nets need to be strengthened, and new ones created, to ensure that rural communities and economies are resilient to shocks.

## 5. Conclusion

While the Mon State rural economy faces substantial challenges, there is good reason for optimism if the Mon State and Union governments can work together with the private sector, including farmers, to develop a vibrant rural economy that raises rural incomes and improves the welfare of the rural population. Achieving this goal requires the design of a comprehensive rural development strategy for Mon State, which adheres to the following principles: **1) Inclusiveness:** clearly understanding the strengths and weaknesses, and the respective role of all stakeholders - government, private sector, and civil society; **2) Decentralization:** practicing decentralized decisions-making, bottom-up planning and co-learning; and **3) Sustainability:** Balancing short-term gains with long-term growth.

This brief was made possible by the generous support of the American people through the United States Agency for International Development (USAID). The contents are the responsibility of Michigan State University, the Center for Economic and Social Development, and the International Food Policy Research Institute, and do not necessarily reflect the views of USAID or the United States Government. The brief was also supported with financial assistance from the Livelihoods and Food Security Trust Fund (LIFT), supported by Australia, Denmark, the European Union, France, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Sweden, Switzerland, the United Kingdom, the United States of America, and the Mitsubishi Corporation. We thank these donors for their kind contributions to improving the livelihoods and food security of rural people in Myanmar. The views expressed herein should in no way be taken to reflect the official opinion of any of the LIFT donors.

*This research is made possible by the generous support of the American people through the United States Agency for International Development (USAID) under the Feed the Future initiative. The contents are the responsibility study authors and do not necessarily reflect the views of USAID or the United States Government*

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