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Rural Development *From Vision to Action*



A Sector Strategy

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(continued on the inside back cover)

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DEVELOPMENT STUDIES AND MONOGRAPHS SERIES 12

Rural Development

From Vision to Action

A Sector Strategy

The World Bank
Washington, D.C.

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Foreword

Reducing poverty and eliminating hunger are among the most fundamental challenges we face. Today more than 1.3 billion people are compelled to live on less than one dollar a day. More than 800 million people are going hungry, because they cannot afford to buy the food they and their families need. And the numbers of poor and hungry people will surely continue to grow unless action is taken now.

Reducing poverty and ending hunger require focused attention on the rural economy. Nearly three out of four of the world's poor and hungry people live in rural areas. Although the absolute numbers and the proportion of poor people living in cities are expected to grow rapidly, the majority of poor will continue to live in the countryside until well into the next century.

Rural people also play a critical role in protecting the environment. Agriculture is the world's biggest user of land and water resources. Agriculture both contributes to environmental degradation and suffers as a result of it. Excess use of fertilizers and pesticides pollutes the water and destroys biodiversity, and unmanaged deforestation eliminates critical habitats and ruins watersheds. Meanwhile, water pollution and erosion reduce the productivity of farms and fisheries.

We must raise the productivity of poor people in agricultural areas and ensure that they have the capacity to market and distribute their

products. These improvements not only will raise the incomes of the rural poor but also will benefit the urban poor by bringing down the price of food. We must improve the efficiency of land, water, and chemical use if we are to feed the world's population, expected to exceed eight billion by 2025, without destroying the environment.

This rural sector strategy outlines the steps the Bank and its partners must take to spur rural development. Key elements of the strategy include:

- *Taking a broad rural focus, as opposed to a narrow agricultural sector focus.* The rural sector strategy focuses on the entire rural productive system. Water resource allocation and comprehensive watershed management incorporate irrigation and drainage. The management of natural resources in sustainable production systems treats agriculture, forestry, and livestock as part of a larger system. Human capital development, infrastructure, and social development are integrated into rural development strategies and programs.
- *Involving the entire World Bank Group in promoting rural development.* Coordination among the different actors must be greatly improved to ensure that efforts are neither duplicated nor hampered.
- *Working with partner countries and the broader international community to integrate rural development in overall country develop-*

ment strategies. The rural sector strategy stresses the formulation of country assistance strategies as critical to building consensus both within the Bank Group and among stakeholders in countries.

- *Addressing long-ignored issues.* We must not be timid on issues such as land reform, and we must greatly increase our commitment to food and nutrition policy. Gender equity will be an important aspect of many of these issues.

- *Addressing old issues in new ways.* The Bank Group has acquired considerable knowledge about what works and what does not. We will implement more widely the promising new approaches. For example, we will involve stakeholders in the development and execution of projects through all stages, deliver rural financial services to the poor using new approaches, and promote sustainable resource use through community-based management.

*James D. Wolfensohn
President
World Bank Group*

Abbreviations and Acronyms

AGSECAL	Agriculture Sector Adjustment Loan	ESCAP	Economic and Social Commission for Asia and the Pacific
AKS	agricultural knowledge system	ESD	Environmentally Sustainable Development
APRP	annual portfolio review process	ESSD	Environmentally and Socially Sustainable Development Vice Presidency (formerly ESD)
ARND	agriculture, natural resource man- agement, and rural development	ESDAR	Environmentally Sustainable Development Agricultural Research and Extension Group
ASIP	Agricultural Sector Investment Program	ESP	Education and Social Policy Department
AST	Asia Technical Department	ESW	economic and sector work
CAP	Common Agricultural Policy	EU	European Union
CAS	Country Assistance Strategy	EXT	External Affairs Vice Presidency
CBD	community-based development	FAO	Food and Agriculture Organization of the United Nations
CEM	country economic memorandum	FAOCP	Food and Agriculture Organiza- tion Cooperative Programme
CFS	Cofinancing and Financial Advi- sory Services	FSD	Financial Sector Development Department
CGAP	Consultative Group to Assist the Poorest	G7	Group of Seven Nations
CGIAR	Consultative Group on Interna- tional Agricultural Research	GAP	Gender Analysis and Policy Group
CIMMYT	International Center for Maize and Wheat Improvement	GATT	General Agreement on Tariffs and Trade
COD	country operations department	GDP	gross domestic product
CVP	central vice presidency	GEF	Global Environment Facility
DEC	Development Economics and Chief Economist	GNP	gross national product
DMT	departmental management team	GWP	Global Water Partnership
DRIF	demand-driven rural investment fund	HDD	Human Development Department
EAP	East Asia and the Pacific Region	IARC	International Agricultural Research Centers (of the CGIAR)
ECA	Europe and Central Asia Region	IBRD	International Bank for Reconstruc- tion and Development
EDI	Economic Development Institute		
EMT	ECA/MNA Regions Technical Department		
ERL	economic recovery loan		

ICRAF	International Center for Research in Agroforestry	PHN	Population, Health, and Nutrition Department
IDA	International Development Association	PHRD	Policy and Human Resource Development Fund
IEC	International Economics Department	PRD	Policy Research Department
IENTI	Industry and Energy Department, Telecommunications and Informatics	PSD	Private Sector Development Vice Presidency
IFAD	International Fund for Agricultural Development	PSP	Poverty and Social Policy Department
IFC	International Finance Corporation	QAG	Quality Assessment Group
IFDC	International Fertilizer Development Center	RDV	Rural Development Department (formerly Agriculture and Natural Resources Department, or AGR)
IFPRI	International Food Policy Research Institute	RMT	regional management team
IMF	International Monetary Fund	RUTA	Regional Unit for Technical Assistance
IRRI	International Rice Research Institute	RVP	regional vice president
ISNAR	International Service for National Agricultural Research	SAR	staff appraisal report
IT	information technology	SG2000	Sasakawa Africa Association Global 2000
LAC	Latin America and the Caribbean Region	SIL	sector investment loan
LEG	Legal Department	SOD	sector operations department
LLC	Learning and Leadership Center	SPAAR	Special Programme for African Agricultural Research
MALSIP	Malawi Agriculture and Livestock Investment Project	SRISTI	Society for Research and Initiatives for Sustainable Technology and Institutions
M&E	monitoring and evaluation	SSPM	sustainable soil productivity management
MENA	Middle East and North Africa Region	T&V	training and visit
MIGA	Multilateral Investment Guarantee Agency	TWU	Transportation, Water, and Urban Development Department
NARI	National Agricultural Research Institute	UNCSD	United Nations Commission on Sustainable Development
NARS	national agricultural research system	UNCTAD	United Nations Conference on Trade and Development
NEAP	national environmental action plan	UNDP	United Nations Development Programme
NGO	nongovernmental organization	UNEP	United Nations Environment Programme
NRM	natural resource management	UR	Uruguay Round
O&M	operations and maintenance	USAID	United States Agency for International Development
OD	Operational Directive	WDR	<i>World Development Report</i>
ODA	Overseas Development Association	WFP	World Food Programme
OECD	Organisation for Economic Co-operation and Development	WTO	World Trade Organization
OED	Operations Evaluation Department		
OPR	Operations Policy Department		

Executive Summary

It is not difficult to make the case for greater World Bank Group involvement in improving the rural economy. The mandate of the World Bank Group is to help its clients reduce poverty and improve living standards through sustainable, broad-based growth and investment in people. Sustainable rural development can make a powerful contribution to four critical goals:

1. Poverty reduction
2. Widely shared growth
3. Household, national, and global food security
4. Sustainable natural resource management.

The Bank's objectives of poverty reduction, widely shared growth, food security, and sustainable natural resources management cannot be met unless rural development in general, and a thriving agricultural economy in particular, are nurtured and improved. This premise is at the core of the recommended strategy for improving the rural economy.

Four Equally Important Challenges

Four enormous challenges must be met: reducing poverty and hunger, raising economic growth, increasing global food production, and halting natural resource degradation.

Poverty and Hunger Must Be Reduced

More than 1.3 billion people are compelled to live on less than one dollar a day. More than

800 million people are hungry, and the numbers may exceed one billion people by the year 2020. Many more are at risk of micro-nutrient deficiencies (vitamin A, iodine, and iron). The global population of underweight children below five years of age is expected to grow from 193 million today to 200 million by year 2020, with most of the deterioration in Africa.

Despite urbanization, nearly three-quarters of the poor will continue to live in rural areas well into the next century, so it is crucial to address rural poverty now. The significant majority of the rural poor depend on agriculture for most of their meager livelihoods. Others depend on associated nonfarm activities. Many of the rural poor live in regions where arable land is scarce, agricultural potential is low, and drought, floods, and environmental degradation are common. Of the nearly one billion poor identified in 59 poverty profiles completed by the Bank, 72 percent live in rural areas. Access to basic human needs—education, potable water, health care, and sanitation—is far less available in rural areas. The problems of malnutrition, low life expectancy, and high infant mortality are more severe in rural areas.

Ensuring adequate growth of the world's food supplies is therefore not enough. It matters where agricultural production takes place and who receives the associated income. Only if more rapid agricultural growth occurs in countries with impoverished rural popula-

tions, can rural farm and nonfarm incomes rise sufficiently to enable the rural poor to afford more and better food. And only if the many millions of men and women smallholders are equipped to participate in agricultural growth will rural poverty be reduced and wages for unskilled labor rise in rural and urban areas. It is for this reason that the rural sector strategy calls for World Bank support for further policy and institutional changes in the international trading environment for agriculture and other supportive international actions, and for concentrating development activities on the smallholder economy. Without an open trading environment and access to Organisation for Economic Co-operation and Development (OECD) country markets, developing countries cannot benefit fully from producing those goods in which they have a comparative advantage. In addition countries with rapidly growing populations that are not effectively using their agricultural potential must improve their rural development and poverty reduction policies and performance.

Economic Growth Must Be Fostered

No country has had a sustained impact on reducing poverty without continuing positive economic growth. For most developing countries agricultural growth is essential to economic growth. Very few low-income countries have achieved rapid nonagricultural growth without corresponding rapid agricultural growth. Most of the developing countries that grew rapidly during the 1980s experienced rapid agricultural growth in the preceding years. For example, China's remarkable annual economic growth rate of 9.5 percent during the 1980s and 1990s was preceded by rural and agricultural policy reforms in the late 1970s and early 1980s. Indonesia and Thailand also experienced strong agricultural growth prior to the period of high nonagricultural growth, which continues today. Agricultural growth stimulates economic growth in nonagricultural sectors, which results in increased employment and reduced poverty. Sustained nonagricul-

tural growth, particularly in the poorest countries, is not likely without first addressing agriculture. An adequate linkage of the rural and urban economies through the food marketing system is essential to foster growth across the national economy and sustainable growth of the rural economy.

Food Needs in Developing Countries Could Nearly Double over the Next Thirty Years

Everyone agrees that the world's population will exceed 8 billion people by 2025, an increase of 2.5 billion in the next 30 years. Much, but not all, of the increase will occur in developing country cities, where urban populations will more than triple. Most agree that, given moderate income growth, food needs in developing countries could nearly double. The challenge to world agriculture is enormous. At the country level this demands well-functioning, efficient private sector food markets and agribusiness systems. But, this area is underdeveloped in most developing economies.

Future increases in food supplies must come primarily from rising biological yields, rather than from area expansion and more irrigation. Why? Because land and water are becoming increasingly scarce. Most new lands brought under cultivation are marginal and ecologically fragile, and cannot make up for the land being removed from cultivation each year because of urbanization and land degradation. The sources of water that can be developed cost-effectively for irrigation are nearly exhausted, and irrigation water will increasingly need to be reallocated for municipal and industrial use. Therefore, production on existing land will need to nearly double.

The challenge is worldwide, and both technological and political in nature. The technological challenge is enormous, requiring the development of new, high-productivity, environmentally sustainable production systems. It is not more of the same. Private firms must be induced to develop and apply much of the new technology required. However, there are large areas of technology development that are of

little interest to the private sector, including subsistence crops or truly public goods, such as some aspects of natural resources management. It is here that public sector finance is critical—at international, national, and local levels. Yet, in many countries, research capacity and funding are stagnating or even declining.

The political challenge has received much less attention: all major regions of the world must contribute to cost-effective and sustainable food supply growth, including Eastern and Central Europe, Africa, and Latin America, which are not doing their share today. The challenge can be met only if international and domestic policies, institutional frameworks, and public expenditure patterns are conducive to cost-effective and sustainable agricultural development. Otherwise, the required technologies will not be developed and adopted, the supportive infrastructure will not be built and maintained, land and water will not be allocated to their highest-valued uses, and farmers will not have incentives to maintain and improve the natural resources on which their livelihoods depend.

But today several major regions and many of the Bank's partner countries are agricultural underperformers or even dropouts. They have institutional frameworks and agricultural policies that discriminate against the rural sector, underinvest in technology development and dissemination, maintain inappropriate agrarian structures, lock up arable land in low-productivity ranching, undervalue natural resources and therefore waste them, seriously underinvest in the health and education of their rural populations, discriminate against private sector initiatives in food marketing, and fail to maintain existing or invest in new rural infrastructure. Unless these policies, institutions, and public expenditure patterns are corrected, the world will not have abundant food supplies, the major achievement of twentieth-century agriculture. But more importantly for the partner countries of the World Bank Group, the long-term global outlook suggests that greater emphasis on agricultural

development is needed and warranted as a prudent investment that will provide them with significant benefits.

Environmental Degradation Must Be Reversed

Hundreds of millions of private farmers, large and small, men and women, are the stewards of the vast majority of the globe's renewable natural resources. They recognize the importance of maintaining and enhancing their productivity, and have shown that they can do so, given proper incentives. But the resources are severely undervalued by inappropriate accounting methods, policies, and institutional frameworks. Of the world's fresh water used by people, agriculture uses more than 70 percent for irrigation. Unsustainable agricultural practices are major contributors to non-point source pollution. Deforestation remains a critical issue, with 25 hectares of forest being lost every minute. The global challenges of desertification, climate change, and loss of biodiversity require major efforts. If production per unit of land is to nearly double in the next 30 years, the policy and institutional failures that cause or contribute to the negative environmental impacts of agriculture must be reversed, and sustainable production systems developed, encouraged, and applied.

The four major challenges of reducing rural poverty and hunger, raising economic growth, increasing global food production, and halting natural resource degradation require action on a broad and complex rural development front. It is not just a matter of raising food output, but of ensuring that growth is widely shared and sustainable. Box 1 outlines the vision for rural development.

If It Is So Important, Why Is It Not Happening?

If rural development is so important, why is it receiving so little emphasis? There has been a significant decline in commitment to rural development in countries, the World Bank,

Box 1 The vision of the World Bank Group for rural development

- Rural growth is widely shared, with private and competitive agriculture and agribusiness as the main engines of growth.
 - Family farms and nonfarm enterprises provide ample remunerative employment opportunities to men and women.
 - Rural people manage the soils, water, forests, grasslands, and fisheries in a sustainable manner.
 - Rural people are linked to well-functioning markets for products, inputs, and finance.
 - Rural people have access to medical care, clean water and sanitation, family planning services, educational opportunities, and sufficient nutritious foods.
 - Essential legal frameworks, public investment, and productive and social services are provided and financed in a decentralized and participatory manner.
- (The strategic policy, institutional development, and public expenditure programs for achieving this vision are summarized in box 2.)

Note: See World Bank 1995a for a detailed discussion of the vision.

and the international arena. Actions to increase commitment are needed in all three dimensions.

Country Dimension

Countries have reduced their commitment for several reasons. First, they view agriculture as a declining sector, and therefore not important for development. This ignores the crucial role agriculture must play in the transition from an agrarian society to an urban-industrial one. Second, falling real food prices over the last two decades has led to complacency towards the agricultural sector. Complacency, in turn, has led to a failure to develop the capacity to execute the complex reforms and programs required to achieve sustainable rural development. Third, the rural poor have little political voice. Because rural populations are geographically dispersed and because rural communications and transportation infrastructure is often poor, rural people, and rural women in particular, have difficulty organizing and expressing their preferences through political processes. These factors, coupled with the political power of urban elites, explain the urban bias so characteristic of policies, institutions, and expenditure patterns in developing countries. Greater understanding of these political economy issues is badly needed. Chapter 3 discusses the country dimensions of weak demand.

International Dimension

The international community has also become complacent about these issues, partly because of the decline in international food prices over the past two decades, but also because of poor coordination of international organizations, OECD governments, civil society groups, and private foundations. Chapter 6 proposes initiatives for strengthening commitment to rural development, improving coordination among donors, and promoting international policies and institutions that are supportive.

World Bank Group Dimension

Within the World Bank Group, attention to rural development has declined, primarily because the process of strategy formulation has been weak, and because many past Bank-assisted projects and programs performed poorly. During the late 1980s, the performance of the agricultural and rural development portfolio in the World Bank deteriorated. In 1989 only 52 percent of completed projects were judged satisfactory. The agribusiness portfolio of the International Finance Corporation (IFC) also performed poorly. To improve performance, rural development staff in both organizations initiated many measures.

In 1992 the IFC reorganized its agribusiness staff into a single department to serve all the Regions, adopted a supply-chain

approach with projects ranging from production to final consumption, aggressively cleaned up its portfolio, and selectively made new investments in countries with appropriate enabling macroeconomic and sectoral policies. As a consequence IFC's agribusiness portfolio performance has improved dramatically, and is now in line with the rest of IFC and growing rapidly.

Actions to Improve Performance

Actions taken by the Bank have led to improved performance of its portfolio of agricultural and rural development projects, and to improved quality at entry. In fiscal 1996, 78 percent of completed agricultural projects were rated satisfactory, which is 10 percentage points better than the Bank average. While this news is encouraging, it is too early to determine whether this good performance will continue, given the 100 or so projects scheduled to close in the next 18 months. There is no room for complacency if this good performance is to be sustained.

The actions that have been taken all rely on the same five principles. First, the policy and institutional framework must be supportive of project success, rather than working against it. Second, wherever possible, the private sector must be mobilized to provide investment capital, production, and most services. Third, the state has new roles, away from heavy intervention in the economy, towards providing enabling, sound macroeconomic, fiscal, and sector policy environments. Fourth, a plurality of institutions is involved, including community-level groups, and lower-level governments, in addition to central ministries. Fifth, projects and programs are decentralized and are designed and executed with a high degree of influence and participation by communities, associations, and local governments.

We Have Learned from Failed Approaches

Failed approaches include:

- "Integrated rural development" projects. These failed by being excessively central-

ized and top-down. Most decisions regarding their design and implementation were made by central government officials, and communities were rarely involved in project design, implementation, or monitoring.

- Credit support to specific crops or sectors, such as agro-industry or livestock, through parastatal agricultural banks. Repayment performance of these directed credit programs was poor, and they were not sustainable. They benefited relatively well-off farmers rather than the poor. Furthermore, directed credit lines distorted financial markets by reducing interest rates for some types of activities but not for others.
- Frontier settlement to solve the problems of providing access to farmland to ever-growing populations. The projects were centrally managed and costly, and some of them resettled people in areas unsuitable for farming.
- Construction of large-scale irrigation systems. It has become increasingly costly to construct new irrigation systems, as most of the high-potential areas have already been developed. Furthermore, many irrigation systems constructed over the past decades have not performed well, and some have led to environmental problems, such as salinization and waterlogging of soils.
- Seed production through parastatals. The production of seeds through parastatals was usually inefficient and unresponsive to farmers' needs, and the parastatals stifled entry of the private sector.
- Public sector involvement in production, input supply, processing and marketing. These activities are best carried out through the private sector, which can often perform them much more efficiently and more flexibly than government-run institutions.

We Are Improving Our Mainline Business

There are several core activities that the Bank has performed well in the past, and which the Bank should continue to support. These activi-

ties include research and extension, reform of agricultural services (seed development, animal health), and social forestry and natural resources management. Even in these areas, however, the Bank is introducing innovations in line with the five principles to improve their impact on growth and poverty alleviation. For example, in research and extension the Bank is supporting the use of private sector institutions, such as nongovernmental organizations (NGOs), to carry out research and deliver information in a way that is more responsive to farmers' demands. The Bank is also promoting competition for research funds among all actors in national research systems.

In Other Core Areas We Have Made Major Changes in Approach

Selected impacts and achievements are as follows:

- In *sector adjustment lending* the recent Operations Evaluation Department (OED) review documents significant improvement in program design and implementation.
- In *sector investment lending* earlier innovations in Morocco and Tunisia have recently been carried further in Zambia, where the program has integrated 150 projects supported by 20 donors into an overall sectoral expenditure program.
- In *rural development* the matching-grant approach to local and community-driven development that is now being undertaken in northeast Brazil has turned around a very large and poorly performing portfolio of area development projects, and making it a flexible, participatory, and cost-effective poverty reduction program.
- In *irrigation and drainage* the transfer of responsibilities for operation and maintenance from agencies to users' associations that was first proven on a large scale in Mexico is now being adopted in Turkey, and incorporated into the design of many new projects. The risks of reliance on over-centralized approaches are clearly evident in the high proportion of "at-risk projects" found in the just-completed irrigation portfolio review.
- In *water resource management* projects in the Orissa and Tamil Nadu states in India, which include institutional change for river basin planning and management, are already in the design phase. Projects in Jordan and Tanzania go further towards implementing water resource management (and provide pertinent performance indicators).
- In *natural resource management* a community-based approach to resource allocation, enforcement, and maintenance has proven successful in such diverse circumstances as Burkina Faso and southern Brazil, and is now being adopted in Egypt and incorporated into the design of many new projects.
- In *forestry* joint forest management by agencies and residents is being promoted in the Maharashtra and Andhra Pradesh states in India, with similar approaches being incorporated into the design of many new projects.
- In *rural finance* the emphasis has shifted from providing rural credit to supporting both savings and credit. The Bank is also fostering mechanisms to increase competition in service provision and decrease dependence on subsidies. There has been successful institutional innovation in providing microfinance to the poor in circumstances as diverse as Albania (village funds) and Benin (savings and loans associations). The recently completed best-practice paper on rural finance provides more details on the changes in direction.
- In *land policy and land reform* the World Bank Group has become a significant source of policy advice and influence in Europe and Central Asia, and has led the development of new negotiated market-assisted approaches to redistributive land reform in South Africa and Latin America, where it has projects under preparation in Colombia, Brazil, and Guatemala.

These innovations offer great promise, but they are yet to be rigorously incorporated into new nonlending services and projects, and integrated into the redesign and implementation of problem projects.

Measures to Increase Commitment to Rural Development

The rural sector strategy takes a systematic and coherent approach to tackling the three dimensions of weak commitment. Thus, recommended actions in the international arena support the strengthening of country commitment, and therefore the performance of Bank operations in partner countries.

To tackle the issue of weak commitment at the country level, the rural sector strategy focuses on the process of developing the country assistance strategies (CASs) as crucial to capturing a renewed country and Bank commitment to rural growth. The CAS process defines the key issues for development, analyzes current and future prospects, and provides the overall context within which Bank operations are undertaken. The CAS process is therefore the defining mechanism that frames the Bank's future involvement in a country. If CASs are based on well-defined rural strategies and treat agriculture and the total rural economy comprehensively, the chances for a sustained and effective rural sector program are substantially improved. Chapter 4 and Matrix 1 provides further analysis and recommended actions.

The principal recommendation, therefore, is to improve the analytical work and the synthesis of available country-specific knowledge to fully articulate appropriate rural strategies, so that they can be properly reflected in all relevant CASs over the next three years. A major effort would be made to foster greater consensus in client countries in support of the improved strategies and programs, involving the President personally in carefully selected focus countries. This is the single most important set of actions proposed in this document.

Based on extensive research and past experience, the Bank has articulated a vision (box 1)

for rural sector operations, and has recommended best practices for many components of agricultural and rural programs. The strategic policies, institutional development, and public expenditure programs needed to achieve the vision are summarized in box 2. This strategic checklist for rural development provides a way for countries to see where they are in terms of creating the conditions that foster thriving rural economies. The list reflects the enormous range and diversity of issues that countries face in promoting rural development.

The process of strategy formulation and consensus building will be constrained by the availability of staff and financial resources. Effort should focus on countries where the government is sufficiently interested. Where interest is lacking, or political capacity to implement the recommendations is weak, strategy development may be best delayed until more opportune times. Governments are always in search of good ideas. Often, their capacity to make major changes is greatest in their first one or two years in office. Strategy formulation and consensus building are therefore most productive if they are appropriately phased with the evolution of government terms.

Rural strategies for countries will need to cover all important policies, institutions, and programs for rural development. For most countries, the job of developing and implementing these strategies is huge and complex. Therefore, countries need many partners. The Bank can assist with donor coordination, which is already underway. The following principles of collaboration and selectivity must underlie all Bank activities in rural development:

- All Bank activities in rural development must reflect its mandate of poverty reduction, sustainable natural resources management, and private sector development.
- The Bank must build alliances with partners that work at the country level. It must also build alliances with partners at the central level to facilitate the country-specific partnerships.

Box 2 Strategic checklist for rural development

- Macroeconomic and sectoral policies are stable. The foreign exchange, trade, and taxation regimes do not discriminate against agriculture, but are similar for rural and urban sectors.
- The growth of private agriculture is encouraged by minimizing distortions among input and output markets and by market development for agricultural and agro-industrial products, both at home and abroad.
- Public investment and expenditure programs for economic and social infrastructure, health, nutrition, education, and family planning services do not discriminate against rural populations or the rural poor.
- Large farms and large agro-industrial firms do not receive special privileges and are not able to reduce competition in output, input, land, or credit markets.
- The agrarian structure is dominated by efficient and technologically sophisticated family operators, who rely primarily on their own family's labor. The rights and needs of women farmers and wage-laborers are explicitly recognized.
- Access to and security of land and water rights is actively promoted. Restricting land rentals hurts the poor. Where land distribution is highly unequal, land reform is needed. Decentralized, participatory, and market-assisted approaches to land reform can achieve this much faster than expropriation by land reform parastatals.
- Private and public sectors complement each other in generating and disseminating knowledge and technologies. Public sector financing is particularly important for areas of limited interest to the private sector, such as strategic research, smallholder extension, and diffusion of sustainable production systems and techniques.
- Rural development programs mobilize the skills, talents, and labor of the rural population through administrative, fiscal, and management systems that are decentralized and participatory, and through private sector involvement.
- Rural development programs are designed so that the rural poor and other vulnerable groups are fully involved in the identification, design, and implementation of the programs. Otherwise, rural elites will appropriate most of the benefits.

- The Bank needs partners with field presence and experience working in rural areas of partner countries, partners with special and complementary expertise, and partners with influence and additional financial resources.
- In each country the Bank must sequence its own activities appropriately.
- The Bank must choose the right product mix.

The emphasis on strategy and consensus building is complemented by the sharp focus of the rural sector strategy on increasing the incomes and participation of the rural poor, and other vulnerable groups in all of the Bank's assistance programs. This is a necessary (but, of course, not sufficient) condition for enhancing the influence of these groups, and bringing about real economic and social change. We recognize that this will require politically difficult reforms in policies, institutions, and expenditure patterns that have in the past favored urban and rural elites, but that hinder the pace

and quality of rural development. The many specific actions required to bring this about are discussed in chapter 7. The emphasis on improving incomes and participation of poor and marginal groups is particularly strong in the proposed actions in long-ignored areas or areas in which execution has been especially poor: food and nutrition policy, rural finance, marketing, agribusiness and small-scale nonfarm rural entrepreneurship, land policy and land reform, local and community-based rural development, and decentralized and participatory natural resource management.

But enhanced country commitment will not result in a greater impact on the ground unless the trend toward improved project performance continues. Moreover, improved project performance is needed to increase commitment inside the World Bank Group. The rural sector strategy therefore includes portfolio reviews and other measures to raise quality. Although today the performance of rural development projects is now equal to or better

than that of other sectors, it is still not good enough. Further improving portfolio performance cannot wait until new strategies are adopted and better projects are designed. Systematic portfolio reviews have been initiated, and completing them is the second key recommendation of the rural sector strategy. The reviews will result in better performance of projects under their existing design, redesign, merger of projects into larger subsector or sector investment programs, or in cancellation.

The objective of the portfolio reviews and other measures to enhance quality discussed in chapter 5 is to *achieve OED satisfactory ratings for 80 percent of completed projects by fiscal 2002 and beyond*. A recent OED analysis suggests that this is an ambitious goal. Achieving it will require many measures, including significantly improving quality at entry and project implementation, extensive use of piloting, and increased willingness to restructure or cancel substandard projects. It will also require channelling lending more to countries with favorable economic and governance environments, and providing more nonlending services to others. Only with a dramatic shift from current practices will it be possible to achieve an 80 percent satisfactory outcome within the next five years.

This emphasis on improved portfolio performance is not intended to discourage innovation and risk-taking in World Bank Group assistance programs. In fact, the action program strongly encourages undertaking experimental and innovative projects and programs. But it proposes that innovative, risky projects and programs be tested within *an enhanced program of nonlending activities, policy reform, institutional development, and pilot activities*, rather than as part of large lending programs. Experimental projects and programs that show a fair likelihood of succeeding on a larger level can then be scaled up through project lending.

At the international level the rural sector strategy defines a specific set of complementary actions led by the World Bank Group President James Wolfensohn to reestablish the

necessary commitment to improving the rural economy. The Fourth Annual World Bank Conference on Environmentally Sustainable Development (ESD) in 1996 focused on rural well-being. Mr. Wolfensohn with Enrique Iglesias, President of the Inter-American Development Bank, and Omar Kabbaj, President of the African Development Bank, addressed the participants and offered the full commitment of their institutions to the rural development agenda. The Food and Agriculture Organization (FAO) of the United Nations, the International Food Policy Research Institute (IFPRI), International Fund for Agricultural Development (IFAD), and many others delivered similar messages at the Rome World Food Summit in November 1996. There will be other opportunities to deliver the message and strengthen the consensus within the World Bank Group, in countries, and in the international community.

In addition the rural sector strategy proposes two complementary high-profile initiatives at the international level. The first is to promote further worldwide moves toward freer and fairer agricultural trade, a necessary condition for ensuring that countries can rely on international markets, rather than self-sufficiency policies for their food security. It is also necessary for ensuring access to OECD markets for agricultural and agro-industrial products, in which partner countries can produce profitably. The second is to coordinate with other actors to help low-income food-deficit countries cope with volatility in world cereal prices.

Enormous investments will be needed to foster agricultural and rural growth. Most investment resources must be generated domestically, primarily by rural people themselves. But, this will not happen without supportive institutions and policies to provide the necessary incentives. Thus the rural sector strategy puts so much emphasis on strategy and policy. Large public investments will also be necessary to support higher levels of private sector participation and investment, including rural entrepreneurship. Foreign direct investment will make major contributions in middle-income countries and a small number of

low-income countries. If the rural sector strategy succeeds in raising commitment to rural development, then more funds will be available from the World Bank Group, other international financial institutions, and bilateral donors. Yet even under the best of circumstances, official flows will be limited and must be used in a highly selective manner to focus on the critical public goods (such as research and institutional development), without which private sector development will be constrained.

Regional Rural Sector Strategies

Countries and regions vary greatly with regard to the condition of their rural economies and their rural development needs. There is no simple approach to rural development that will work for all countries. In some countries land tenure may be important; in others managing scarce water resources is the main issue. In still others redefining the role of the state and of parastatals is the key concern. Therefore, each Region has prepared its own rural sector strategy based on the region's endowments, distribution of assets, and functioning of markets and incentive systems for the allocation of resources. In addition each Region has identified two or more countries or region-wide programs for special focus (see section on the Focus Program Initiative, p. 13, and appendix A).

Sub-Saharan Africa

The overwhelming challenge in Africa is to increase food production and raise incomes in rural areas. Seventy percent of people in Sub-Saharan Africa live in rural areas. Agriculture accounts for 30 percent of gross domestic product (GDP), 40 percent of exports, and 70 percent of employment. In Africa, far more than in any other region, a prosperous agriculture is the engine without which poverty cannot be reduced, natural resources cannot be managed sustainably, and food security cannot be assured. The Region has set clear directions for lending: no more financing of agricultural mar-

keting, input supplies, processing, or rural credit through the public sector—instead, develop the private sector in agribusiness; focus on a few selected national and thereby systemic programs of high impact—in research, extension, animal health, and natural resources management (water, soil fertility, forests, pastures, wildlife), plus one or two other areas, such as irrigation or rural finance, depending on the country. The second major challenge is to pursue rural, rather than just agricultural growth. This is being done by designing a common strategy for developing the rural economy, with investment in infrastructure and social services to be undertaken through non-agricultural projects. The third major challenge is to make national programs work. Sector investment lending is rapidly becoming a privileged instrument; although still not yet proven, it has the potential to generate systemic change in the whole public rural expenditure program. This is particularly important in Africa where, with official development assistance at 11.5 percent of gross national product (GNP) in 1993 and many donors active in rural areas, donor coordination is essential. Agricultural policy reform would be more vigorously pursued through adjustment operations, as well as through nonlending activities. There will be expanded focus on generating African and donor commitment to agriculture and to agricultural policy reform through African-wide regional fora such as the Special Programme for African Agricultural Research (SPAAR), the West African and the Eastern and Southern African associations of ministers of agriculture, and through the African Water Pact.

Europe and Central Asia

The main challenge in Europe and Central Asia is to reform agricultural policies that in the past encouraged inefficient farming practices. The Region's strategy is to base rural lending on a graduated response to thresholds of policy reform, including price and trade liberalization, agribusiness and farmland ownership change, demonopolization and deregulation of market-

ing, and financial sector reforms. Exceptions are made for projects with long lead times, such as research, or for activities such as land registration that will enable a policy change, when made, to take effect promptly. A second major challenge, unique to the Region, is the severity of the needed restructuring and rebuilding of agriculture and the agro-industrial complexes. This is a task without precedent—there is no blueprint. The Region will continue to devote a relatively large share of resources to nonlending services, particularly to analyze land and rural property issues, and the impact of privatization on efficiency and equity, and to assist with determining the necessary legal and regulatory framework for agribusiness and rural services. A third major challenge is the intention of Central European and Baltic countries to accede to the European Union. For many countries this may mean the pursuit of suboptimal policies, as they try to position themselves in anticipation of the eventual application of the Common Agricultural Policy (CAP). Here, too, nonlending services will be significant, as the Region endeavors to convince governments not to introduce CAP-type policies prematurely. The Region will also work with the European Union to reduce the likelihood that introduction of protectionist measures prior to accession negotiations results in compensation benefits from the European Union after membership.

Middle East and North Africa

The scarcest resource in Middle East and North Africa is water, and the overwhelming challenge is to increase the efficiency of water use in agriculture, currently the highest user. Water charges are symbolic, and operations and maintenance are inadequate because of weak user participation. Yet intersectoral water transfers are inevitable. Urgent action is required and is being sought by the Region through a series of investment operations in the water sector. A second major challenge is to improve the competitiveness of agriculture, while taking account of most governments'

preoccupation with maintaining low urban food prices. This preoccupation has led to the prevalence of state marketing companies that stifle commerce and to the implementation of ineffectively targeted food subsidies. The fiscal drain is enormous, exacerbated by the recent steep increase in world grain prices. While sector adjustment operations have made significant progress in addressing aspects of competitiveness, much more remains to be done in designing targeted food consumption programs that are effective and politically acceptable. A third major challenge in Middle East and North Africa is posed by the scarcity of arable land and the severity of soil erosion, and the indifference of many governments: there is little investment in watershed management. Many of the region's poorest people live in the upper watersheds, eking out livelihoods from forests, rangelands, and steppes, and contributing to watershed degradation in the process. Given the pervasiveness of urban bias in public expenditures, much more persuasive analysis is required to significantly increase investment in watershed management.

South Asia

The principal distinguishing feature in South Asia is the world's largest concentration of poor rural people. Landlessness is far more common there than elsewhere. Much rural poverty is found in rain-fed areas, where the resource base is both more limited and more fragile than in the irrigated plains. Poverty reduction is the main challenge. It is being addressed by working to reduce all distortions in agricultural product and factor markets. The most important reason for these distortions is exorbitant government intervention in marketing, distribution, and finance, through parastatals and overregulation, as well as through protection of domestic industry which generates higher input costs for agriculture. Redefining the government's role in agriculture and removing market distortions are the second most important challenge. The Region is encouraging speedy completion of trade policy

reform and increasing competition in input and output markets, with an orderly transition to full private sector orientation. In addition the Region will strengthen sector work dissemination and dialogue with stakeholders to raise country commitment in decentralized participatory rural development programs. A third major challenge is water resources management. This has several dimensions: intersectoral and intercountry disputes over allocation of scarce water, a crisis in irrigation service delivery, and a worsening problem of waterlogging and salinization, and pollution of both ground and surface water that threatens rural domestic water supply. The Region is addressing the second two problems through innovative projects in irrigation and drainage, flood control, and rural water supply. It envisions taking a more proactive role in resolving water disputes by launching participatory analytical work on water resources management, supporting regulatory measures, and disseminating policy advice.

Latin America and the Caribbean

The most striking characteristic of the Latin America and Caribbean region is the incredible diversity of the countries in terms of socio-economic conditions and agricultural practices. The region contains some of the Bank's highest-income borrowers (Mexico, Chile, Argentina), where much agriculture is technologically sophisticated and an engine of growth, and some of its lowest income borrowers (Bolivia and Haiti), where much agriculture is subsistence-based. Another characteristic is the extreme income inequality of the rural population—a result of a long history of governments providing discriminatory access to land and capital to the wealthy and powerful. Poverty is deep and prevalent in rural areas, and is a major source of urban poverty, because a high proportion of the rural poor have fled to the urban peripheries. Many rural poor earn their livelihoods as laborers or subsistence smallholders in environmentally fragile areas or on the frontiers, so rural poverty is closely

connected to issues of natural resources management. At the same time commercial farmers are beginning to better understand the concept of land conservation and sustainable farming, and are seeking assistance in developing and implementing these techniques. Poverty reduction, better use of existing productive capacity, and sustainable natural resource management are the three main challenges for the Region. The Region's strategy is to redefine the role of government; emphasize community-based approaches to natural resources management; target interventions to reduce rural poverty, emphasizing indigenous peoples; increase efforts to speed the pace of land reform and land allocation; work with governments to remove policy biases against small farmers; and mobilize rural financial resources.

East Asia and the Pacific

The main characteristic of East Asia and the Pacific is fast growth, including fast agricultural growth (4 percent per year since 1980), and good social service provision nationwide. Except for Indochina and the poorer areas of China, East Asia and the Pacific countries are not International Development Association (IDA)-eligible and have to borrow on the International Bank for Reconstruction and Development (IBRD) terms. A major challenge is that borrowers have preferences for uses of IBRD lending, which may not be coincident with Bank priorities. Virtually all borrowing countries of East Asia and Pacific are willing to borrow for large dams, and the Bank response should be based solely on evaluation of economic, environmental, and resettlement costs and benefits. Many countries seem to have become less interested in borrowing for agricultural research or watershed management, and more persuasive analysis will have to be undertaken. Related challenges, in the sense that a sophisticated Bank response is required, arises with respect to financing high technology agribusiness and reforming marketing parastatals. For the first, new types of lending instruments and new types of collaboration

with IFC are needed. For parastatal reform there is a danger, in nominally market economies, of replacing a relatively transparent and efficient parastatal by an opaque private monopoly. Pragmatism will be required in parastatal reform. A third challenge is the sheer heterogeneity of the region, ranging from some of the largest Bank borrowers (China and Indonesia) to some of the smallest (Laos, Fiji, Pacific Islands, and Mongolia). Donor competition is strong but can be turned to an advantage if another donor is willing to take the lead in the agricultural sector of entire small countries.

Focus Program Initiative

At the request of the President, Regions and Central Departments have identified focus programs that would significantly accelerate agricultural and rural development in selected countries through concentrated efforts from the Bank and collaborators, show what is possible through a combination of political will and rigorous application of best-practices, and achieve significant regional and global impacts on food security and poverty reduction. Work on the focal activities has just begun, and much needs to be done to integrate the programs fully into the CAS process and into the Bank's budget process. In addition consultation in and with focus countries is needed to be sure they are committed to the initiative. The 1996 Environmentally Sustainable Development (ESD) conference and Annual Meetings were used to build consensus on these initiatives.

The focal programs are summarized below:

- *Africa.* Focus on accelerating widely shared agricultural growth in Guinea, Madagascar, Malawi, Mali, and Uganda
- *Europe and Central Asia.* Focus on Ukraine, whose agricultural recovery is important in itself and for global food security, and focus on analyzing the cross-country agricultural policy issues faced by countries who seek admission to the European Union
- *Middle East and North Africa.* Focus on rural strategy development and implementa-

tion in Morocco, and water management and allocation issues across the entire region

- *South Asia.* Focus on integrating several existing activities into a multisectoral rural strategy for Bangladesh. In India focus on developing a comprehensive rural development strategy
- *Latin America and the Caribbean.* Focus on rural poverty reduction in southern Mexico, northeastern Brazil, and Guatemala, and support for the Regional Unit for Technical Assistance (RUTA) in Agriculture
- *East Asia and the Pacific.* Focus on formulating a rural development strategy for Vietnam, implementing a recently completed rural development strategy for the Philippines, and analyzing China's options for long-term food security
- *Globally.* Focus on the WTO and the world trading system for agricultural commodities, which are critical to the goal of fostering rural development.

Preparation of the Rural Sector Strategy

Rural development is not a task solely for rural development professionals, but requires attention by specialists in private sector development, infrastructure, health, family planning, nutrition, education, and social development. Nevertheless, there is a narrower set of activities that will be carried out primarily by the professionals grouped in the rural development family, part of the Bank's new network on Environmentally and Socially Sustainable Development (ESSD). The following sections discuss the activities of the rural development family, rather than the full set of activities of the World Bank Group in rural areas.

Mr. Wolfensohn recognized that the decline in agricultural and rural development activities had to be reversed. In December 1995 he commissioned the rural development staff to design a rural sector strategy. A steering committee was formed immediately com-

prising representatives from throughout the Bank, including the Regions, Rural Development Department (RDV), Environmentally Sustainable Development Agriculture Research and Extension (ESDAR), Environment (ENV), Transportation, Water, and Urban Development (TWU), Human Development (HDD), Development Economics and Chief Economist (DEC), OED, and IFC. The rural sector strategy benefited greatly from the participation of many persons from outside the traditional agricultural sector operating divisions. The Agricultural Symposium workshops, held in January and February 1996, gave staff the opportunity to define the Bank's future directions in rural development. Many of the recommendations for the subsectors and for the Regions emerged from the symposium workshops. Staff also attended three Bankwide meetings to review progress and provide feedback. The Gender Analysis and Policy Group and colleagues at the FAO reviewed the draft. Briefings on the final draft were presented to Managing Directors, Vice Presidents, and rural development staff. The interim report, which was presented to Mr. Wolfensohn on March 23, 1996 was the outcome of wide and active participation of staff from all parts of the Bank.¹ The process generated broad-based interest and commitment to a new focus on agricultural growth and rural development, and has been extremely valuable. The report in its current form truly reflects the views of the very broad group of people committed to rural development.

Since the first report in March 1996, much has occurred. Actions taken include:

- Continued application of the programmatic changes introduced in the 1990s: abandonment of failed approaches, improvement in mainline business, and innovation in project design.
- A core training program, organized into two main modules covering strategies for agricultural, rural, and natural resources development (5 days), and the design of agricultural and natural resource projects, including technological linkages (4 days), was implemented in May 1996 following a period of piloting. Some 1,000 staff-weeks of core training took place during fiscal 1997.
- Portfolio reviews have been undertaken for forestry, and irrigation and drainage projects, and clear lessons have been drawn for improving design and reducing risks. A review of the research and extension portfolio is ongoing.
- The steering committee was transformed into an Implementation Council, which guided the initial execution of the rural sector strategy. The transition to the formally-constituted Sector Board has been straightforward. The Sector Board consists of Chair members from the six Regions and invited representatives of IFC, Economic Development Institute (EDI), OED, Policy Research Department (PRD), and the Consultative Group on International Agricultural Research (CGIAR), and thus largely retains the broad membership of the original steering committee.
- Intensive internal and external consultations have been held on the rural sector strategy, especially with NGOs and foundations, culminating in this year's ESD conference. Mr. Wolfensohn, the Presidents of Africa Development Bank and the Inter-American Development Bank, and the head of IFAD spoke with virtual unanimity on a vision for revitalizing rural development and the actions needed to achieve the vision.
- Old alliances have flourished, notably with CGIAR and with FAO and IFAD. Recent alliances have grown, notably the Consultative Group to Assist the Poorest (CGAP) and the Global Water Partnership, and new alliance-building initiatives have been started, such as the Hunger and Poverty Knowledge Network, the Soil Fertility Initiative, and the Indo-Gangetic Rice-Wheat Initiative.
- The rural sector strategy has been deepened by in-depth analyses of future demand, available skills, and resources required to jump-start the rural sector

strategy. The results of these analyses have been incorporated into this report and are briefly discussed below.

- A summary of the rural sector strategy and the Bank's Food Security statement for the World Food Summit were discussed at a Board seminar on November 5, 1996. This final version reflects the comments of the Board members.
- Mr. Wolfensohn offered his full commitment to the broad program of actions adopted at the World Food Summit held in Rome in November 1996.

This rural sector strategy is thus the outcome of a year-long intensive participatory process. It incorporates the consensus arising from extensive internal and external consultations.

Areas of Concentration and Future Demand

These issues can, however, issues addressed by the rural development staff of the World Bank Group can be grouped into five clusters, or product lines. This is the format followed in chapter 7, where we briefly review the state of the art and key future directions in the subsectors of rural development. The five areas are:

- Rural strategy and policy formulation
- Agricultural systems intensification
- Management of natural resources and forestry
- Water allocation and management
- Local and community development and rural infrastructure.

While there is considerable overlap among these five product lines, they are sufficiently distinct to make them meaningful for purposes of projecting demand for rural development services, assessing current staff capabilities, identifying skill gaps, and determining a human resources strategy to equip the World Bank Group to revitalize rural development. Projecting demand is problematic in a context in which demand from countries and country program managers will increasingly guide resource allocation in the Bank. Demand will ultimately be generated through the CAS process

and be reflected in business plans. A key recommendation of the rural sector strategy is to improve rural strategy and policy formulation as part of the CAS process. If this is successful, demand should rise considerably. In the meantime, an approach relying on the judgment of regional managers was used to project demand. The principle findings are:

In the aggregate demand by product line breaks down relatively evenly, with about 20 percent for each. But with the exception of East Asia and the Pacific, the regional differences by product line are very striking:

- Europe and Central Asia projects that 36 percent of its work program will be in rural strategy and policy formulation.
- Africa projects that 39 percent of its work program will be in agricultural systems intensification.
- South Asia (42 percent) and Middle East and North Africa (34 percent) both project high demand for services in water allocation, and irrigation and drainage.
- Latin America and the Caribbean emphasizes natural resources management, and local and community development and infrastructure, which together account for 69 percent of its demand.

Thus the even breakdown of overall demand among the five product lines masks highly differentiated demand patterns across regions. Indeed, the projections of future demand by managers are highly concordant with the diverse priorities identified in the regional rural sector strategies. The distribution of staff will need to be adjusted to correspond to these demands.

Ensuring Capacity to Respond to Likely Demand

A comprehensive inventory of existing staff capabilities, projected retirements, and attrition has been undertaken. Combined with the demand projections indicated above, conclusions can be drawn about skill gaps and future recruitment needs.

There are currently about 470 staff working on rural development, including more than 100 long-term consultants. A very high percentage of the staff have the necessary technical skills and are fully competent, according to their managers. However, there are skill gaps in several areas, most notably in the area of strategy and policy. The Sector Board will give major emphasis to maintaining and improving staff skills, and to matching the special technical skills of staff members to the areas where they can contribute the most.

While staff competency is strong, more than one-third of experienced staff members are likely to be lost through retirement or attrition over the next five years. This change provides an opportunity to make the necessary changes in staff skills to match changes in future demand for skills. Enhancing staff capacity in the Bank will require a major recruitment effort, which has significant upfront costs. Therefore:

- The Sector Board will make staff capacity building and recruitment a top priority, along with strengthening the knowledge base. In collaboration with the Human Resources Vice Presidency, the Sector Board will develop a four-year recruitment program.
- Demand is expected to rise significantly for expertise in two areas: water allocation, irrigation and drainage, and local and community development and rural infrastructure. Thus capacity is likely to grow in these areas. Demand and capacity are likely to be maintained at current levels for agricultural systems intensification and natural resources management and forestry. Demand and capacity is likely to fall in the fifth product line—strategy and policy formulation—although the content will shift toward markets and agribusiness, and expertise is likely to grow in these subareas.
- To improve expertise in strategy and policy formulation, a core training program has been initiated. In addition a special program to recruit and train economists and other social scientists for work on rural strategy and policy issues is planned.

What Would Be the Incremental Costs?

Costs of doing business in rural development have been scrutinized intensively, with a view to achieving savings. The principal findings are:

- The average preparation cost per approved rural sector project in fiscal 1996 was 19 percent higher than the Bankwide average. This difference reflects the relatively high costs of doing business in rural areas, because of their spatial dispersion and heterogeneity, and the multiplicity of government and nongovernmental institutions involved. Incurring costs above the Bankwide average is an inescapable outcome of doing business in rural areas.
- The average supervision cost for rural sector projects in the portfolio in fiscal 1996 was about the same as the Bankwide average.
- Steps initiated and ongoing to reduce costs include:
 - Ongoing portfolio reviews which should lead to the closing or restructuring of problem-ridden projects. This will lead to reduced costs for supervision.
 - A more strategic approach to lending, with more analysis, piloting, and consensus building than in the past. This will reduce the number of project starts and therefore the costs of dropped projects before they reach the Board.
 - Substantial use of local-hire staff, particularly in Africa and South Asia.
 - Merging administrative units in Africa, Europe and Central Asia, and Latin America and the Caribbean, and Agriculture and Natural Resources.
 - A further modest increase in reliance on long-term consultants.
 - Placing highly competent staff in countries to work with local staff and consultants in program and project design and implementation.

Reversing the decline in lending and strengthening the quality of nonlending services will require adjustments in the Bank's al-

location of resources. The activities to be pursued will depend on the resources available. The following is a list of key activities for the sector in descending order of priority:

1. Achieve impact on the ground by carefully managing and further improving the performance of the portfolio under implementation
2. Initiate core functions of the rural development family, such as disseminating existing knowledge on best-practices, and providing all staff with core training.

If resources available for rural development continue their recent modest decline, it will still be possible to implement the first two priorities by using resources previously absorbed by preparation of ultimately-dropped projects and the supervision of problem projects.

3. Pursue the focus programs within the existing resource constraint
4. Increase economic and sector work, and reestablish a forward-looking research program.

If resources remain at current levels, it should be feasible to implement the first four priorities.

5. Initiate an enhanced recruitment drive to prevent the anticipated sharp erosion of staff skills, and hire staff with critical skills
6. Accelerate implementation of focus programs

Implementing the first six priorities will be feasible only if resources become available for additional upfront investments.

7. If capacities are built and demand rises as a result of the implementation of the rural development strategy, lending could expand by up to 50 percent. Budget resources for this expansion would be made available from country budgets through a demand-driven process.

Implementing the Rural Sector Strategy

All of the Bank Group will be responsible for implementing the rural sector strategy. Country teams will have the greatest respon-

sibilities, but the Regions and the Rural Development Sector Board will have to provide inputs, quality enhancement, and quality control. *A highly decentralized approach for implementation is therefore needed, but with mechanisms to assure clear accountability of the results.*

Management and the Board require regular feedback on the implementation of the rural sector strategy and its impact. This will be a primary responsibility of the Rural Sector Board that has been established. The Sector Board will be guided by the Environmentally and Socially Sustainable Development Network Council.

What Are the Key Actions Proposed?

This rural sector strategy is not business as usual! It proposes a new way of doing business to meet the critical challenges of providing food for all, raising rural incomes and reducing poverty, and sustainably managing natural resources. The key recommendations are:

- *We need a broad rural focus. We will no longer use the narrow agricultural sector focus.* The rural sector strategy focuses on rural sector strategies as crucial for promoting rural growth. We will no longer look only at irrigation and drainage, but also at water resource allocation and comprehensive watershed management. We will not deal with agriculture, forestry, or livestock separately, but with the management of natural resources in sustainable production systems. We will look at rural entrepreneurship instead of agricultural credit, off-farm employment, agro industries and marketing in isolation. And we will integrate human capital development, infrastructure, and social development into rural development strategies and programs.
- *The entire World Bank Group must be involved in promoting rural development.* Coordination among the different actors must be greatly improved to ensure that efforts are not duplicated or hampered.
- *We must work with partner countries and the broader international community to integrate*

rural development in overall country development strategies. The rural sector strategy stresses the formulation of country assistance strategies as critical to building consensus both within the Bank and among stakeholders in countries.

- We will address long-ignored issues. We must not be timid on issues such as land reform, and we must greatly increase our commitment to food consumption and nutrition policy. Gender will be an important aspect of many of these issues. We must continue to tackle the "anti-trader" bias in many borrowers' regulatory frameworks. For many of our partner countries land reform, better land policies, and improved rural entrepreneurship would provide the incentives for investment and growth needed to raise food output and rural incomes. With appropriate policies all citizens could be made better off.
- We will address old issues in new ways. The Bank has acquired considerable knowledge about what works and what doesn't. We will implement more widely the promising new approaches. To name just a few:
 - We will revitalize rural development at local and community levels.
 - We will involve stakeholders in the development and execution of projects through all stages.
 - We will deliver rural financial services to the poor using new approaches.
 - We will involve the private sector in delivering infrastructure and other services.
 - We will promote sustainable resource use through community-based management.

What Will the Outcome Be, and How Will It Be Monitored?

The one broad quantitative target for the Bank that the rural sector strategy proposes is that 80 percent of projects receive ratings of satisfactory by fiscal 2002.

Implications for the Bank

The key actions needed to achieve this ambitious target are discussed in section 1.4. The rural sector strategy does not set targets for nonlending and lending outputs, emphasizing instead the process of formulating national rural strategies and building consensus for rural development. Nevertheless, one result of successful consensus-building efforts with countries would be increased lending volume in focus countries and in others. This increase may well be offset by a complete or nearly complete withdrawal from countries where consensus-building efforts fail.

Implications for Rural Development

The major outcome of the rural sector strategy will be greater commitment to rural development by international donors and our partner countries. Action matrices for the subsectors of rural development provide detailed monitoring indicators for specific actions (the matrices are included in the March 1996 version of the rural sector strategy). These will enable staff and management to monitor the many diverse actions needed to achieve this overarching goal and to evaluate their results. For example, increased international commitment should be reflected in increased financial commitment by donor and client countries to the international agricultural research system. Bank-assisted national institutions and independent scholars will monitor country-specific progress in policies, institutions, and expenditure patterns for rural development, as well as the associated outcomes.

Three Major Outcomes

The success of the rural sector strategy must ultimately be judged by three main outcomes. First, will the Bank by fiscal 2000 be seen as a leader in the fight to reduce rural poverty and improve the management of the natural resource base, both in the international community and in partner countries? Will it be seen as a key ally of the rural poor and a major force

in sustainable natural resource management? This can be evaluated through results of systematic client consultations, as well as by other indicators of Bank leadership.

Second, will there be the complementary progress toward freer and fairer world agricultural trade and toward developing international coordination mechanisms to ensure that countries can safely rely on international markets for food security and for profitable outlets for their enhanced production? Progress under the high-profile international initiatives proposed will be monitored carefully.

Third, will the rural underperformers and dropouts have changed their ways, joining the countries of most of East Asia, which have had remarkable success in reducing rural poverty? This is a major goal of the rural sector strategy. Monitoring this impact will require evidence from several sources, including poverty assessments—the main instrument used by the Bank to identify social and economic priorities for low-income and vulnerable groups.

Notes

1. This document, "From Vision to Action in the Rural Sector," provides much more detail on the subsectors of rural development and includes action matrices to guide the Sector Board and staff in their work over the next few years.
2. The groups comprised the following:

- a. Rural strategy and policy formulation: rural strategy formulation; food and nutrition policy; sector/agriculture policy formulation; rural finance; and markets and agribusiness
- b. Agricultural systems intensification: agricultural research; extension, rural information and agricultural education; plant systems intensification (including soils and pest management); and animal systems intensification (including pasture management)
- c. Management of natural resources and forestry: natural resources management (including biodiversity); forestry; fisheries and aquaculture
- d. Water allocation and management: water use efficiency and allocation; irrigation and drainage and water management
- e. Local and community development, and rural infrastructure: participatory, community-based rural development; land policy and land reform; rural infrastructure (including water and sanitation and roads).

There are also several cross-cutting groups involved in rural development, including project design and monitoring and evaluation; portfolio management; global information systems; gender; indigenous peoples; and institutional reform.

CHAPTER 1

The Context

The mandate of the World Bank Group is to help its clients reduce poverty and improve living standards through sustainable and broad-based growth and investment in people. Sustainable rural development can make a powerful contribution to four critical goals:

- Poverty reduction
- Widely shared growth
- Household, national, and global food security
- Sustainable natural resource management.

Not all forms of rural development are equally beneficial for rural populations or for national economic development. And some forms contribute to the degradation of the natural resource base. Thus the World Bank Group will assist partners in achieving agricultural growth and rural development in accordance with its vision:

- Rural farm and nonfarm growth is widely shared, with private and competitive agriculture and agribusiness as the main engine of growth.
- Family farms and nonfarm enterprises provide ample remunerative employment opportunities to men and women.
- Rural people manage the soils, water, forests, grasslands, and fisheries in a sustainable manner.
- Rural people are linked to well-functioning markets for products, inputs, and finance.

- Rural people have access to medical care, family planning services, clean water and sanitation, educational opportunities, and sufficient nutritious foods.
- Essential legal frameworks, public investment, and productive and social services are provided and financed in a decentralized and participatory manner.

The Challenges

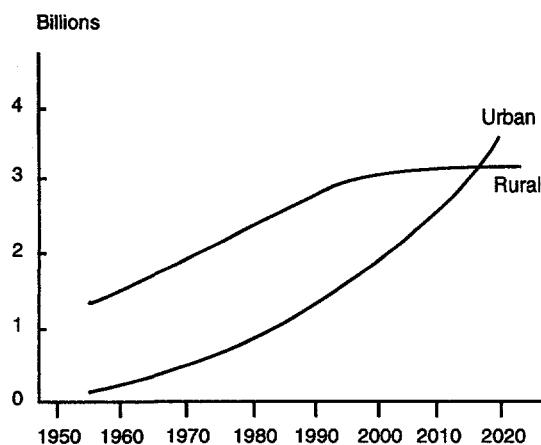
Four enormous challenges must be met: reducing poverty and hunger, raising economic growth, increasing global food production, and halting natural resource degradation.

Poverty and Hunger Must Be Reduced

More than 1.3 billion people are compelled to live on less than one dollar a day. More than 800 million people are hungry, and the number will likely exceed one billion by the year 2020. There are more than 190 million children under the age of 5 who are not receiving the nutrition they need to fully develop mentally and physically. The global population of underweight children below 5 years of age is expected to grow from 193 million today to 200 million by 2020, with most of the deterioration taking place in Africa.

Despite urbanization, the majority of the poor will continue to live in rural areas well into the next century (figure 1.1). The signifi-

Figure 1.1 In the developing world rural populations will exceed urban populations for another twenty years



Source: International Food Policy Research Institute, based on 1993 United Nations population projections.

cant majority of the rural poor depend on agriculture for most of their meager livelihoods. Others depend on associated nonfarm activities. Many of the rural poor live in regions where arable land is scarce, agricultural potential is low, and drought, floods, and environmental degradation are common. Of the nearly one billion poor identified in 58 poverty profiles completed by the Bank, 72 percent live in rural areas. Access to basic human needs—education, potable water, health care, and sanitation—are far less available in rural areas. The problems of malnutrition, low life expectancy, and high infant mortality are more severe in rural areas.

Rural poverty is pervasive and persistent. It is particularly severe among female-headed households without an adult male. Absent a major sustained effort to reduce rural poverty, the Bank's overall objective of poverty reduction cannot be met. Improving incomes for small farmers is indispensable in meeting this objective.

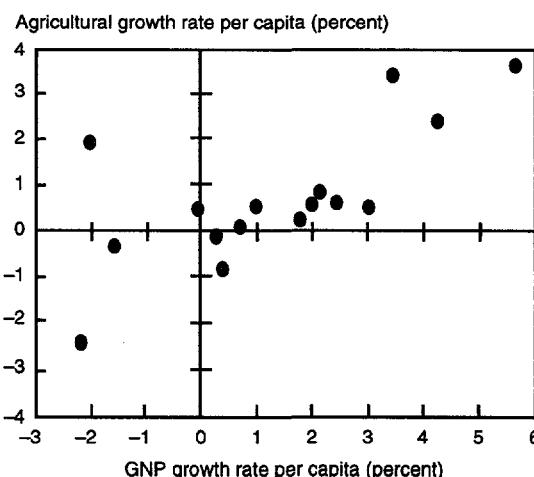
Economic Growth Must Be Fostered

No country has had a sustained impact on reducing poverty without continuing positive

economic growth. For most developing countries, agricultural growth is essential to economic growth. Very few low-income countries have achieved rapid nonagricultural growth without corresponding rapid agricultural growth. Most of the developing countries that grew rapidly during the 1980s experienced rapid agricultural growth in the preceding years. For example, China's remarkable annual growth rate of 9.5 percent during the 1980s and 1990s was preceded by rural and agricultural policy reforms in the late 1970s and early 1980s. Indonesia and Thailand also experienced strong agricultural growth prior to the period of high nonagricultural growth, which continues today. Agricultural growth stimulates economic growth in nonagricultural sectors, which results in increased employment and reduced poverty. Sustained nonagricultural growth, particularly in the poorest countries, is not likely to occur without first addressing agriculture (figure 1.2).

Fostering rural growth also helps the urban poor. There are four mechanisms through which this happens. First, much of agro-industrial development stimulated by agricultural growth

Figure 1.2 Agricultural growth and economic growth in low-income developing countries, 1965–89



Note: Countries are Bangladesh, Burundi, China, Ghana, India, Indonesia, Kenya, Malawi, Mali, Nepal, Niger, Nigeria, Pakistan, Sri Lanka, Tanzania, and Zambia.

Source: von Braun and others 1993.

occurs in urban areas, generating employment there. Second, agricultural growth brings down the price of food in cities, often a major component of budgets for the urban poor. Third, by increasing employment opportunities in rural areas, rural growth slows rural-urban migration, leading to higher wages for the unskilled in cities. Fourth, urban growth, if not concentrated on capital-intensive sectors, generates employment opportunities (permanent or temporary) for members of rural families. Frequently, urban workers send remittances back to their rural homes, which family members invest in farms or rural industries.

Developing Country Food Needs Could Double over the Next Thirty Years

One the major achievements of the twentieth century has been the remarkable increase in world food productivity, resulting in remarkable growth in agricultural output *and declining real prices of food*. Between 1966 and 1990 cereal output rose by nearly 80 percent. Almost 50 percent of the increase occurred in the developing world.

Everyone agrees that the world's population will exceed 8 billion people by 2025, an increase of 2.5 billion in the next 30 years. Most of the increase will occur in developing country cities where urban populations will more than triple. Most agree that given moderate income growth, food needs in developing countries could nearly double. If supplies do not grow apace, world food prices will rise, making it even more difficult to eliminate world hunger (box 1.1). The challenge to world agriculture is therefore enormous.

Most of the future increases must come from biological yield increases alone, not from area expansion or increased intensification through irrigation—two major sources of growth in the twentieth century. Why? Because new lands are marginal and environmentally sensitive and may not make up for the land being removed from cultivation each year because of urbanization and environmental degradation. New irrigation projects are increasingly expensive and

subject to much stricter environmental standards. Therefore, production on existing land will need to nearly double to provide a diversified, storable, and transportable food supply to an expanding urban population (figure 1.3).

Despite disagreements about the degree of difficulty in raising agricultural output, all agree that meeting global food demand over the next 30 years will require expanded investments in research and technology development, appropriate incentives to family farmers, and an enabling policy environment. The technological challenge is enormous, requiring the development of new, high-productivity, environmentally sustainable production systems. Private firms must be induced to develop and apply much of the new technology required. However, there are large areas of technology development that are of little interest to the private sector, including subsistence crops or truly public goods such as some aspects of natural resources management. It is here that public sector finance is critical—at international, national, and local levels. The challenge is critical and immediate, requiring increases in research—not reductions, as have been occurring. Globally, the World Bank Group is the largest financier of national agricultural research in the developing world. The World Bank must continue to provide strong leadership in this area to meet its objectives of global, national, and family food security.

Food security requires adequate world food supplies, but it also requires country policies that provide farmers with adequate incentives and consumers with prices reflecting market conditions. Governments cannot provide food security by discriminating against farmers, since this discourages production and investment in agriculture (McCalla 1994).

Degradation of Natural Resources Must Be Reversed

Hundreds of millions of private farmers, large and small, are the stewards of the vast majority of the globe's arable land resources. Of the world's fresh water used by people, agriculture

Box 1.1 Recent grain price increases: long-term trend or short-term spike?

Grain prices increased sharply in the past two years. Between May 1995 and May 1996, United States export prices rose by 82 percent for maize, 65 percent for wheat, and 21 percent for rice. A poor United States grain harvest in 1995, in combined with unusually low world grain stockpiles, led to the price increases. World grain production fell by 3.2 percent in 1995/96 from the previous year, and grain stocks fell to 49 days of consumption, their lowest level in at least 35 years. By comparison, the grain stocks in the previous five years averaged 69 days of consumption, and during the 1980s, 81 days of consumption. With grain stocks so low, any decline in production translates quickly into higher prices. Contributing to the increases in prices was China's entry into world grain markets, with a purchase of 5 million tons in 1995. China had exported nearly 11 million tons of grain in 1993/94.

Changes in governments' policies during the 1980s, contributed to the low level of production and grain stocks. During the 1980s world grain stocks rose to record levels—465 million tons in 1986, or 28.1 percent of world consumption. This rise eventually led several of the major exporting countries to introduce policies to reduce production. The United States, the European Union, Australia, Argentina, and Canada idled land devoted to grain production by 35 million hectares, and potential grain output by roughly 150 million tons. With reductions in world production, stock levels declined to 236 million tons in 1995. And when 1995 world output proved lower than expected—1,700 million tons compared with an

average of 1,750 during the previous five years—prices rose sharply.

There is potential to increase grain output by bringing cropland back into production in both the major exporting countries and in the former centrally planned economies. Some of this cropland has already been returned to production. Indeed, world cropland devoted to grain production has increased to its highest level since 1986. This increased production has contributed to the significant declines in world prices in the last half of 1996. Policy changes have also been made in both the United States and the European Union to partially reduce the planting restrictions of the past decade. However, it is not likely that grain stocks will return to the high levels of the 1980s, given the current focus on reducing government involvement in agriculture. These changes are firmly established in current government policies and are also mandated by the recent General Agreement on Tariffs and Trade (GATT) agreement on agriculture. With smaller grain stocks, grain prices could be more volatile than in the past.

Long-term price trends will be determined by increases in yields, improved transportation and storage facilities, and an open trading environment that allows countries to specialize in producing the products in which they have a comparative advantage. If governments pursue proper economic policies and countries invest in agricultural research, grain production will keep pace with demand, and prices will continue on their downward trend of the past 50 years. The job can be done, but there is no room for complacency.

uses more than 70 percent for irrigation. And unsustainable agriculture practices are significant sources of non-point source pollution. Deforestation remains a critical issue, with 25 hectares of forest lost every minute. The global challenges of desertification, climate change, and loss of biodiversity require major efforts.

If production on existing lands is to be nearly doubled in the next 30 years, the negative impacts of agricultural and forestry production systems must be reversed, and sustainable production systems developed. Improved agricultural productivity also relieves pressure on fragile lands and forest margins. The Bank's commitment to environmentally sustainable development cannot be met without serious

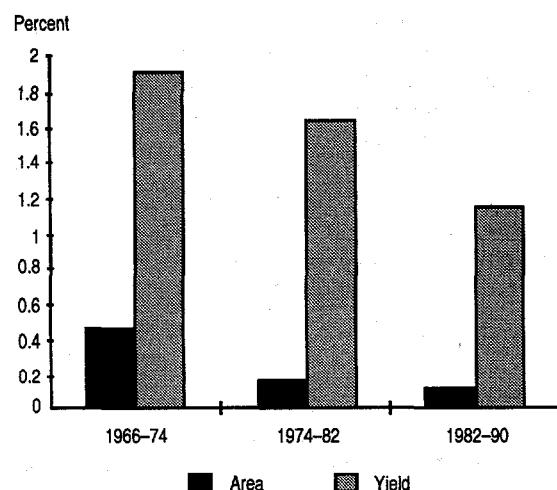
attention, through both lending and nonlending services, to the development of agriculture and forestry systems that are more productive and protect natural resources.

In sum, the Bank's objectives of poverty reduction, sustainable natural resources management, and food security cannot be met unless rural development in general, and a thriving agricultural economy in particular, are nurtured and improved. This is at the core of the recommended strategy for improving the rural economy.

The Rapidly Changing Context

There are many changes taking place in the world today. These pose special challenges.

Figure 1.3 Area expansion is disappearing as a source of growth
(percentage growth in area cultivated and yields)



Source: International Food Policy Research Institute 1994.

Globalization of Agricultural Trade Will Benefit Developing and Industrial Economies Alike

The global interdependence of nations increased phenomenally in the last three decades because of rapid growth in international capital markets, the adoption of flexible exchange rates, and the explosion of information technology. In the realm of trade, successive rounds of the GATT negotiations have substantially reduced trade barriers. In the most recent Uruguay Round, agriculture and textiles, long heavily protected sectors, were finally brought under GATT rules. The new World Trade Organization (WTO) provides for better enforcement of rules and more effective dispute settlement. The consequence of these developments for food policy is significant. All too frequently developing countries have equated food security with agricultural self-sufficiency; and have pursued highly distortionary policies, leading to inefficiency and resource degradation. However, to adopt an open-economy agriculture and food policy, countries must be assured of stable, long-term access to international markets—including those of Organisation for Economic Co-operation and Development (OECD) countries. The challenge to the global community is to maintain a stable and open trading environment. Only under these conditions can developing countries rely on international markets in designing their domestic agriculture and food strategies.

Rapid Changes Are Taking Place in the Development and Dissemination of New Technologies

Major long-term changes are currently affecting international agricultural research: a scientific revolution in biology, leading to the growth of disciplines such as molecular biology and biotechnology; the information technology revolution; significant growth in the number of highly qualified agricultural scientists working in developing countries; the development over the past 25 years of an effective network of international agricultural research centers—the Consultative Group on International Agricultural Research (CGIAR)—which has greatly enhanced the international exchange of germplasm and research results; and the expansion of the research agenda to include natural resource management. Each of these major trends brings with it the necessity and the opportunity for agricultural researchers to collaborate with a new group of partners (from the private sector, national agricultural research systems, and farmer organizations, and other natural resource users, basic research institutions, and so on). These new or deeper and more diversified partnerships define a new global agricultural research system that is emerging and needs to be supported.

The stakes involved for developing countries—and particularly for the poor—are very high because ensuring that they have sufficient voice in that new system will be a challenge. But at the same time, these technical and institutional developments offer the possibility of overcoming many of the constraints that have hampered the productivity of agricultural research in the past. In addition these developments challenge the traditional view that

technological development is the responsibility of research institutions, while dissemination is that of extension agencies, and farmers are left with the task of adopting. It is now clear that the processes involved are much more iterative and interactive than recognized earlier. Thus all the actors involved in technology development, dissemination, and implementation must adopt new roles and functions in working together.

The Nature of the Public and Private Interface, Decentralization, and Participation Is Changing

Rural strategies for the future must take into account three fundamental changes that are only now becoming fully played out: the rapidly changing public and private sector interface, increasing decentralization in political and fiscal decisionmaking, and growing participation by both men and women stakeholders at all levels—community, regional, and national.

Increased reliance on markets for price formation, driven by internal policy reform and GATT agreements, fundamentally shifts the role of government from an active market participant to a maker and keeper of rules. Much of rural policy in previous decades relied on government bureaucracies and/or parastatals for marketing, input supply, credit, and integrated rural development. But, past experience shows that often there were rigidities, inefficiencies, and rampant rent-seeking associated with public sector implementation. In the future the importance of government will remain high, but its role will have a fundamentally different focus, mainly providing true public goods, setting the rules of the game, and correcting policy and market failures. There is growing evidence that decentralized and community-based approaches to development increase the share of resources reaching intended beneficiaries and greatly enhance the chances of sustainability after Bank operations cease. Increased decentralization, community involvement, and participation will lead to more disaggregated operations with smaller and more dispersed components.

Monolithic decision chains dominated by central governments are giving way to much more broad-based participation of stakeholders at the community, local, and national levels. When beneficiaries are involved in identifying, designing, implementing, and evaluating projects and programs, the operations are much more likely to match their needs and be sustainable. Meeting the triple challenges brought on by the changed role of government, decentralization, and participation of rural men and women complicates the process of program identification and design but greatly enhances the chances of benefiting stakeholders and achieving long-run sustainability.

The Challenges Are Intersectoral and Multidisciplinary

A Bank Group strategy for rural economy improvement, while having agricultural growth at its core, involves much more, including growth and employment in the rural non-farm sector, rural infrastructure, environment, health, population, nutrition, and education. This means cutting across traditional sectors both in the Bank and in our partner countries.

Thus developing effective rural strategies involves two critical challenges: overcoming intersectoral barriers and mounting a truly multidisciplinary approach. For the first barrier, mechanisms must be developed in the Bank and in our client countries for linking together agriculture, agribusiness, water, infrastructure, health, information, and other areas with a common goal of raising incomes and reducing poverty in rural areas. Traditionally, in both the Bank and our partners, agriculture has been treated narrowly as a productive sector, and the focus has been physical and biological. The approach recommended in this rural sector strategy requires a much broader involvement of macro-, international, and environmental economists, social sector and gender analysts, agro-industrial, and infrastructure specialists, in addition to technical specialists. Willingness to overcome these

barriers is essential to the success of these approaches.

Traditional agricultural departments and divisions in the Bank cannot link solely with ministries of agriculture. Further, in a market-oriented, open-economy environment, inter-sectoral, macroeconomic and international linkages are critical. Thus country operations divisions and ministries of finance must also be involved and, in fact, lead in developing integrated rural development strategies.

Spatial Dispersion and Heterogeneity of Rural Operations Require Special Strategies

Rural people and production are geographically dispersed, so the costs of providing private and social infrastructure and services are especially high. And the heterogeneity within countries, and even among districts and villages in agroclimatic conditions, soil type, and economic and social conditions adds to the difficulty of providing appropriate assistance.

This has three major implications:

- *The planning, execution, and financing of rural programs and services must be highly decentralized and participatory.* To be truly sustainable, projects and programs must match the preferences and resources of the people who will benefit. Local people have the knowledge and skills to manage the complexities associated with heterogeneity. Community-based approaches ensure that projects match local desires and use local skills and knowledge. Many Bank-assisted projects and programs failed in the past because project management was excessively centralized.
- *Special efforts must be made to bring outside knowledge and capacities to rural areas.* Because rural communities are often isolated, they may not receive information generated at the regional, national, and international levels that would help raise productivity or improve well-being. Also, many rural people do not have the capacities to adopt new techniques. Connecting rural people to external knowledge net-

works is key to the development of sustainable farming systems and natural resource management techniques. This is one of the major challenges and rationales for World Bank Group involvement in the sector.

- *The World Bank Group must focus on the development of country-specific strategies rather than on regional and global rural sector strategies.* Countries are highly heterogeneous in the conditions and needs of their rural sectors. To respond to demand from client countries, the Bank must tailor its assistance strategies to country-specific conditions in the rural sector. Therefore, this rural sector strategy focuses on the processes that will lead to better incorporation of rural issues into country assistance strategies (CASs) and assistance programs. And it is based on the development of region-specific rural sector strategies as an iterative process between country teams and regional management.
- *Circumstances and priorities differ enormously by region and by country.* The record shows that rural growth and poverty reduction are most likely to occur and be sustained under a favorable policy environment. Regions and countries differ enormously in the degree to which they have implemented appropriate policies, institutions, and expenditure patterns (see box 2 of the executive summary).

Role of the World Bank Group

The World Bank Group is a knowledge-based institution with a global mandate. It has limited capital transfer capabilities, compared with overall development needs: it fosters development primarily by synthesizing and disseminating knowledge. It is not a technical agency but a user, collaborator, developer, and financier of technical capacities around the world. The combination of lending and nonlending activities gives the Bank Group unparalleled leadership and coordination capabilities and leverage. But its resources are

limited, both financially and intellectually. The Bank Group must therefore work through multiple partnerships and be highly selective in formulating its programs.

In the rural sector the World Bank Group must play both leading and catalytic roles in:

- Strategy and policy formulation and reform
- Institutional change and development
- Developing, demonstrating, and disseminating successful approaches to environmentally sound development and poverty reduction
- Mobilizing private and public resources for agricultural and rural development, especially for technology generation and dissemination.

The job is huge and complex. The World Bank Group cannot do it alone. It must seek partners with influence, knowledge, and field presence. In its operations within each country the World Bank Group must be highly selective and collaborative. In particular:

- The Bank Group must be a collaborator and synthesizer in building partnerships with United Nations agencies, particularly Food and Agriculture Organization (FAO), United Nations Development Programme (UNDP), United Nations Environment Programme (UNEP), and the International Fund for Agricultural Development (IFAD); regional development

banks; the CGIAR; the Consultative Group to Assist the Poorest (CGAP); bilateral donors; the academic research community; nongovernmental organizations (NGOs); and all other parts of the civil society.

- The Bank Group must carefully analyze its relative advantage in providing assistance to partner countries. The division of labor must be chosen to maximize impact. Sometimes the Bank will be the leader, sometimes a donor of last resort, and sometimes only a provider of policy advice. The Bank cannot expect to do it all.

The Bank Group must be selective in adjusting its level of operations to country conditions.

- The Bank Group will only finance rural sector operations when the policy framework, the institutional environment, and public expenditure patterns are good, or improving so as to give confidence that operations will succeed.
- Otherwise, the Bank Group will should focus on nonlending operations and selected pilot operations which aim to strengthen the knowledge base and build consensus for the needed reorientation in rural development policies, institutions, and public expenditure patterns.
- Where the prospects are poor that non-lending services can achieve these objectives, the Bank should not be involved in rural sector activities at all.

CHAPTER 2

If Rural Development Is So Important, Why Is It Not Happening?

Rural development has been neglected for many reasons, but three stand out as critical: poor commitment and capacities in partner countries, waning international interest in rural issues, and poor commitment and weak past performance in the Bank. Actions to address these causes of poor commitment represent the key components of this rural sector strategy.

Poor Commitment and Capacities of Countries

Lack of political commitment on the part of partner countries to the broad vision of rural development is a major reason for the declining importance of the rural sector in World Bank operations, and the generally slow pace of agricultural policy and institutional reform. Why are client countries lacking commitment if the agenda is so important?

Partner countries frequently assign low priority to agricultural growth and rural development because:

- *They view agriculture as a declining sector.* As countries develop, the share of the rural and agricultural sectors in production (GDP) and employment shrinks relative to the industrial and service sectors. Many developing countries have focused resources on the urban and industrial sectors, often at the expense of the rural sector.

They failed to recognize the critical importance of productivity improvements and growth in the rural sector in the long transition from an agrarian to an urban-industrial society.

- *Falling real food prices over the last two decades have led to complacency toward the agricultural sector.* Over the past two decades real cereal prices have declined, reducing the returns to irrigation and other investments in agriculture. While much of the decline in prices has been due to technological improvements, some of it results from the protectionist agricultural policies pursued in OECD countries.
- *The rural poor have little political power.* Because rural populations are geographically dispersed, and because rural communications and transportation infrastructure is often poor, rural people have great difficulty organizing and expressing their preferences through political processes. The rural poor, women in particular, have little political voice.
- *Urban elites pursue policies that disadvantage the agricultural sector.* These policies include excessive taxation through overvalued exchange rates, industrial protection, export taxes, and low urban food price policies. This policy set, often identified as urban bias, has been pervasive in many countries. Rural elites are often able to

obtain some compensation, but this amount is insufficient to offset urban bias, and often aggravates the impacts of urban bias on the rural poor.

Other factors hampering rural development include:

- *The roles of the state and traditional public institutions have been unclear.* In many countries public institutions or parastatals have dominated the agricultural sector by controlling input and output markets, land markets, and access to finance. These institutions have often been highly inefficient and unresponsive to changes in market conditions, and provided privileges and rents to a favored few.
- *Resources have been concentrated in the hands of a few.* In some countries resources, such as land, capital, and access to knowledge and technology, have been concentrated in the hands of elites. This distribution has sometimes led to high unemployment and low-productivity among rural inhabitants, combined with overcapitalization of agriculture and poor utilization of productive land.
- *Designing incentive systems to deal with common property resources is inherently difficult.* Natural resources, such as water, pastures, forests, and fisheries, are being overused and degraded in many countries because they are often treated as open access resources with few restrictions on who may use them. Designing and implementing effective community-based systems for managing these resources is difficult and only just starting in many countries.

The last three factors apply primarily to country and Bank relations—they are much less relevant to the IFC's pursuit of investment opportunities with private business partners. Indeed, the IFC's financing of agribusiness has grown from about US\$100 million in fiscal 1992 to about US\$600 million (including syndications) in fiscal 1995. This growth reflects the growing recognition by governments that agribusiness is essentially a private activity, and a willingness to foster private investment, including with IFC (box 2.1).

The World Bank Group can help countries strengthen their commitment and their capacities in many ways. The following are just a few:

- *Help policymakers understand the importance of agricultural growth, sustainable natural resource management, and rural development for overall development, employment, and poverty reduction.*
- *Assist in redefining the role of the state in the rural sector.* In many countries, responsibilities formerly handled by state institutions or parastatals are now being given to the private sector. The Bank can help by providing policy advice and financial support during this transition.
- *Help poor and vulnerable groups increase their income through local and community-based programs.*
- *Assist poor men and women to understand policy options and articulate their demands.* Our understanding of the political economy of agriculture and agrarian relations is increasing. The Bank has recently synthesized a large body of research on the political economy of the rural sector and will disseminate the findings to help operational staff better understand and deal with the political difficulties of implementing the vision for rural development. But still more research is needed so that these issues can be integrated into policy advice and country assistance strategies. One component of the rural sector strategy is to undertake such a research program.
- *Help countries strengthen their capacity for rural development.* Governments often have great difficulty coordinating the many agencies responsible for rural policies and programs. These agencies include the ministry of finance and the central bank; the ministries of trade, agriculture, infrastructure, environment, education, and health; parastatal organizations carrying out marketing or land reform, rural financial institutions; and state and local governments.
- *Help countries strengthen their national research and extension systems, and link them to*

Box 2.1 The IFC has sharply improved its agribusiness operations

The International Finance Corporation (IFC) has been active in projects involving agribusiness development since its early days. The IFC's involvement in this sector reflects its pervasive importance in the economies of borrowing member countries. Food and agribusiness currently make up about 10 percent of the IFC's portfolio. Its experience indicates that the financing of agribusiness generates significant benefits in terms of development, but that agribusiness projects also entail unusual risks that are not generally found in other industrial activities.

In 1992 the IFC began to reflect seriously on its mediocre past agribusiness experience and bring renewed focus to its investments in the sector. The IFC's activities in the agribusiness sector were consolidated in the new Agribusiness Department. This decision was based on the lessons learned in past operations and emphasized the following points:

- Staff resources should be concentrated in a specialist department with the capability of identifying and evaluating agribusiness projects worldwide.
- To best manage the special risks of agribusiness ventures, the Department should follow a supply-chain perspective and develop projects ranging from farm production to final consumption.

Also in 1992, the IFC took strong steps to improve the performance of its agribusiness portfolio, which contained a high share of underperforming or nonperforming projects, through a two-pronged approach:

1. Aggressive cleaning-up of its inherited portfolio through workouts and restructuring, to minimize their impact on the bottom line.
2. Elective build-up of new high-quality assets.

This approach has been successfully implemented. The agribusiness portfolio is now performing in line with the rest of the IFC, while the volume of financing in fiscal 1996 exceeded US\$800 million (including syndications), an eight-fold increase over fiscal 1992.

Barring a strong reversal of the current favorable investment climate in client countries, the IFC foresees continued but controlled growth of its agribusiness financing for the years to come. Recent experience has demonstrated that financing agricultural development can be profitable and therefore a good area for financing by the IFC.

The IFC held a Board seminar on December 12, 1996 to discuss its food and agriculture operations. Its vision for these operations is fully consistent with the rural sector strategy.

international knowledge systems of the private sector, the public sector, and the CGIAR.

- *Help design and implement natural resources management systems.* There is a growing body of evidence showing that common property resources may be managed sustainably when their management is decentralized to the community level. The Bank can help countries design programs based on successful experiences and can support the piloting of promising new approaches. Countries and regions vary greatly with regard to the condition of their rural economies and their needs to foster rural development. There is no simple approach to rural development that is appropriate for all. In some countries land tenure may be important, in others managing scarce water resources is the main issue. In still others redefining the role of the state and of parastatals is the key concern. Each Region has prepared its own rural sector strategy based on its countries' endowments, distribu-

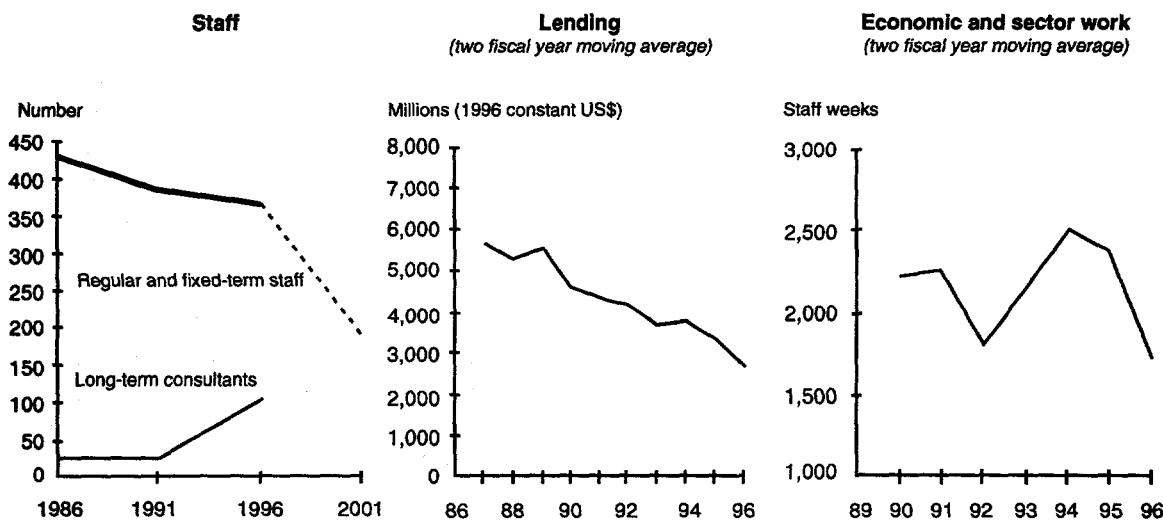
tion of assets, and functioning of markets and incentive systems for the allocation of resources. The rural sector strategy includes such a diverse and wide range of actions so as to meet the incredibly varied needs of countries.

Waning International Commitment to Agriculture and Rural Development

International interest in agricultural and rural matters has waned over the past decade. This has also been reflected in the decline of the Bank's activities in agriculture and rural development (figure 2.1).

There are many reasons for the decline, including the following:

- *Real grain prices have been declining, leading to complacency.* The continuation of a century-long decline in real grain prices has been linked to policy-induced "surpluses" in OECD countries, leading to the conclusion that global food supplies are not an

Figure 2.1 World Bank staff, lending, and economic and sector work in agriculture and rural development, various years

Note: Lending subsectors include agriculture, agricultural credit, rural development, fisheries, irrigation and drainage, livestock, marketing, agro-industry, perennial crops, annual crops, research and extension, food security, forestry, and other agriculture. Economic and sector work is the analytical work on agriculture and rural development for partner countries that is used to define strategy and design lending operations.

Source: World Bank data.

issue. The downward trend is related to the faster growth in productive capacities relative to demand, a result of investment in research and technology. This is a positive sign of development and should not trigger declining international commitment. Further, there is no assurance that the long-term decline in prices will continue unless positive actions are taken to improve productivity and correct policy distortions.

- *There is general aid fatigue among donor countries.* External assistance for agriculture in the developing world has declined by nearly 50 percent since 1986. This decline is a result of aid fatigue coupled with perceptions of surpluses—which lead to disproportionate reduction in agricultural support.
- *There has been a perception that the world is awash in surpluses and that much excess capacity is held out of production by policies in the OECD countries.* This perception persists despite the fact that between May 1993 and May 1996 grain stocks fell to levels lower than at any time since World War II, and international cereal prices rose by 50 per-

cent (see box 2.1). The land held out of production is marginal and is declining.

- *During the 1980s development assistance increasingly diverted finance to projects in environmental protection and natural resource management.* Unfortunately, the link between environmental protection and increases in agriculture productivity has been neglected. Farmers who increase yields per unit of land have less reason to push into marginal, environmentally sensitive lands to meet food needs.
- *Poverty alleviation programs have been increasingly disconnected from agricultural production.* Recently, programs to reduce poverty have focused more on policy reform and on issues of gender, social, and institutional democratization rather than on increased production, diverting funds away from agriculture.

While there are positive signs of change—successful inclusion of agriculture under the rules of the GATT and revitalization of the CGIAR—much remains to be done. Later, we recommend specific actions to raise international commitment to rural development.

Poor Commitment in the Bank: Overcoming Poor Performance of the Past

The declining importance of agriculture in the Bank is in part a reflection of lack of government commitment (partner responsiveness), but also reflects factors internal to the Bank. Some are straightforward:

- Inadequate performance in the development of broad rural strategies has mitigated against developing borrower commitment and has led to inadequate attention to agricultural and rural development in the formulation of CASs.
- With increasing priority assigned to education, health, and the environment in Bank assistance programs, formerly large sectors such as agriculture have been reduced.
- Until recently, the large difference between the performance of agricultural and other projects encouraged reducing the priority given to rural development in CASs. Although the performance gap has disappeared, the perception of relatively poor performance has not.
- With the advent of dollar budgeting, the relatively high cost of rural projects has come under increasing scrutiny in the country budgeting process.

Others are not specific to the rural sector, but have an acute impact on that sector, including:

- The dispersal of technical capacities, use of technical staff as generalist task managers, and lack of validation of technical excellence, which lead to a loss of focus.
- Rigidities in organizational structures, budget procedures, and personnel policies which make cooperation across sectoral lines and sharing of responsibilities very difficult, if not impossible.

What Have We Done about Poor Performance?

The Bank has taken many steps to address the poor performance of the past. These actions rely on the same five principles. First, the pol-

icy and institutional framework must support project success, rather than work against it. Second, wherever possible, the private sector must be mobilized to provide investment capital, production, and most services. Third, the state has new roles, away from heavy intervention in the economy, toward providing an enabling, sound macroeconomic, fiscal, and sector policy environment. Fourth, a plurality of institutions must be involved, including community-level groups and lower-level governments, in addition to the central ministries. Fifth, projects and programs are decentralized and are designed and executed with a high degree of influence and participation by communities, associations, and local governments.

The steps are producing results, as is evident in the performance of the agricultural portfolio, which has improved from 58 percent of completed projects judged satisfactory or better in 1981–89, to a more respectable 78 percent in 1995—above the Bank average for all projects. We have improved performance because we have learned from failed approaches. These include:

- *"Integrated rural development" projects.* These failed by being excessively top-down. Most decisions regarding their design and implementation were made by central government officials, and communities were rarely involved in project design, implementation, or monitoring.
- *Credit support to specific crops or sectors, such as agro-industry or livestock, through agricultural banks.* Repayment performance of these directed credit programs was poor, and they were not sustainable. They benefited relatively well-off farmers, rather than the poor. Furthermore, directed credit lines distorted financial markets, by reducing interest rates for some types of activities but not others.
- *Frontier settlement to provide access to farm-land to growing populations.* The projects were centrally managed and costly, and some projects resettled people in areas unsuitable for farming.

- *Construction of large-scale irrigation systems.* It has become increasingly costly to construct new irrigation systems, as most of the promising areas have already been developed. Furthermore, many irrigation systems constructed over past decades have not performed well, and some have caused environmental problems, such as salination and waterlogging of soils.
- *Seed production through parastatals.* The production of seeds through parastatals was usually inefficient and unresponsive to farmers' needs, and the parastatals stifled entry of the private sector.
- *Public sector involvement in production, input supply, processing, and marketing.* These activities are best carried out through the private sector, which can often perform them much more efficiently and flexibly than government-run institutions.

We are continuing our mainline business. There are several core activities that the Bank has performed well in the past and that the Bank should continue to support. These activities include agricultural policy development, research and extension, reform of agricultural services (seed development, animal health), and social forestry and natural resources management. Even in these areas, however, the Bank is experimenting with innovations to improve their impact on growth and poverty alleviation. For example, in research and extension the Bank is supporting the use of private sector institutions, such as NGOs, to carry out research and deliver information in a way that is more responsive to farmers' demands (boxes 2.4 and 2.5). The Bank is also promoting competition for research funds among all actors in national research systems.

Positive Consequences Are Happening

While the importance of rural development in the Bank has declined, the importance of agribusiness and farm privatization in the IFC has grown rapidly, although not sufficiently to offset the decline in the Bank (see box 2.1). The

Bank's portfolio has undergone a dramatic change in composition, quality at entry is improving, and many innovations are proving successful and are spreading rapidly. They are listed here and discussed in boxes and in chapter 7.

- In *sector adjustment lending* the recent Operations Evaluation Department (OED) review documents significant improvement in program design and implementation (box 2.2).
- In *sector investment lending* earlier innovations in Morocco and Tunisia have recently been carried further in Zambia, where the program has integrated 150 projects supported by 20 donors into an overall sectoral expenditure program (box 2.1).
- In *agricultural research* the focus is diversifying away from publicsector research institutes and toward bringing new resources and skills into the research system from all actors (box 2.5).
- In *rural development* the matching-grant approach to local and community-driven development that is now being undertaken in northeast Brazil has turned around a very large and poorly performing portfolio of area development projects. It has become a flexible, participatory, and cost-effective approach for poverty reduction (box 6.10).
- In *irrigation and drainage* the transfer of responsibilities for operation and maintenance from agencies to user associations that was first proven on a large scale in Mexico is now being adopted in Turkey and incorporated into the design of many new projects. Focusing on a more comprehensive approach to water allocation will require mechanisms for allocating water across sectors, full participation of stakeholders, and effective frameworks for resolving disputes (box 6.9).
- In *water resource management* projects in Orissa and Tamil Nadu states in India, which include institutional changes for river basin planning and management, are already in the design phase. Projects in

Box 2.2 Reforming agriculture: the World Bank goes to market

A recent Operations and Evaluation Department (OED) report evaluates the World Bank's experience with the 50 agricultural adjustment operations (AGSECALs) approved by the Board since 1979. It reflects on the impact that a widespread shift in the development paradigm has had on Bank programs and projects. Throughout the 1980s the state-production and control model still underpinned many AGSECALs. Not until the late 1980s did the Bank clearly "go to market"—decisively supporting the liberalization and market-orientation in agricultural reform programs. As a result of this shift there has been substantial improvement in the quality of the most recent AGSECALs.

The OED report notes that best practice in the Bank on a number of agricultural reforms is now satisfactory, including pricing reforms and reform of public enterprises. Although the Bank often fails to clearly address the basic shortcomings of public expenditure programs, generally the analysis is also satisfactory.

All the same, the study found much "unfinished business":

- Many governments worry that agricultural reforms will adversely affect food security and the incidence of poverty. Thus systematic analysis in AGSECALs of the impact of reform on food security is likely to enhance governments' support for agricultural reforms. Yet 83 percent of all AGSECALs (although few recently) have ignored food security.

- Performance indicators in AGSECALs have been the exception rather than the rule. They are needed because policy actions—for example *de jure* market liberalization—may not be followed by the desired outcomes because of unexpected difficulties.
- International input markets get little attention. More than three-quarters of AGSECALs do not address integration of inputs (seeds, agrochemical, equipment) into world markets.
- Beyond price and major institutional reforms, AGSECALs have not given enough attention to the ways domestic agricultural commodity and input markets operate, even though evidence shows they are often inefficient.
- The Bank has paid little attention to the political economy of agricultural reform, although agricultural reform is overwhelmingly political.

These and other findings give rise to several recommendations by OED. First, the Bank should develop a good practice statement that would be helpful to those working on agricultural reforms. Second, the AGSECAL should be modified as a lending instrument by dropping the requirement that its use be restricted to quick-disbursement lending. In addition policy and institutional reform should also be part of the other operations, such as hybrid AGSECALs, agricultural sector investment operations, and investment projects, with key reforms being undertaken prior to the proposed investments.

Jordan and Tanzania go further toward implementing water resource management, and provide pertinent performance indicators (box 6.8).

- In *natural resource management* a community-based approach to resource allocation, enforcement, and maintenance has proven successful in such diverse circumstances as Burkina Faso, southern Brazil, and China (box 6.6). It is now being adopted in Egypt and incorporated into the design of many new projects.
- In *forestry* joint forest management by agencies and residents is being promoted in Maharashtra and Andhra Pradesh states in India, with similar approaches being incorporated into the design of many new projects.

- In *rural finance* increased competition in service provision and decreased subsidy dependence is being sought in many projects. There has been successful institutional innovation in providing micro-finance to the poor in circumstances as diverse as Albania (village funds, box 6.3) and Benin (savings and loans associations).

What is required now is an overarching commitment to developing broad rural strategies and mainstreaming the growing number of best practices as illustrated in the examples above.

We Are Pursuing Promising Fresh Ideas

There are also many pilot approaches being tried in countries to solve problems in new

ways. For example, integrated pest management appears to be a promising way to reduce or eliminate chemical pesticides that are expensive and that poison farm workers and the environment. Market-assisted land reform may help improve the rural poor's access to land without the political resistance of other approaches to redistributing land. Pilot programs are being undertaken in Russia and Ukraine by the IFC to distribute land through an internal auction. Individuals and groups bid on sections of the farm using land and property entitlements as means of payment. Results of these experimental programs are being carefully evaluated, and programs refined and spread if appropriate.

The Bank is also a leader in introducing untried but promising approaches to improve natural resources management and promote rural growth. Many of these projects and approaches are too risky or too large-scale for other institutions to effectively carry out. The Bank's comparative advantage is that it has substantial financial resources and management skills, and can better withstand failures. Some promising fresh approaches include spreading biotechnology, including biodiversity considerations in projects, and integrating food policy and nutrition in agricultural operations.

Gender in Rural Development

The critical role of women in producing food, nurturing future generations, and furthering

development in general has been increasingly recognized (box 2.3). Over the past decade the Bank and member countries have paid much more attention to women's issues. Recently, women's issues have been the focus of the Social Summit, the United Nations World Conferences for Women, and the World Food Summit.

Improving conditions for rural women should be a central objective in all the work we do, rather than an add-on or a special project. Bank policy is to integrate gender concerns into all policies and programs. In some cases targeted gender programs are necessary, but more commonly gender-sensitive planning and implementation are the key to ensuring that the concerns of both men and women are fully understood. Our work in this area is still inadequate, but improving:

- *Participatory methods for gender analysis are being used to ensure that gender concerns are reflected in poverty assessments and sector studies.* Participatory poverty assessments have proved to be particularly effective instruments for understanding the gender dimensions of poverty and how women are affected by periods of economic stress. Countries where poverty assessments have directly addressed gender issues include Argentina, Benin, Brazil, Kyrgyz Republic, Morocco, Poland, Russia, Vietnam, and Zambia. An example of a sector study is the Morocco Sector Study on Integrating Women into Economic Development.

Box 2.3 Gender makes a difference

Women account for more than one-half of the labor required to produce food in the developing world, and about three-quarters in Africa. African women perform about 90 percent of the work of processing food crops, and nearly all the work of collecting water and fuelwood for cooking. In Africa 80 to 90 percent of the female labor force is engaged in agriculture. In other parts of the world many women participate without being counted.

Yet in many countries women cannot own or inherit the land on which they work. Women often

have difficulty obtaining seeds, fertilizer, credit, technical information, or access to markets. Thus in many countries women smallholder farmers are the under-performers in agricultural production. We know from research that women are at least as productive as men, when some limitations are removed.

There is strong evidence that women spend their additional income on investments in family welfare, thus having potentially greater immediate and long-term impacts on poverty than increased earnings for men.

- *Many CASs now incorporate gender concerns.* While gender issues are a concern in all sectors, the CAS addresses gender issues within an overall development strategy. Recent CASs directly incorporating gender issues include those for China (with a focus on poverty alleviation); Indonesia (poverty and health); and Bangladesh, India, Pakistan, and Sri Lanka (the participation of women). In the Africa Region, efforts are being made to include three key constraints facing women in all CASs.
- *In agricultural projects women's concerns are being addressed in many ways.* For example, in India three agricultural projects worked with local women's groups to improve women's access to scarce land resources. In Africa, through the Structural Adjustment and Gender in Africa Initiative, ministries of agriculture are being trained in how to incorporate gender dimensions into the selection, design, and implementation of agricultural projects.
- *In agricultural research women-friendly technologies are being promoted in many parts of Africa.* For example, in Kenya and Uganda the Bank is supporting the development of improved techniques for growing vegetables near houses; simple, lighter-weight tools for weeding and harvesting; and improved village-level food processing techniques. A special effort is being made to elicit women's views in determining production constraints and, consequently, research priorities. Women are represented in the formal research program review committees of research centers and institutes.
- *In rural education, health, nutrition, family planning, water and sanitation, women are generally involved in project planning, design, and execution.* Projects designed with extensive input from women's groups include

Box 2.4 Agricultural extension

Agricultural extension can significantly accelerate the adoption of improved technology. Private entities—commercial input suppliers, industry and trade organizations, commodity and farmer groups, and management consultants—are actively involved in seeking out new technologies and providing potential end-users with appropriate information. However, where the private sector does not provide all stakeholders with relevant information—as is often the case for small farms and the poor—the public sector must help finance this activity.

Since the mid-1980s the World Bank has invested heavily in agricultural extension. In Africa, where the Bank has been especially active, a key objective has been to reach smallholder farmers through the training and visit (T&V) extension approach. Efforts have been so successful that most countries in Sub-Saharan Africa have undertaken extension investment projects involving some form of T&V.

Labor-intensive extension services, however, have high recurrent costs for both personnel and field operations. Although resources allocated to extension are likely to generate high benefits, extension services must compete with other public services, such as health and education. For this reason concern is growing about the fiscal sustainability of many of the Bank-supported extension services.

To address the issue of sustainability, agricultural extension investment must be tailored carefully to fit not only the needs of agricultural producers, but the fiscal capacities of countries. Face-to-face services for smallholders will not always be feasible, and services have to be prioritized. Agricultural extension must develop responsive systems capable of providing services to a diversity of farming systems, taking into account the quality and educational level of staff in national extension systems. Programs must also aim to transform traditional supply-driven, top-down attitudes in public sector extension services, creating services focused on strong participatory relationships with clients.

In Africa recent projects based on T&V systems are trying to address at least some of the common problems. For example, in the recently approved agricultural project in Côte d'Ivoire, staffing at the extension agency was substantially reduced, farmer organizations were given a larger role in extension programming and information transfer, the use of economic analysis and a whole-farm approach replaced the narrow message delivery system, and capacity for continuous monitoring and analysis was installed to enable program adjustments as necessary.

Source: World Bank 1994.

Box 2.5 Key issues for national agricultural research systems in the future

By the mid-1980s national agricultural research systems (NARSs) in developing countries employed 80,000 agricultural researchers and had annual budgets of almost US\$4.5 billion (1980 values)—a level comparable to that of all the industrial countries combined. Nevertheless, the percentage of agricultural value-added devoted to agricultural research in developing countries was only about 0.7 percent, which is much lower than the average of about 2 percent in industrial countries. Furthermore, expenditures per researcher have not kept pace with the growth in staffing. This is threatening the efficiency, effectiveness, and fiscal sustainability of many systems.

Sustained investment in national agricultural research is therefore essential. A key role for the Bank is to highlight the importance of investment in research during policy dialogues with national authorities. A second role is to help countries increase the payoffs to resources already committed to research by undertaking major institutional reforms to improve incentives to researchers and managers, by increasing the share of operating funds relative to salaries, and by improving the technical content of research. A third role is to mobilize local sources of funding for research through public sector support, private sector involvement, or farmer financing.

To ensure high quality and impact of research, it is critical to employ the best available scientists and provide them with appropriate incentives, routinely invite critical reviews of research programs by independent authorities, and establish stronger linkages

between research and extension. It will also be vital to strengthen institutional capacity through better planning, priority setting, and evaluation.

Several potentially important participants in the agricultural research system have been insufficiently recognized as alternative suppliers of new technologies. These include universities, which often have access to highly-trained scientists but which have seldom been integral parts of national agricultural research systems; private companies, selling technology for a profit; farmer organizations and cooperatives that might organize their own research institutions or support research in other ways; and NGOs, which have become more important in all sectors over the past decade.

Key elements of a strategy for NARSs over the next few decades thus include:

- Increasing the *efficiency* of the use of existing resources in public sector NARSs through improved management and incentives, better priority setting, and greater competition for research resources
- *Building partnerships* with universities, NGOs, farmer groups and the private sector
- Convincing policymakers to *properly support public agricultural research* that is adequate in scope and scale, maximizes its sources of non-traditional funding, has divested itself of responsibilities that can be undertaken by private entities, and operates efficiently.

Source: World Bank 1996a.

the Zambia Urban Restructuring and Water Supply Project and the Baku Water Supply Project. The Sri Lanka Community Water Supply and Sanitation Project employs educated women as community facilitators. Women community facilitators have proven to be very efficient in conducting group discussions and group training at the village level. In El Salvador the Basic Education Modernization Project is supporting curriculum reform that emphasizes the specific needs of women and the key role of educated women in reducing fertility and guiding the education of young children. The project will support reform efforts by eliminating the remain-

ing gender stereotypes in school texts, improving teacher quality, and introducing career guidance.

- In *agricultural extension* both the topics covered and the way information is delivered reflects the needs and concerns of women much more than in the past. Women farmers, scientists, and communication specialists are helping to design extension programs. As a result extension services are now likely to cover topics of special interest to women, such as food crop production, small animal husbandry, and food processing and storage techniques. In addition information is delivered in ways that take into account how women spend

their time. For example, radio programs with information of interest to women are broadcast during the hours when women have time to listen.

- In *natural resources management* women are involved in the planning and implementation of projects from the very beginning. The participatory rapid rural appraisal process—which is the starting point of all village-level activities—includes a specific component for women. This ensures that women's particular interests and concerns are expressed, noted, and can be integrated into the overall land-use and development plan. Many projects now contain elements such as soil and water conservation of women's group plots, support for small-scale market gardening by women's groups, and technical and financial inputs for small-scale sheep and goat fattening. The Burkina Faso and Mali Natural Resources Management Projects are examples of projects with important components for women.
- In *rural finance* women have been the beneficiaries of small loans—and have an excellent repayment rate. There are a number of initiatives underway at the Bank to increase the access of the poor and vulnerable, including women, to financial

resources. It is anticipated that women entrepreneurs will be the primary beneficiaries of the CGAP program (see box 6.2). In Chad the Social Fund Credit Program has given 68 percent of its loans to female entrepreneurs. Most of the loans are for less than US\$1,000 and have benefited the country's poorest women. The repayment rate is 90 percent. In Honduras women are the major beneficiaries of credit under the microenterprise and community bank schemes of the Social Investment Fund Project.

We Are Becoming Visible Again

The poor performance of the past, which was eroding the importance of rural development in the Bank's operations, has ended. Other activities that have made the Bank visible again include:

- Successfully managing the financial crisis of the CGIAR (box 5.1)
- Anticipating the recent spike in cereal prices and initiating the coordination of the international response (box 5.3).

The international community is again looking to the World Bank for leadership in these and other areas to meet the difficult and diverse challenges of rural development.

CHAPTER 3

Formulating Country Strategies and Building Consensus

Central to the formulation of the assistance program of the Bank in all borrowing partner countries is the CAS, and the quality of the economic and sector work (ESW) on which the CAS is based. The CAS, developed in varying degrees of partnership with the country, defines the key issues for development, analyzes the current and future prospects for dealing with the issues, and provides the overall context within which Bank operations are undertaken.

Country Assistance Strategies Must Include Analyses of Rural Development Issues

It is the defining document that frames the Bank's future involvement in a country. If CASs have well-defined, coherent rural strategy components, and treat agriculture comprehensively, the chances for a sustained and effective rural sector program are substantially improved.

CASs should treat rural development thoroughly, and where appropriate, include a rural strategy. Doing so would highlight key sector-wide issues and underscore the critical role of ESW and policy reform as prerequisites to lending operations. It would also encourage countries to move away from the technical project approach—which is clearly less relevant for the changed environment of public and pri-

vate sector cooperation, decentralization, and participation. Further, it would help ensure that the rural sector receives its share of Bank resources in competition with other sectors, and that the rural sector is included in the macroeconomic debate.

The inclusion of a competently developed rural sector strategy in the CAS, in line with the importance of the sector to the country's development and poverty reduction prospects, is necessary for fostering rural development, for improving portfolio performance, and for arresting the decline in Bank agricultural and rural services. But there are clearly wide differences of opinion within the Bank and among our partners as to the priority that should be given to the rural sector. Opinions range from recognizing a positive, even essential, role for agricultural growth in the overall development strategy, to benign neglect, to a virulent urban bias. This debate needs to be resolved by rigorous analysis, not by benign neglect.

The inclusion of a rural strategy in the CAS is the end point of a critical process of analysis, including ESW. It is crucial to improve the process of rural strategy formulation as an input to the CAS by improving the analytical base, identifying the necessary changes in policies, institutions and expenditure allocations, developing a coherent strategy with priorities clearly stated, determining an appropriate balance between lending and

nonlending services, developing partnership relationships with appropriate government ministries, and involving participation of the civil society at all levels.

Good sector work, which evaluates the potential contribution to development that Bank-supported interventions can make, is essential. Of course, this sector work—focused on developing and implementing a viable rural strategy—requires much more than agricultural expertise. It requires inputs from experts on education, population, health, nutrition, infrastructure, the environment, and economics, at a minimum. Each country department, in each Region should be challenged to address this issue by proposing mechanisms for effective coordination through, for example, country teams, by reorganizing into rural sector divisions, or by other mechanisms they deem appropriate.

But developing a coherent rural strategy and incorporating it into the CAS is not enough if consensus in the country is lacking. Therefore the Bank needs to involve national experts, men and women, inside and outside of government, and civil society groups in ESW and in rural strategy formulation. This will improve the quality of the background work, and contribute to consensus building.

The strategy will also need to address the fragmentation in the treatment of rural issues in our partner countries. In India a coherent food and agriculture policy would involve at least nine ministries and four national parastatals, plus numerous other actors at the national and the state level. Agricultural ministries tend to be production-oriented and distant from the policy process or the social debate. Ministries that provide infrastructure, education, and health services tend to see rapidly growing urban areas as their prime concern. It is therefore critical that the rural strategy addresses how best to approach the dialogue with partner countries.

Doing thorough background analyses and formulating rural strategies can be costly. A rural strategy produced for Brazil, for example, involved staff from several divisions and lead-

ership from the technical department. But for many countries there is considerable knowledge in the Bank, which, if tapped, could be used to formulate strategies. In addition to country-specific literature and the unwritten knowledge of country experts and Bank staff, the analytical base includes: poverty assessments, environmental rural sector strategies, macroeconomic analyses by the Bank and the International Monetary Fund (IMF), ESW documents, project documents, and OED audit reports. The main task is to synthesize this knowledge. It is time and high level skills to do the work that are scarce.

Clearly, it will not be possible to develop and update rural strategies for every country, every year. Effort should focus on countries where the government is sufficiently interested. If interest is lacking or political capacity to implement the recommendations is weak, strategy development is best undertaken at a more opportune time when the government is ready to discuss a new strategy. Governments are always in search of good ideas. Often their capacity to make major changes is greatest in their first one or two years in office. Therefore, phasing and selectivity are needed.

Finally, in virtually all our partner countries there are many donors and multilateral financial institutions promoting often disjointed enclave projects. These enclave projects are often launched where the policy environment is not favorable and a coherent rural strategy is lacking. Consequently, many of these projects fail to achieve their development objectives, and undermine local commitment and domestic institutional capacity. Within the overall rural strategy, the Bank should be pressing for sector or subsector programs that are integral parts of the government's development strategy and public expenditures and budget. These programs have advantages over enclave projects: they provide a cohesive framework for the government's public sector investment program, they enhance the effectiveness of public sector management by eliminating fragmented project management units, they foster local ownership and commitment by empowering

the country to determine its development priorities, and they increase the effectiveness and sustainability of development aid through effective donor coordination (box 3.1). As a broad-based multilateral financial and development institution, the Bank has a special responsibility in pressing for effective donor coordination, including perfecting lending instruments and harmonizing implementation arrangements. The Bank should take the leadership in promoting sector or subsector investment lending as one of the major instruments of development assistance.

Because current capacity is limited, the strategy focus will initially be concentrated on selected focus countries (at least two per Region), in which country commitment to rural development is weak, as expressed by the absence of a sound strategy, policies and expenditure patterns that are biased against rural areas, and a lack of institutional capacity. Intensive strat-

egy work has already been completed for Brazil, Colombia, South Africa, and for the agricultural sector of Bangladesh. Major efforts are ongoing in India and Morocco. Additional focus countries include Guatemala, Guinea, Madagascar, Malawi, Mali, the southern states of Mexico, the Philippines, Uganda, Ukraine, and Vietnam.

Within three years rural strategies will be carried out for most countries where the Bank is active and rural poverty and development remain important. Rural strategies will cover both what the country can and should do, and what the Bank and other donors can do to support the country program. Much greater emphasis will be placed on tapping and synthesizing the knowledge available in the Bank and from country scholars and practitioners, and on consensus building—both while formulating strategies and later while implementing the recommended programs.

Box 3.1 Sector investment programs

Especially in Africa, but in other regions as well, the traditional project approach to development assistance has had limited impact in increasing rural incomes and reducing rural poverty. It has resulted in a great deal of dissatisfaction among both donors and recipient countries. Most development experts agree that fragmentation, duplication, and a lack of participation by local stakeholders in project design, implementation, and supervision are among the reasons for the lack of success. This recognition has led to the development of the Sector Investment Program (SIP) as an alternative vehicle for providing development assistance.

The SIP is an operational instrument for implementing a broad sector approach to investment lending. Six features of the SIP differentiate it from the traditional project approach. A SIP covers the entire sector or subsector, is prepared by the country's local stakeholders, is implemented within the country's institutional framework (no new project management units are created), is supported by all the active donors in the sector (the Bank supports the integrity of the program approach by acting as the donor of last resort for program components not supported by other donors), uses common implementation arrangements for all financiers to the extent possible, and tailors long-term technical assistance to meet demand.

The SIP approach is not appropriate or desirable in all countries at all times. It is not likely to succeed where macroeconomic and sector policies are distortionary, or where there are major disagreements between donors and governments over the broad elements of the policy and institutional framework and public expenditure program. The lack of implementation capacity of local stakeholders may also hinder success, although with competent local leadership and country commitment to the program, capacity can almost always be developed.

The sector investment approach to development assistance is still new, and its success still unproved. Therefore, it is very important that the impact of a SIP is continuously monitored and evaluated. SIPs should be designed to be flexible in a way that permits experimentation and periodic adjustments based on sector performance, policy changes, and joint annual reviews of workplans and budgets. Performance indicators must be used to measure the overall sectorwide impact, client satisfaction, and the extent of donor participation. It is recommended that sector performance analysis and policy monitoring be carried out independently in the form of an audit. The SIP should therefore be used as a vehicle for building in-country capacity for policy monitoring and sector performance analysis.

Few Bank staff are adequately trained to formulate rural strategies and build consensus. Even staff members who are not directly involved in the formulation and dissemination of strategies will need to be trained in order to understand the context within which they are working. Therefore, the Rural Development Department (RDV) has developed and tested a core course on rural strategy formulation, which will be offered over the next three years to all staff involved in rural development and to many country economists. RDV will also develop a research program focused on the political economy of rural development to strengthen our understanding of how rural development comes about, so that we may offer sound policy advice.

Matrix 3.1 summarizes the objectives, challenges, and actions needed to improve strategic formulation and consensus building. It sets out the key actions and their sequence, the accountable organizational units, internal and external collaborators, dates by which actions need to be completed, and outputs or monitoring indicators.

World Bank Group Must Combine Partnerships and Selectivity

Rural strategies will need to cover all important policies, institutions, and programs for rural development. For most countries the job of developing and implementing the strategies is huge and complex. Therefore, countries need many partners. The Bank can assist with donor coordination, which must start immediately. The following principles of collaboration and selectivity must underlie all Bank activities in rural development:

All Bank activities in rural development must reflect its mandate of poverty reduction and sustainable natural resources management. The Bank must build alliances with partners that work at the country level. It must also build alliances with partners at the central level, to facilitate the country-specific partnerships. Partnerships must be based on a common vision for rural development, and reflect the in-

terests and capabilities of all partners. The CGIAR provides one of several models for such partnerships. Several additional efforts are underway, in which the Bank is a partner with others, such as the CGAP, and the Global Partnership for Water. IFAD is working with the Bank on a global network for rural development. More modest initiatives include a planned network with FAO and IFAD on land reform, which will facilitate the exchange of experience among countries that are introducing negotiated or market-assisted processes for land reform. These partners are also initiating a network to foster the exchange of information among countries engaged in sector investment programs. The fourth annual World Bank ESD conference in September 1996 and the World Food Summit in November 1996 provided opportunities to build alliances with partners, and to agree on a common vision and general strategies for rural development.

The Bank needs partners with field presence and experience working in rural areas of partner countries, partners with special and complementary expertise, and partners with influence and additional financial resources. Of the partners with influence and specialized knowledge, the Bank can work with the WTO on freer agricultural trade and on access to OECD markets; with FAO on data collection and analysis, land reform, and fisheries management (among others); with the CGIAR on agricultural technology; and with IFAD and NGOs on poverty reduction. Multilateral development banks can provide financial resources to support irrigation and drainage, rural finance, and infrastructure. Bilateral donors can join with the Bank in supporting areas as diverse as agricultural research, forestry, and capacity building. Partners with field presence would include NGOs, community-based organizations, the private sector, and a wide range of regional and local government agencies.

In each country the Bank must sequence its own activities appropriately. It is now well understood that projects are more likely to meet their objectives when certain conditions are met first. The Bank should sequence its activities

accordingly. The first step is to secure agreement on strategy and policy for rural growth, employment, and natural resources management. The second step is to support the development of country institutions so that countries obtain the capacity to manage their own development. The third step is to target programs for poor people, poor regions, and threatened natural resources.

The Bank must choose the right product mix. The Bank must emphasize areas in which it has a comparative advantage and that are most likely to produce results.

In nonlending services, the Bank will focus on:

- Analyzing and disseminating cross-country experiences
- Helping create internal capacity for strategy and policy formulation (stronger internal capacity will reduce the need for the Bank to conduct economic and sector work)
- Linking countries with centers of excellence around the world
- Establishing processes for consensus-building

In lending services, the Bank will emphasize:

- Policy and institutional adjustment through policy-oriented operations (others rarely do this)
- Program lending, involving a high degree of donor coordination (needs time and resources)
- Making small loans as preludes
- Making more lending contingent on demonstrable results of prior lending
- Where such prior results are not available, piloting experimental approaches (often too risky for others to do alone).

These principles of collaboration and selectivity must underlie all Bank activities in rural development.

Diverse Regional Circumstances and Priorities

Regional differences in the importance of agriculture and in recent trends in agricultural growth are quite staggering:

- Agriculture represents about 30 percent of GDP in Africa and South Asia; about 20 percent in East Asia and the Pacific, and the Middle East and North Africa; and about 10 percent in Europe and Central Asia, and Latin America and the Caribbean.
- The 1980-93 agricultural growth rate is about 4 percent in the Middle East and North Africa, and East Asia and the Pacific, about 3 percent in South Asia; about 2 percent in Latin America and the Caribbean, and Africa; and negative in Europe and Central Asia.

Equally striking are regional differences in the importance of the rural population and recent growth rates:

- Rural people make up about 70 percent of the total population in Africa, East Asia and the Pacific, and South Asia, about 50 percent in the Middle East and North Africa, and about 30 percent in Europe and Central Asia, and Latin America and the Caribbean.
- The 1980-93 rural population growth rate is about 2 percent in Africa, the Middle East and North Africa, and South Asia; about 0.5 percent in Latin America and the Caribbean, and East Asia and the Pacific; and negative in Europe and Central Asia.

There is also variation among regions in the importance of agriculture in exports. About 30 percent of exports from Latin America and the Caribbean and Africa are agricultural products; 20 percent of exports from South Asia, and East Asia and the Pacific are agricultural products, while only 5 percent of exports from the Middle East and North Africa are agricultural products.

There are also important differences within regions. To take Latin America and the Caribbean as an example: excluding Cuba, the 11 countries with populations under one million, and the dependent territories, there are striking differences between the remaining 21 countries:

- While agriculture represents only 10 percent of GDP nationwide, it represents more

Box 3.2 Conference on Poverty and Hunger: a popular coalition for action

The Conference on Poverty and Hunger, held in Rome in November 1995, was intended to merge the common missions of national governments, multilateral institutions, and civil society organizations into one strategy for fighting poverty and hunger. The outcome was a Programme of Action that consists of five imperatives:

1. Establish a coalition to empower the poor
2. Establish a knowledge network through which successful grassroots and civil society initiatives can be identified, replicated, or scaled up
3. Develop strategies to build public awareness and create political will for the alleviation of hunger and poverty
4. Initiate a global program in emergency prevention
5. Ensure the early implementation of the Convention to Combat Desertification.

Following the conference, an interim committee was put into place comprising the World Bank, FAO, World Food Programme (WFP), IFAD, the European Commission, and one sectoral and five regional NGOs. IFAD was designated as the Secretariat of the coalition. The purpose of the interim committee is to guide and oversee the initial stages of implementation of the Programme of Action. The committee has formed action groups to investigate how to best implement each action initiative or its components. The

group investigating ways to establish the knowledge network, comprising Society for Research and Initiatives for Sustainable Technology and Institutions (SRISTI), FAO, the World Bank, and IFAD, met in Rome in March 1996, with the participation of three experts.

The knowledge network will be devoted to the exchange of civil society knowledge and experience in fighting hunger and poverty. It will link together existing networks and facilitate the exchange of views among civil society organizations, policymakers, donors, international organizations, academics, and people's groups from around the world.

The knowledge network will begin by concentrating on sharing information related to the empowerment of the poor through increased access to land, water, and other natural resources, with particular emphasis on marginal ecosystems (a subsection of the first action initiative of the conference). As stipulated in the Programme of Action, this includes information on land redistribution, titling and inheritance rights, securing rights to water and productive assets, guaranteeing rights of indigenous people, ensuring equal rights to resources for women, and providing for the sustainable local management of common property resources, as well as rights to land use for pastoralists and access to water for fishermen.

- than 25 percent of GDP in 4 countries (Guatemala, Haiti, Nicaragua, and Paraguay).
- While the regionwide 1980-93 agricultural growth rate was a modest 2.1 percent, it exceeded 3 percent in 6 countries (and exceeded 4 percent in Chile and Ecuador), but was less than 1 percent in 5 countries.

Similar interregional differences are found in other indicators. *These differences require different rural strategies by country.*

For the larger countries, such as Brazil and Mexico, important differences are also found among states and agro-ecological zones, and in the spatial incidence of acute poverty. Such in-country differences will have to be taken into account in designing rural strategies. Thus no blueprint can be offered for rural strategy design: it must to be country-specific and, in larger countries, tailored to specific subregions and/or subsectors.

Challenges, General Directions, and Specific Focus Activities for Each Region

Africa

The overwhelming challenge in Africa is to increase food production and raise incomes in rural areas. Seventy percent of people in Sub-Saharan Africa live in rural areas, agriculture accounts for 30 percent of GDP, 40 percent of exports, and 70 percent of employment. Far more than any other region, a prosperous agriculture is the engine without which poverty cannot be reduced, natural resources cannot be managed sustainably, and food security cannot be assured. The Region has set clear directions for lending: no more financing of agricultural marketing, input supply, processing, or rural credit through the public sector; focus on a few selected national and thereby systemic pro-

grams of high impact—in research, extension, animal health, and natural resources management (water, soil fertility, forests, pastures, wildlife), plus one or two other areas such as irrigation or rural finance, depending on the country. The second major challenge is to pursue rural, rather than just agricultural, growth. This is being done by designing a common strategy for development of the rural economy, with investment in infrastructure and social services to be undertaken through nonagricultural projects. The third major challenge is to make national programs work. Sector investment lending is rapidly becoming a privileged instrument; although still not yet proven, it has the potential to generate systemic change in the whole public rural expenditure program. This is particularly important in Africa where, with official development assistance at 11.5 percent of GNP in 1993 and many donors active in rural areas, donor coordination is essential. Agricultural policy reform would be more vigorously pursued through adjustment operations, as well as through nonlending activities. There will be expanded focus on generating African and donor commitment to agriculture and to agricultural policy reform through Africa-wide regional fora such as the Special Programme for African Agricultural Research, the West African and the Eastern and Southern African associations of ministers of agriculture, and through the African Water Pact.

Europe and Central Asia

The main challenge in Europe and Central Asia is to reform agricultural policies that in the past encouraged inefficient farming practices. The Region's strategy is to base rural lending on a graduated response to thresholds of policy reform, including price and trade liberalization, agribusiness and farmland ownership change, demonopolization and deregulation of marketing, and financial sector reforms. Exceptions are made for projects with long lead times, such as research, or for activities such as land registration that will enable a policy change, when made, to take effect promptly. A second

major challenge, unique to the Region, is the severity of the needed restructuring and rebuilding of agriculture and the agro-industrial complexes. This is a task without precedent:—there is no blueprint. The Region will continue to devote a relatively large share of resources to nonlending services, particularly to analyze land and rural property issues, and the impact of privatization on efficiency and equity, and to assist with determining the necessary legal and regulatory framework for agribusiness and rural services. A third major challenge is the intention of Central European and Baltic countries to accede to the European Union. For many countries this may mean the pursuit of suboptimal policies, as they try to position themselves in anticipation of the eventual application of the Common Agricultural Policy (CAP). Here, too, nonlending services will be significant, as the Region endeavors to convince governments not to introduce CAP-type policies prematurely. The Region will also work with the European Union to reduce the likelihood that introduction of protectionist measures prior to accession negotiations results in compensation benefits from the European Union after membership.

Middle East and North Africa

The scarcest resource in Middle East and North Africa is water, and the overwhelming challenge is to increase the efficiency of water use in agriculture, currently the highest user. Water charges are symbolic, and operations and maintenance are inadequate because of weak user participation. Yet intersectoral water transfers are inevitable. Urgent action is required and is being sought by the Region through a series of investment operations in the water sector. A second major challenge is to improve the competitiveness of agriculture, while taking account of most governments' preoccupation with maintaining low urban food prices. This preoccupation has led to the prevalence of state marketing companies that stifle commerce and to the implementation of ineffectively targeted food subsidies. The fiscal

drain is enormous, exacerbated by the recent steep increase in world grain prices. While sector adjustment operations have made significant progress in addressing aspects of competitiveness, much more remains to be done in designing targeted food consumption programs that are effective and politically acceptable. A third major challenge in Middle East and North Africa is posed by the scarcity of arable land and the severity of soil erosion, and the indifference of many governments: there is little investment in watershed management. Many of the region's poorest people live in the upper watersheds, eking out livelihoods from forests, rangelands, and steppes, and contributing to watershed degradation in the process. Given the pervasiveness of urban bias in public expenditures, much more persuasive analysis is required to significantly increase investment in watershed management.

South Asia

The principal distinguishing feature in South Asia is the world's largest concentration of poor rural people. Landlessness is far more common there than elsewhere. Much rural poverty is found in rain-fed areas, where the resource base is both more limited and more fragile than in the irrigated plains. Poverty reduction is the main challenge. It is being addressed by working to reduce all distortions in agricultural product and factor markets. The most important reason for these distortions is exorbitant government intervention in marketing, distribution, and finance, through parastatals and overregulation, as well as through protection of domestic industry which generates higher input costs for agriculture. Redefining the government's role in agriculture and removing market distortions are the second most important challenge. The Region is encouraging speedy completion of trade policy reform and increasing competition in input and output markets, with an orderly transition to full private sector orientation. In addition the Region will strengthen sector work dissemination and dialogue with stakeholders to

raise country commitment in decentralized participatory rural development programs. A third major challenge is water resources management. This has several dimensions: intersectoral and intercountry disputes over allocation of scarce water, a crisis in irrigation service delivery, and a worsening problem of waterlogging and salinization, and pollution of both ground and surface water that threatens rural domestic water supply. The Region is addressing the second two problems through innovative projects in irrigation and drainage, flood control, and rural water supply. It envisions taking a more proactive role in resolving water disputes by launching participatory analytical work on water resources management, supporting regulatory measures, and disseminating policy advice.

Latin America and the Caribbean

The most striking characteristic of the Latin America and Caribbean region is the incredible diversity of the countries in terms of socio-economic conditions and agricultural practices. The region contains some of the Bank's highest-income borrowers (Mexico, Chile, Argentina), where much agriculture is technologically sophisticated and an engine of growth, and some of its lowest income borrowers (Bolivia and Haiti), where much agriculture is subsistence-based. Another characteristic is the extreme income inequality of the rural population—a result of a long history of governments providing discriminatory access to land and capital to the wealthy and powerful. Poverty is deep and prevalent in rural areas, and is a major source of urban poverty, because a high proportion of the rural poor have fled to the urban peripheries. Many rural poor earn their livelihoods as laborers or subsistence smallholders in environmentally fragile areas or on the frontiers, so rural poverty is closely connected to issues of natural resources management. At the same time, commercial farmers are beginning to better understand the concept of land conservation and sustainable farming, and are seeking assistance in devel-

oping and implementing these techniques. Poverty reduction, better use of existing productive capacity, and sustainable natural resource management are the three main challenges for the Region. The Region's strategy is to redefine the role of government; emphasize community-based approaches to natural resources management; target interventions to reduce rural poverty, emphasizing indigenous peoples; increase efforts to speed the pace of land reform and land allocation; work with governments to remove policy biases against small farmers; and mobilize rural financial resources.

East Asia and the Pacific

The main characteristic of East Asia and the Pacific is fast growth, including fast agricultural growth (4 percent per year since 1980), and good social service provision nationwide. Except for Indochina and the poorer areas of China, East Asia and the Pacific countries are not International Development Association (IDA)-eligible and have to borrow on the International Bank for Reconstruction and Development (IBRD) terms. A major challenge is that borrowers have preferences for uses of IBRD lending, which may not be coincident with Bank priorities. Virtually all borrowing countries of East Asia and Pacific are willing to borrow for large dams, and the Bank response should be based solely on evaluation of economic, environmental, and resettlement costs and benefits. Many countries seem to have become less interested in borrowing for agricultural research or watershed management, and more persuasive analysis will have to be undertaken. Related challenges, in the sense that a sophisticated Bank response is required, arises with respect to financing high technology agribusiness and reforming marketing parastatals. For the first, new types of lending instruments and new types of collaboration with IFC are needed. For parastatal reform there is a danger, in nominally market economies, of replacing a relatively transparent

and efficient parastatal by an opaque private monopoly. Pragmatism will be required in parastatal reform. A third challenge is the sheer heterogeneity of the region, ranging from some of the largest Bank borrowers (China and Indonesia) to some of the smallest (Laos, Fiji, Pacific Islands, and Mongolia). Donor competition is strong but can be turned to an advantage if another donor is willing to take the lead in the agricultural sector of entire small countries.

The key characteristics of each region and their main priorities are summarized in table 3.1.

Focus Programs Initiative

At the request of the President, Regions and Central Departments have identified focus programs that would significantly accelerate agricultural and rural development in selected countries through concentrated efforts from the Bank and collaborators, show what is possible through a combination of political will and rigorous application of best-practices, and achieve significant regional and global impacts on food security and poverty reduction. Work on the focal activities has just begun, and much needs to be done to integrate the programs fully into the CAS process and into the Bank's budget process. In addition consultation in and with focus countries is needed to be sure they are committed to the initiative. The 1996 Environmentally Sustainable Development (ESD) conference and the Annual Meetings were used to build consensus on these initiatives.

The focal programs are summarized below:

- *Africa.* Focus on accelerating widely shared agricultural growth in Guinea, Madagascar, Malawi, Mali, and Uganda
- *Europe and Central Asia.* Focus on Ukraine, whose agricultural recovery is important in itself, and for global food security, and on analyzing the cross-country agricultural policy issues faced by countries who seek admission to the European Union

- *Middle East and North Africa.* Focus on rural strategy development and implementation in Morocco, and water management and allocation issues across the entire region
- *South Asia.* Focus on integrating several existing activities into a multisectoral rural strategy for Bangladesh. In India focus on developing a comprehensive rural development strategy
- *Latin America and the Caribbean.* Focus on rural poverty reduction in southern Mexico, northeastern Brazil, and Guatemala, and support for the Regional Unit for Technical Assistance in Agriculture (RUTA)
- *East Asia and the Pacific.* Focus on formulating a rural development strategy for Vietnam, implementing a recently completed rural development strategy for the Philippines, and analyzing China's options for long-term food security
- *Globally.* Focus on the WTO and the world trading system for agricultural commodities, which are critical to the goal of fostering rural development.

Thus the Focus Program Initiative involves special programs for fifteen countries, programs on three thematic issues, and support for a regional institution. Appendix A provides detailed descriptions of the focus programs.

Table 3.1 Diversity of regional issues

<i>Region</i>	<i>Key characteristic</i>	<i>Three priorities and challenges</i>		
Africa	Slow agricultural and rural nonfarm growth	Achieve rapid agricultural growth (to attain all other societal objectives)	Develop a common strategy for improving the rural economy, but implement it by sector	Promote program lending to achieve systemic changes (with donors)
East Asia and the Pacific	Fast agricultural growth	Respond to partners' willingness to borrow on IBRD terms, in a sophisticated way	Innovate, with the IFC, to finance high-technology agribusiness and exercise pragmatism in parastatal reform	Address heterogeneity of region and donor competition
Europe and Central Asia	Resistance to reform, despite negative agricultural growth	Base rural lending on a graduated response to thresholds of policy reform	Search for ways to hasten farm and agribusiness restructuring	Convince European Union aspirants not to introduce CAP-type policies
Latin America and the Caribbean	Deep rural poverty, underutilized productive capacity, fragile ecosystems	Improve resource allocation and reduce poverty through land reform, removal of policy biases against small farmers, and targeted programs	Emphasize indigenous peoples	Manage natural resources sustainably using community-based approaches and sustainable production practices
Middle East and North Africa	Water scarcity	Increase water-use efficiency in agriculture, and improve water resources management	Improve competitiveness of agriculture by designing effective targeted food consumption programs	Increase investment in watershed management (for soil and water conservation, as well as poverty reduction)
South Asia	Large numbers of poor rural people, many landless	Reduce poverty through reforms of antilabor policies, rural development, and watershed management	Speed up completion of trade policy reform, including input and output markets	Improve water resources management and dispute resolution

Matrix 3.1 Improving strategy formulation and consensus building

<i>Objective: Better-integrated and more participatory strategies for lending and nonlending operations for rural development</i>						
<i>Challenge</i>	<i>What needs to be done?</i>	<i>Who is accountable?</i>	<i>Collaborators</i>			<i>Output or monitoring indicator</i>
			<i>Bank</i>	<i>Outside</i>	<i>Date</i>	
In many countries the commitment to rural development is weak, as expressed by the absence of a sound strategy, policies, expenditure patterns, and viable institutions.	Each region has identified at least two focus countries for thorough analysis and intensive consensus-building efforts.	Country teams RVP President's Office	RDV EDI	FAO IFAD UNDP WTO IMF	December 1997	Country commitment to improved rural strategies
Objectives for Bank operations, and the balance between Bank lending and nonlending programs, are poorly articulated.	Prepare rural strategies as inputs to the CAS, with teams of economists, and rural and sector specialists. In strategy documents: articulate and rank critical strategic issues for rural growth, poverty reduction, and natural resources management; identify the degree to which country policies, institutions, and expenditure patterns support this objective; and link the Bank's lending and nonlending operations to resolving the critical strategic issues.	Country manager Country team Country director	CODs SODs Center IFC	IMF Other donors EU WTO	Phased with electoral cycles and CAS process	Rural strategies integrated in to all relevant CASs by 2000
There is inadequate participation by country scholars and civil society groups and donors in ESW and the formulation of rural strategies.	Involve national experts and civil society groups in ESW and rural strategy formulation. Organize seminars and workshops in-country to discuss the strategies.	CODs, SODs, Regional directors, Field offices	Field offices EDI	NGOs, Ministers, Universities, Other donors	Ongoing	Reporting of participation in the development of rural strategies
The Bank's analytical work and strategy documents are not well used to promote consensus building on rural strategies in partner countries and with other donors.	In strategy documents specify the steps and methods for dissemination and consensus-building; allocate the necessary resources.	Country teams	EDI ESD EXT	NGOs Ministers Universities	Ongoing	Resources allocated for dissemination of strategic documents
The Bank has sometimes proceeded with project lending in the absence of an appropriate policy and institutional environment.	The Bank will finance rural sector operations only when the policy framework, the institutional environment, and public expenditure patterns are good or at least improving. During the period of policy reform the Bank should confine its operations to nonlending services and pilot activities.	Country teams	RDV	Ongoing		
Staff are inadequately trained for strategy formulation and dissemination. Existing country- and sector-specific knowledge is often poorly integrated into rural sector strategies, CAS process, and policy dialogues.	The Center will teach a core course on rural development strategy formulation for staff specializing in rural issues, macroeconomists, and other staff. The Center identifies and disseminates 1-3 examples of best practice.	RDV	EDI DEC HDD IFC, GAP	IFPRI FAO UNDP	Course has been developed	33 percent of staff complete course by end of 1997, 66 percent by end of 1998, 90 percent by end of 1999
Our understanding of the political economy of agriculture and agrarian relations is still weak.	Prepare and fund a research program.	RDV	DEC Regions	Universities Think tanks	January 1998	Research program initiated

CHAPTER 4

Improving the Existing Portfolio

On December 31, 1996 the strictly agricultural portfolio consisted of about 350 projects with a total commitment value of about US\$20 billion (17 percent of the total Bank portfolio) of which nearly US\$12 billion was not yet disbursed. The agriculture portfolio has the largest amount undisbursed of any sector. The nonagricultural rural portfolio, including projects classified in other sectors but with rural components, represents an additional several billion dollars in commitments for rural development.

How Poor Is the Performance of the Agricultural Portfolio and What Causes Poor Performance?

In the past agricultural projects often fared less well than other projects. Over the period 1981-89, the performance of agricultural projects was 10 percentage points worse than the Bank average. However, the performance of agricultural projects has steadily improved since 1989, when 52 percent of completed projects achieved a satisfactory rating. Over the period 1990-94, OED rated 64 percent of completed projects as satisfactory, 5 percentage points worse than the Bankwide average. In fiscal 1995, agricultural projects actually performed significantly better than the Bank average (78 percent of agricultural projects rated satisfactory, versus 68 percent of all other projects). While there is reason for optimism, it is not clear that this improving trend will

continue, and there is no place for complacency.

For the strictly agricultural portfolio, ongoing performance over the period 1993-95 has been rated as follows:

- Projects that are unlikely to attain their development objectives: 14 percent, 1.9 percentage points worse than for all other sectors
- Projects with implementation problems: 19 percent, 1.4 percentage points worse than for all other sectors.

In 1995 the performance of agricultural projects was better than the Bank average, thanks to the steps taken to improve performance. But, this good performance will be difficult to sustain in the future without radical changes in the Bank's current practices. Carrying out the following activities will make it likely that the performance of the agricultural and broad rural portfolio will improve on a sustained basis.

- Sector-specific reviews of the existing portfolio
- A substantial strengthening of the Banks emphasis on monitoring and evaluation, with particular emphasis on partner consultation
- Improved continuity and donor consultation in implementation assistance
- The adoption of useful project innovations, both in existing and new operations.

The objective of the portfolio reviews and other measures to enhance quality is to achieve OED satisfactory ratings for 80 percent of com-

pleted projects by fiscal 2002 and beyond. A recent OED analysis suggests that this is an ambitious goal. Achieving it will require many measures, including significantly improving quality at entry and project implementation, extensive use of piloting, and increased willingness to restructure or cancel substandard projects. It will also require channeling lending more to countries with favorable economic and governance environments, and providing more nonlending services to others. Only with a dramatic shift from current practices will it be possible to achieve an 80 percent satisfactory outcome within the next five years or so.

Matrix 4.1 describes a series of actions to improve the responsiveness of our business process, and thereby our portfolio performance. Box 4.1 discusses ways to improve project quality.

Review and Revamp the Existing Portfolio

There is no way that the performance target can be reached and sustained by fiscal 2002 unless additional steps are taken to improve the performance of the existing portfolio. Concentrating only on improving quality at entry would delay measurable impact on performance to the middle of the next decade. The Regions, with assistance from the Center, are carrying out sectoral portfolio reviews, or completing ongoing ones by the end of this fiscal. Agreements should be reached with borrowers and actions by the end of fiscal 1997.

The portfolio reviews need to evaluate whether projects are addressing the key development objectives effectively, including environmental and social objectives. Broadly speaking, there are three possible recommendations: continue the operation largely unchanged, change the project, or cancel the project. Within the framework provided by a reassessment of the risks that the project faces, its relevance, efficacy, and efficiency as well as its outcome, sustainability, and institutional impact will be evaluated or reevaluated. These criteria are essentially the same as those used to judge a project at completion. They will,

however, be adapted to reflect the fact that it is much easier to change projects during implementation than at completion. In addition, a watchlist has been developed, that includes projects deemed to be especially risky, complex, or innovative. Projects placed on the watchlist are subjected to more frequent scrutiny. The portfolio reviews started in April 1996, with an initial focus on water projects, forestry, and research and extension.

Strengthen Monitoring and Evaluation

Recent OED analysis indicates that monitoring and evaluation (M&E) is seriously deficient for all Bank operations, but slightly better than average for agricultural projects. The stronger performance of monitoring and evaluation in agricultural projects may be the legacy of the considerable effort during the 1980s, when RDV contained a monitoring and evaluation unit that provided operational support in the Bank and trained staff in partner countries. Because of budget constraints, the unit was eliminated.

Since the 1980s monitoring and evaluation techniques have evolved significantly. Rapid assessment approaches and systematic client and stakeholder consultations have become much more common. Significant work has also been done on generating better quantitative and qualitative performance indicators for a range of different projects, and for measuring the impact of rural Bank operations as a whole.

There has also been a move to apply a sharper strategic focus to World Bank operations in the rural and agricultural sector. In Latin America the Bank has assisted with the creation of permanent capacity to monitor agricultural sector policies by independent country institutions such as universities. Other new approaches are evolving that involve country institutions in monitoring the impact of projects on the ground. For example, a team from the University of Zambia, which has immediate access to data generated by the central statistical office, is analyzing the performance of an agricultural sector investment project in that

Box 4.1 Improving project quality

What is meant by project quality?

Quality refers to quality at entry and, ultimately, benefits on the ground. The tests of quality are:

- *Relevance.* Project goals are consistent with country and sectoral strategies, and project design is consistent with the Bank's standards and institutional objectives.
- *Efficacy.* Project objectives are consistent with outcomes (or expected outcomes).
- *Efficiency.* Project inputs are consistent with outcomes (or expected outcomes).
- *Institutional development.* The project improves the use of human, organizational, and financial resources.
- *Sustainability.* Project achievements and benefits are likely to be long lasting.

What determines project quality?

Quality depends on preparing and implementing projects that, from the outset, have a high probability of meeting the tests of quality set out above. Quality depends on:

- Relevant, rigorous, and realistic sector work
- Stakeholder participation and commitment
- Flexibility in the project cycle
- Application of logical framework analysis

- Rigorous economic analysis
- Thorough and realistic risk assessment
- Effective monitoring and evaluation
- Sustained implementation support.

What is management doing to improve project quality?

- Adjusting the portfolio to release resources for quality improvement
- Working with clients and partners to enhance their ownership of projects and policies
- Improving sector work
- Improving economic and risk analysis
- Limiting new lending until conditions are right
- Supporting innovation, pilot activities, mid-course corrections, and longer project pipelines
- Strengthening monitoring and evaluation, including training staff in the use of performance indicators and log frames and in how to build borrower capacity to undertake and use monitoring and evaluation
- Enhancing portfolio management by delegating to staff and increasing their accountability
- Strengthening staff skills and creating incentives within the Bank that recognize quality.

country. The team also has the capability to consult with stakeholders systematically.

It is therefore proposed to build on successful experiences and greatly expand the use of innovative new approaches through the systematic rebuilding of rural monitoring and evaluation capacities in the Regions and in the Center.

Strengthen Implementation Support

Implementation support, or supervision, as it used to be called, suffers from three main weaknesses: there is little continuity of staff, there is inadequate consultation with stakeholders and donors, and there are too few Bank staff in-country. There are good examples in the rural sector of innovative implementation support. The Bank has a field office in northeast Brazil where locally-recruited and fully-empowered staff respond quickly to requests

for support. The office has contributed greatly to the recent turnaround of the massive rural development portfolio in that poor region of Brazil. And in Central America the RUTA facility located in Costa Rica increasingly provides implementation assistance to partner countries.

Revise the Way of Doing Business

Changing our way of doing business is essential if we are to improve the performance of the rural sector portfolio, and agriculture and natural resources projects over the longer term. The Change Management Group is dealing more broadly with innovations in the project cycle of the Bank. Innovations are already being made in the design and implementation of the Bank's rural sector projects, which address key weaknesses of the past, such as lack of participation and inadequate flexibility in pro-

ject design. For example, projects now often allow for the phasing of implementation, beginning on a small or pilot scale, then moving to broader implementation.

The benefits of structured learning are already available and can be applied. For example, the Participation Learning Group has documented numerous innovations in procurement, disbursement, and accounting procedures for dispersed and participatory projects that strengthen accountability through greater decentralization and participation of the ultimate beneficiaries. Recent rural development projects in northeast Brazil and elsewhere have relied more on operational manuals, rather than on legal documents to describe the detailed design features of projects. Legal documents should define only the broad objectives and commitments of the projects.

Monitorable Targets for the Portfolio

The proposed actions should lead to the following results:

- The average OED success rating of rural sector operations should decline slightly in fiscal 1997 as problem projects are closed out.
- Subsequently, with the introduction of numerous innovations to amended or redesigned projects, performance should rise rapidly and be sustained. Marked improve-

ments should be evident by the year 2000. It is expected that 80 percent of projects will achieve satisfactory ratings by 2002.

- The quality of the ongoing portfolio, which is reviewed by management annually through the annual portfolio review process, should show improvement starting in fiscal 1997.
- The quality at entry of new operations should increase substantially from fiscal 1998, as new projects reflect the greater strategic focus and client commitment that will result from better consensus building and participation as well as the incorporation of new approaches and best practices in project design.

Encouraging Innovation and Risk Taking

This emphasis on improving portfolio performance is not intended to discourage innovation and risk-taking in World Bank Group assistance programs. In fact, the rural sector strategy strongly encourages undertaking experimental and innovative projects and programs. But it proposes that innovative, risky projects and programs be tested within an enhanced program of nonlending activities, policy reform, institutional development, and pilot activities, rather than as part of large lending programs. Experimental projects and programs that seem likely to succeed on a larger level can then be scaled up through project lending.

Matrix 4.1 Improving the existing rural development portfolio

Challenge	What needs to be done?	Who is accountable?	Collaborators			Output or monitoring indicator
			Bank	Outside	Date	
Twenty-two percent of completed agriculture projects are rated unsatisfactory.	Review existing portfolio and projects in the pipeline in accordance with approved terms of reference.	Regional directors, division chiefs	RDV, OED, GAP		Ongoing	Reviews completed
	In consultation with government adjust, redesign, or close nonperforming rural sector projects, and projects in the pipeline.	Country teams, task managers	Division chiefs, regional directors	Ministers of: finance, agriculture, environment	Ongoing	Consultation with governments completed
	Establish central capacity to monitor and evaluate rural sector projects and programs.	RDV	Regions, OED		Ongoing	Control capacity established
Capabilities for monitoring and evaluating rural sector projects and programs are inadequate.	Develop best practices and specifications for project management information systems, and disseminate them.	RDV, OED	Regions, EDI	Universities in client countries	Ongoing	Best practices and specifications disseminated
	Design participatory mechanisms into execution and monitoring of projects and programs.	Task managers	Division chiefs, country teams, GAP		Ongoing	Impact assessment report
Feedback from beneficiaries during implementation is weak.	Develop watchlist of potential problem projects and institute mechanisms for quick review to enable adjustment, redesign, or closure without central and Board approval.	RDV	Country offices, country directors, RVPs		Ongoing	Watchlist developed
Mechanisms to deal quickly with problem projects are inadequate.	Strengthen subregional or in-country Bank capacity to provide implementation support.	Country directors	RDV		Ongoing	Resident mission strengthening underway
Other donors are not sufficiently involved in implementation.	Forge partnerships with other donors to support joint implementation.	Division chiefs	Country directors, EDI		Ongoing	Number of missions involving other donors
Bank disbursement, procurement, and accounting procedures are still not sufficiently flexible to support decentralized and participatory rural operations.	Better disseminate innovations in practices. Appoint a task force of experienced practitioners to recommend more flexible practices.	Division chiefs, RDV			Ongoing	Best practice list: recommendations issued and adopted
Excessive detail in legal agreements makes it difficult to implement projects flexibly in response to changing conditions and knowledge obtained during implementation.	Place details of implementation arrangement into implementation manuals so that projects can be adjusted during implementation by mutual agreement between the Bank and borrower.	Task managers	LEG		Ongoing	Monitor practices
There is insufficient piloting of new approaches before adopting an approach into larger projects.	Support piloting of new or alternative approaches within existing programs or in special pilot operations. Expand or generalize them if they work by adjusting operational manual or incorporating them into new projects.	Task managers	Division chiefs		Ongoing	Number of pilot initiatives within existing programs or in special pilot operations
	Prepare a method for assessing success or failure of pilots through evaluation and client consultation.	OED	RDV, regions		December 1997	Guidelines issued

CHAPTER 5

Using the International Arena to Generate Greater Commitment

Many things can be done to raise international commitment to rural development. Such actions will also help make access to international agricultural and agro-industrial markets more open and stable.

Raising International Awareness

There have been several specific opportunities in 1996 during which the Bank articulated its vision for rural development and its strategy for best achieving the vision. Further opportunities will arise in 1997 and beyond. The President's Office, the External Affairs Department, ESSD, DEC, IFC, EDI, and the Regions will collaborate closely on these activities. The strategic focus is to forge a consensus of approach and urgency in the Bank, in the international community, with developing country governments, and with the civil society.

Events

EPCOT Gardening for Food around the World, 1996 and 1997. This partnership with EPCOT provided a unique and powerful opportunity to inform the general public of the vital role and activities of the World Bank and the CGIAR in supporting the conservation of natural resources and development of sustainable agricultural production. Visitors learned about

the crops that feed the world—rice, sorghum, wheat, maize, and dozens of little known crops—through three small exhibition farms typical of Africa, Asia, and Latin America. Eight young scientists explained how food is grown in the countries they represented, and how families spend their days. They also discussed the role of the CGIAR and the Bank in economic development efforts. Through the richness of the exhibits that the Disney/World Bank partnership provided, some 700,000 visitors (one-third international) learned about indigenous farming systems and crops that have sustained people for thousands of years. At the 1997 EPCOT festival, special emphasis was given to issues of food security and environment, and the work of the Bank and of the CGIAR. (See box 5.3 for details on the Bank Group's alliance with CGIAR.)

Conferences

The *Fourth Annual World Bank Conference on Environmentally Sustainable Development* in September 1996 focused on the theme of rural well-being. This was a major, high-profile event with broad reach in the environmental, natural resource management, and agriculture and rural development communities. It was an opportunity for participants from many organizations and countries to share visions, overall strategies, and specific rural develop-

Box 5.1 A successful alliance: Consultative Group on International Agricultural Research

More than half the population in the developing world is rural, and agriculture is key to their development prospects. With finite land and water resources, and continued population growth, developing-country farmers have a pressing need for new technologies to increase production, while protecting the natural resource base on which productivity depends. The Bank has a strong interest in helping to maintain a vigorous and effective international agricultural research system to continue creating these technologies.

Building on successful institutions initially established by the Rockefeller and Ford Foundations, the Bank and nine donors established the Consultative Group on International Agricultural Research (CGIAR) in 1971 to spread the benefits of international agricultural research beyond Asia. Unprecedented harvests from new varieties of rice and wheat averted the threat of famine in the late 1960s. The CGIAR has grown to include 52 donors from both the public and private sectors, from developing countries, and industrialized countries, with the Bank, FAO, UNDP, and UNEP as cosponsors. The CGIAR supports 16 international agricultural research centers in developing countries. Their research covers crops that provide 75 percent of the calories and protein requirements of people in developing countries. CGIAR-supported research has led to increases in food production in developing countries by hundreds of millions of tons a year. New crop varieties have enabled farmers to increase productivity without expansion of the cultivated area. The CGIAR has helped to preserve biodiversity, develop integrated pest management programs and biological control methods that reduce the use of pesticides, sharpen

agricultural policy, and strengthen domestic research capacity in developing countries.

The Bank has played a critical role in fostering these achievements, providing intellectual leadership and financial support for the CGIAR. Currently, the Bank provides the CGIAR with its Chairman and Secretariat, and with financial resources for the Technical Advisory Committee and the Impact Assessment and Evaluation Group. More importantly, the Bank guarantees a financial contribution amounting to 15 percent of funding for the research agenda (US\$45 million out of US\$300 million in 1996). It thereby leverages more than six times its own contribution from other CGIAR members.

In May 1994 the CGIAR launched an 18-month program of renewal to clarify its vision, refocus its research agenda, broaden its partnerships, stabilize its finances, and tighten its governance and operations. To stabilize the CGIAR's finances, the Bank offered US\$20 million of special funding to match new commitments of other donors. Other CGIAR members responded positively and the Bank's special funding was fully disbursed. As a result overall support for the research agenda rose from US\$235 million in 1993 to US\$268 million in 1994, and to US\$270 million in 1995. The rest of the renewal program was also successfully completed.

The renewed CGIAR works with a broad range of partners to confront the challenges of sustainable agriculture, food security, and poverty alleviation. Through these activities the CGIAR will complement the Bank's efforts to enable developing countries to realize their full agricultural technology and production potential.

ment experiences and approaches. It was also an opportunity to build collaborative alliances. The World Bank/International Monetary Fund Annual Meetings and the CGIAR's 25th Anniversary International Centers Week followed soon after the ESD conference. Mr. Wolfensohn highlighted the Bank's role and activities in rural development at all three events.

The November 1996 World Food Summit, organized by FAO (and to which the Bank contributed financially and intellectually), was another highly visible event at which Mr. Wolfensohn appeared. The Bank Group president endorsed the principles and the broad

plan of action agreed by countries in advance of the Summit. These principles and actions address issues well beyond agriculture and rural development, stressing the need for education (especially for girls), measures to improve environmental sustainability, and decentralization and participation. The Bank is active in nearly all the areas discussed in the Rome Declaration and rural sector strategy. It will actively collaborate with the broadest range of partners to achieve, and hopefully exceed, the goals agreed to at the Summit.

One of the major highlights of the Summit was the unveiling of this rural development

strategy. NGOs sharply criticized the Bank for its shrinking engagement in agricultural and rural development. Mr. Wolfensohn's speech announced a fundamental break from this trend, putting rural development once again at the top of the agenda.

The culmination of a series of regional conferences, the Summit presented a major opportunity to strengthen existing alliances and build new ones. In addition to its long-standing partnerships with United Nations agencies and international institutions, the Bank strengthened its collaboration and dialogue with NGOs, actively participating in the NGO-sponsored parallel summit.

Over the past year several new alliance-building initiatives have been initiated with other actors. Because of lack of resources, these initiatives have not progressed far enough to show results. The activities include:

- *Hunger and Poverty Knowledge Network.* IFAD with the Bank, SRIсти, FAO, and NGOs are preparing a network devoted to the exchange of civil society knowledge and experience in fighting hunger and poverty. The knowledge network will link together existing networks and facilitate the exchange of information and views among civil society, policymakers, donors, international organizations, academics, and other groups from around the world.
- *Land Network.* The Bank, IFAD, and FAO, are preparing an information and support network for countries with programs of negotiated or market-assisted land reforms.
- *The IPM Facility.* The Bank, with UNDP, FAO, and UNEP have established a group to promote the adoption of integrated pest management. This alliance is being further strengthened through the involvement of several bilateral donors.
- *Soil Fertility Initiative.* The Bank, with FAO; Club du Sahel; international research agencies, including the CGIAR Center for Agroforestry Research (ICRAF), the International Fertilizer Development Center (IFDC), and IFPRI; and bilateral donors, such as United States Agency for International Development (USAID), Belgium, the Netherlands, and France have created an alliance among institutions concerned with soil fertility issues.
- *Land Quality Indicator Program.* The Bank and its partners FAO, UNDP, UNEP, and the CGIAR have initiated a program to develop a set of harmonized land quality indicators for agriculture and managed forest ecosystems. These indicators will become part of a global information system, needed to track changes over time in the quality of agricultural and forest land. The program also includes research activi-

Box 5.2 FAO and the World Bank: an important alliance

The Food and Agricultural Organization (FAO) of the United Nations is the Bank's oldest ally in rural development. The World Bank and FAO entered into a Cooperative Agreement in 1964, through which FAO established and staffed a Cooperative Program (CP) to help countries design and prepare projects, and help the Bank with sector work and, to a lesser extent, project appraisal. The CP is the largest unit within FAO's Investment Center, a multidisciplinary group of almost 100 professionals, covering the full range of disciplines needed to support work on agriculture and natural resources management. The Bank provides 75 percent of the funding for the CP, while FAO provides the remainder. The Bank's annual contribu-

tion has been nearly US\$10 million for the past several years.

CP resources are allocated among the Regions as part of the overall budget envelope, but the funds are not fungible. Sector units develop their programs with the CP. To strengthen its alliance with FAO, the Bank is now drawing on FAO expertise outside of the Investment Center and developing joint work programs. There are many opportunities for further collaboration, for example, with the Food Security Initiative for low income food deficit countries or in forest, soil, and fishery management in which the FAO has considerable expertise. Initial steps were taken at the Summit.

ties, regional pilot studies, and capacity building.

- *Indo-Gangetic Rice-Wheat Initiative.* The Bank, together with the CGIAR Centers (International Rice Research Institute (IRRI) and International Center for Maize and Wheat Improvement (CIMMYT)), bilateral donors, and the governments of India, Pakistan, Bangladesh, and Nepal have forged an alliance to address the declining yield response to fertilizers in some of the most productive rice-wheat growing areas of the Indo-Gangetic Plain.
- *Collaboration to Control Natural Resource Degradation of Arid Land in the Middle East.* The Initiative brings together the Governments of Egypt, Israel, Jordan, West Bank and Gaza and Tunisia, as well as a broad range of bilateral donors, UNDP, FAO, IFAD, and the United Nations Convention to Combat Desertification.

Reports

A future *World Development Report* (WDR) should focus on the rural economy. The Bank's flagship document can be used to widely disseminate the results of research efforts that are concluding over the next year or so. Current and recently concluded research pertinent to a rural WDR include natural resource accounting, participatory approaches to project design and execution, decentralized rural development, land policy and land reform, gender issues, and the political economy of agriculture and agrarian relations. The WDR could also draw on information from OED's evaluation of sector adjustment programs (SECALS) and parallel evaluations of the impacts of the recently concluded GATT negotiations, targeted food and nutrition programs, and policy distortions on rural development.

Economic Development Institute Training

The Economic Development Institute (EDI) offers training in agriculture and natural resources management to its partner countries.

The overall objective of these activities is to strengthen indigenous capacity in policy and institutional reform so that rural development can play its vital role in overall economic development, poverty alleviation, food security, and sustainable natural resources management.

To foster rural development, EDI has a number of product lines:

- Agricultural policy and institutional reform
- Rural project analysis and management
- Water resource management
- Reforms and private sector participation
- Participatory irrigation management
- Biodiversity conservation.

Each of these product lines consists of awareness seminars for senior officials, sector management seminars for policy managers and analysts, training of trainers workshops, and study tours. All programs are presently expanding their outreach to include new audiences (parliamentarians, journalists, the private sector, NGOs, and community organizations) and new media (television, radio, internet, and so on). For more information, see appendix D.

Improving International Coordination

The Bank Group must build and deepen partnerships for rural development with the G7 countries, the WTO, United Nations agencies (especially FAO), the CGIAR, and bilateral donors. Over the next few years donor coordination will become very important, especially in Africa, to target assistance where it will do the most good. Coordination should take place at both the Bank Group level and the Regional level. For example, the Africa Region plays a critical role in fostering donor coordination in agricultural research through the Special Programme for African Agricultural Research (SPAAR). The matrices of the rural sector strategy (5.1 and 5.2) identify many specific initiatives and opportunities for coordination with our partners.

International coordination is especially important to deal with two cross-cutting issues.

Box 5.3 Helping countries take advantage of the WTO agricultural trade framework

Prior to the Uruguay Round agreement, world trade in agricultural products was in disarray. While the General Agreement on Tariffs and Trade (GATT) had succeeded in sharply curtailing protection on manufactures, it failed to do so on agriculture. The result was an extremely costly regime of high and variable protection, intense trade conflicts, and distorted and unnecessarily volatile world markets. Developing-country agricultural exporters were excluded from many of the best markets. Even those developing countries that benefited from the availability of subsidized exports from the developed countries were subject to the vagaries of sudden swings in world prices and changes in policies of the exporting countries.

The Uruguay Round achieved a great deal by bringing agriculture under GATT/WTO disciplines. New rules were developed to control import barriers, export subsidies, and the total level of support to agriculture. Agreement was reached to reduce import barriers and export subsidies by 36 percent, and total protection by 20 percent. Unfortunately, there was considerable slippage in actually reducing agricultural protection. A World Bank study found that many of the tariff levels from which the agreed reductions began were set more than twice as high as the previously prevailing rates of protection.

Attention has now shifted to the implementation of the Uruguay Round commitments. Rates of protection are monitored through a collaborative pro-

gram with the United Nations Conference on Trade and Development (UNCTAD), supplemented by specific monitoring assessments of agricultural protection policies in selected developing countries. This work will form an important basis for evaluating proposals for reducing trade barriers during the next set of agricultural negotiations under the WTO.

Current analytical work focuses on the special issues of concern to countries that are liberalizing with Bank assistance, and for the roughly 30 countries currently in the process of accession to the WTO. A colloquium on the special issues facing countries acceding to the WTO was held in mid-1996. A series of seminars will be held to help policymakers in Sub-Saharan Africa use international rules and institutions to achieve better economic policies.

Attention will now begin to focus on the range of analytical issues involved in reaching a successful agreement during the next set of agricultural negotiations, beginning in 1999. Analysis of the prospective gains from particular types of liberalization will be an important part of this research agenda. Particular attention will be given to identifying problems arising from the current agreement and proposing solutions to these problems. Another major focus will be the evaluation of alternative approaches to agricultural liberalization, including linkages with other sectoral negotiations, such as the proposed negotiations on services trade scheduled to start at about the same time.

First, protectionist measures of OECD countries have restricted market access to the agricultural and agro-industrial products of the client countries of the Bank, which in turn has reduced international prices and added to international price volatility. Incorporation of agricultural trade into the rules of the WTO has been a major achievement, but liberalization must be substantially deepened. Without improved demand for developing countries' agricultural products the agricultural growth needed to generate employment and reduce poverty in rural areas will not come about. Therefore, the World Bank Group will actively promote greater access to OECD country markets for the agricultural and agro-industrial products of its client countries, and support actions in the WTO to achieve this objective.

The Bank was represented at a high level at the WTO Ministerial Meetings in 1996 and will be again in 1998. Its statements at these meetings should include major components on the importance of freer and fairer agricultural trade and the progress achieved so far in the implementation of the Uruguay Round agreement on agriculture. The review of the Uruguay Round agreement on agriculture to take place in 1999 will include an assessment of the liberalization achieved under the Uruguay Round and consideration of what further commitments are necessary to achieve the objectives laid out in the agreement. The meetings and review offer major opportunities for developing countries to seek action. The Bank will endorse their calls for improved market access and ensure that they

have access to high-quality analysis to support their demands.

Second, countries sometimes face hardships because of fluctuations in commodity prices. For example, world stocks of cereals fell to all-time lows and world cereal prices rose by 56 percent between June 1993 and May 1996. During times of high prices, low-income, food-importing countries may face serious fiscal, foreign exchange, and household food security problems.

Coordinated international assistance is critical when this happens. The World Bank Group will continue its collaboration with the IMF, the WFP, FAO, WTO, and bilateral donors to help countries manage the impacts of higher prices (box 5.4).

For most countries holding buffer stocks to protect against domestic production shortages and high international prices is an expensive solution. It is usually much cheaper

Box 5.4 Instruments to help countries cope with food shortages and world price spikes

A variety of instruments are available to help countries cope with short-term food supply and price shocks.

- *Food aid.* In 1993, about 17 million tons of food aid, nearly double the grain production of the entire Sahel region, was delivered to food-deficit countries. About one-quarter of it went to feed vulnerable people in countries facing drought or war, such as Somalia, Rwanda, and some countries of the former Soviet Union. Bilateral donors distribute about two-thirds of food aid, and the WFP delivers most of the remainder. Food aid falls well short of meeting real need. Furthermore, food aid has been declining in recent years, as government-held food stockpiles have declined.
- *World Food Programme.* To prevent hunger and starvation, the United Nations WFP helps countries supply food to distressed populations at the outset of an emergency. It also promotes long-term development by assisting with the resettlement of refugees, conducting training, and sponsoring labor-intensive work programs to build infrastructure.
- *IMF balance of payments assistance.* The IMF provides financing to help affected countries through two channels: the Compensatory and Contingency Financing Facility (CCFF) and Fund arrangements. The CCFF provides financial assistance to members experiencing balance of payments problems arising from shortfalls in export receipts or excess cereal import costs. To qualify, the excess in grain import costs must be temporary, largely beyond the control of the member country, and result in the need for balance of payments financing. Algeria, Moldova, and South Africa have recently made purchases under the cereal element of the CCFF. Fund arrangements can provide flexibility in the case of unanticipated external terms of trade shocks through the inclusion of contingency mecha-

nisms or through augmentation of access under an arrangement.

- *World Bank assistance.* During droughts the Bank can assist countries to cope with food shortages by reallocating funds in existing projects to finance actions to enhance food supplies. Generally, the funds are not used directly to finance food purchases, but rather to finance transport, storage, spare parts, or other goods or services important to the movement or processing of food. The reallocation of Bank project funds helped southern Africa cope with its drought in 1992.

Economic recovery loans are usually provided after an emergency, and are used to finance transport, seeds, fertilizer, and other goods and services to help a country increase its capacity to grow food. Ethiopia, Kenya, Somalia, and Sudan have used ERLs to recover from drought.

Although its role is subordinate to the IMF, the Bank can also provide balance of payments support to enable countries to import food, medicine, and other essentials. The economic recovery credit that the Bank provided to Zimbabwe enabled the country to import critically needed food.

- *Donor coordination.* Effective coordination of donor efforts during food emergencies can save many lives. In anticipation of the 1992 food emergency in southern Africa, the Bank initiated meetings with the IMF, FAO, WFP, Southern Africa Development Community, USAID, and the United Nations High Commission for Refugees to exchange information about the situation, identify instruments available to prevent disaster, determine needs, and organize timely donor meetings to ensure that projects were in place and the needed resources available. As a result, the drought, while very serious, did not result in famine or loss of life.

to rely on trade, using financial reserves or international loans to make up shortfalls. Countries can then earn interest income on their financial reserves, rather than paying for storage, storage losses, and interest on loans. Exceptions should be analyzed on a case-by-case basis.

Prices could be more volatile in the future than in the past, since global stocks are likely

to remain at lower levels than before. It is imperative that during periods of price volatility, importing and exporting nations resist implementing inappropriate policies, such as export controls or excess stock build-ups. The Bank and its partners will collaborate in monitoring price movements and in advising exporters and importers against pursuing inappropriate policies.

Matrix 5.1 Using the international arena to increase commitment to agricultural growth and rural development

Objective: Increase the commitment to agricultural growth and rural development of both client countries and donors						
Challenge	What needs to be done?	Who is accountable?	Collaborators			Output or monitoring indicators
			Bank	Outside	Date	
To reduce poverty, the world must produce much more food in ways that are sustainable and more remunerative for labor.	1996 Fourth Annual World Bank Conference on Environmentally Sustainable Development focused on rural well-being.	RDV, ESD	Regions, CVPs, IFC, CGIAR, EDI	FAO, IFAD, WFP, UNDP, UNEP, WTO, GEF	September 1996	Media coverage
This simple message is being lost, as reflected in the declining commitment to agricultural growth and rural development in both donor and partner countries.	CGIAR 25th Anniversary International Center's Week celebrated past successes and emphasized the need for more resources for research.	CGIAR Secretariat	ESD	NGOs, regional banks	October 1996	Increased donor commitments to CGIAR
The crucial role of global leadership embodied by the World Bank Group's president must be fully recognized and utilized.	1996 FAO World Food Summit included speech by Mr. Wolfensohn.	RDV	HDD, DEC	CGIAR and members and donors, NGOs	November 1996	Media coverage, more effective partnerships
The analytical case for agricultural growth and rural development must be continually updated and disseminated.	Future <i>World Development Report (WDR)</i> will focus on agriculture and rural development.	DEC	RDV	UNCSD		Increased official development assistance to agricultural and rural development in 2000
	Using <i>WDR</i> as major input, Bank jointly will sponsor international conferences with:	RDV		Academics, CGIAR, NGOs		
	<ul style="list-style-type: none"> • FAO on rural development and land reform • UNEP on sustainable natural resource management • IFAD on targeted poverty reduction. 	RDV		FAO	November 1998	Media coverage, more effective partnerships
		RDV, ENV	ESSD	UNEP, FAO, GEF	May 1999	Media coverage, more effective partnerships
		RDV	DEC, HDD	IFAD	November 1999	Media coverage, more effective partnerships

Matrix 5.2 High-profile initiatives in coordination with other actors

<i>Objective: Build and deepen partnerships for rural development with G7 countries, WTO, United Nations agencies, regional banks, bilateral donors, and NGOs</i>						
<i>Challenge</i>	<i>What needs to be done?</i>	<i>Who is accountable?</i>	<i>Collaborators</i>			<i>Output or monitoring indicators</i>
			<i>Bank</i>	<i>Outside</i>	<i>Date</i>	
Protectionist measures of OECD countries have restricted market access to the agricultural and agro-industrial products of the Bank's client countries. This has reduced international prices and added to price volatility. Incorporating agricultural trade into the rules of the WTO has been a major achievement, but further market access is badly needed (1999 WTO Review).	The Bank Group will promote greater access to OECD markets for the agricultural and agro-industrial outputs of its client countries and support actions in the WTO to achieve this objective. The Bank will be represented at the WTO Ministerial meeting in 1996 and 1998.	DEC	RDV, IFC	WTO, EU, USA, Japan, Cairns Group	Periodic	GATT negotiations result in freer and fairer agricultural trade
	Bank staff and client countries' staff will be trained in WTO rules and opportunities.	DEC, RDV, EDI	EMT	WTO, Clients	Fiscal 1997	At least two workshops and four seminars held
	Like-minded NGOs will be identified and a joint information campaign will be launched.	DEC	RDV, IFC	NGOs, academics	October 1997	Effective network in place
World stocks of cereals fell sharply, and world cereal prices rose 50 percent in 1995. During these events sharp price increases were possible if major exporters restricted exports and importers built up stocks excessively.	The Bank coordinated with other actors to discourage exporters and importers from pursuing inappropriate policies.	DEC	RDV	IMF, FAO, WFP, WTO	Continued throughout 1996	No inappropriate policies put in place
	The Bank produced an assessment of the long-term world food situation.	RDV, DEC		FAO, IFPRI	October 1996	Workshop, report concluded
Low-income, food-importing countries at times face serious fiscal, foreign exchange, and household food security problems because of higher prices. During these times coordinated international assistance is critical.	The Bank collaborates with the IMF, WFP, FAO, and bilateral donors to help countries avoid crisis.	Country teams	RDV	IMF, FAO, WFP	Ongoing	Prompt responses to requests for assistance obtained; innovative targeted food subsidy programs implemented

CHAPTER 6

Areas of Concentration and Future Directions

Rural strategies, country assistance strategies, and the implementation requirements of the existing portfolio define the mix of nonlending and lending services or products that the Bank provides in each country to support rural development. The Bank has institutional priorities, subsector policies, and best practices that guide the design of specific services or products. These are briefly described in this section.

Areas of Concentration

Many subsectors are involved in rural development. The rural strategies will determine the priorities for each country and the subsectors of concentration for Bank assistance. These subsectors, identified as thematic groups, can be grouped into five clusters:

1. Rural strategy and policy formulation: rural strategy formulation; agricultural policy; food and nutrition policy; markets and agribusiness; and rural finance
2. Agricultural systems intensification: agricultural research; extension, rural information, and agricultural education; and plant systems intensification (including soils and pest management); and animal systems intensification (including pasture management)
3. Management of natural resources and forestry: natural resources management (in-

cluding biodiversity), forestry, fisheries and aquaculture

4. Water allocation and management: water use efficiency and allocation, irrigation and drainage and water management
5. Local and community development and rural infrastructure: community-based development, land policy and land reform, and rural infrastructure (including water and sanitation, and rural roads).

Rural development also involves several cross-cutting groups, including portfolio design and monitoring and evaluation, portfolio management, global information systems, gender, indigenous peoples, and institutional reform.

There is a significant overlap of activities among these clusters. Strategy and policy provide the foundation for work in all other areas. Agricultural intensification cannot occur without careful attention to natural resources management and the environment. And natural resources management is often best carried out by community groups—so the work in this area must be integrated with that of local and community-driven development. The groupings thus involve a certain arbitrariness. Nevertheless, partner countries often group their work programs and organize their ministries and institutions along these lines. The clusters also correspond loosely to the way the Bank organizes its work program. Moreover, work-

ing effectively in each thematic group requires specialized skills which are acquired by prolonged work and field experience. An experienced strategist and policy analyst is rarely able to provide useful advice on the institutional issues and broad program design in natural resource management or agricultural intensification, or the technologies required for these broad tasks. The considerable overlap among the groups has implications for the Bank's organization, suggesting that work programs would best be managed by networks and task forces, rather than by units with fixed boundaries.

The following sections summarize the main issues and future directions of work for rural development in its many components. Staff from all parts of the Bank defined the key challenges and the best approaches for meeting them. What is presented represents the consensus of many people. Detailed discussion and action matrices with monitorable indicators for each of the key components can be found in "From Vision to Action in the Rural Sector" (March 27, 1996).

Strategy and Policy

To foster rural development and reduce poverty, most countries must improve their rural strategies and policies. Countries may require assistance in any or all of the subareas (agricultural policy, food and nutrition policy, markets and agribusiness, rural finance, and land policy and land reform) (box 6.1). Some countries, such as countries in transition, require assistance formulating a strategy and policy framework that integrates all these areas.

Agricultural Policy: An Improved Mainline Business

The ideal agricultural policy is well defined:

- Foreign exchange, trade, and tax regimes are not biased against agriculture or rural areas.
- There is no urban bias in public expenditure, and there is efficient use of resources within the public sector.

- The public sector complements the private sector.
- There is competition in input, output, and factor markets.
- There is a level playing field for all types of farms.

The Bank's agricultural policy operations are now performing much better than in the past. After starting with timid reforms in the 1980s, the Bank is now supporting much bolder programs, encouraging trade and price reform, and market orientation (box 2.2). In addition much more attention has been paid to consensus building prior to starting operations. Finally, to assure that the poor and vulnerable are protected during the period of transition, the Bank is paying more attention to the provision of safety nets.

As a consequence many of the Bank's agricultural adjustment programs in Latin America and Africa have contributed to significant agricultural policy reform and agricultural growth. And its programs in Eastern and Central Europe also show great promise for stimulating agricultural output and raising rural incomes.

The future. The Bank will continue to support program models that have proven successful. It will focus heavily on the agricultural dropouts in Africa, where the needs for better agricultural performance are especially large. It will continue its programs in Eastern and Central Europe, where a more open agricultural trade regime, farm privatization, and the formulation of sound land policies can stimulate output and improve farmers' incomes, while contributing to global food security. In Latin America and Asia, where much progress has been made in recent years, the Bank will assist in building domestic capacity for policymaking and help consolidate reforms. Finally, it will strengthen its alliances with WTO, FAO, regional banks, and others.

Integrating Household Food Security and Nutrition Policy into Rural Development Operations

The number of people in the world who are undernourished is disgraceful. While agricul-

Box 6.1 Is it better to focus on food crops or export crops?

This is becoming an increasingly unimportant question. Countries should focus on producing the crops that they can grow most profitably. The International Food Policy Research Institute has undertaken extensive research on this question. The main findings of the research are:

- Countries that treat agriculture and rural areas favorably tend to do well in producing both food and export crops.
- Where smallholders shift some land to export crops, they continue to produce high levels of staple foods.
- Smallholders use their increased purchasing power to improve their farming opera-

tions overall, not just their export crop operations.

- Employment (including of hired labor) and incomes rise, and child nutrition often improves.

Thus, what matters most for improved household food security is income growth. It rarely matters whether the source of income growth is higher production of food crops or export crops.

Source: International Food Policy Research Institute, various years. See especially work on Gambia, Guatemala, Kenya, Philippines, and Rwanda.

tural growth has reduced the threat of starvation for many countries, particularly those in Asia, almost one in five people in the developing world do not get sufficient calories or nutrients to maintain a healthy life. The three critical elements of food security are multi-sectoral and multidisciplinary: *availability* of supply, either from domestic production or imports; *access* through income generation, poverty reduction, or food programs; and *food utilization* through decent nutrition programs. In most countries responsibilities for critical elements of such a policy are scattered across many departments. Consumers and the poor have little political voice.

The Bank, working with its partners, is deeply engaged in supporting efforts to reduce hunger and malnutrition. It has made particularly strong progress in the area of nutrition, where analytical work and the lending portfolio have expanded rapidly in the past several years. However, only recently have food security concerns been systematically integrated into agricultural policy dialogue and reform.

The future. Much remains to be done to integrate food security objectives into the design of all Bank activities in rural development. First, the Bank must better integrate its food and nutrition policy into rural sector strategies and country-assistance strategies. Second, the Bank must

better incorporate food policy and nutrition activities into its lending activities, specifically including them in pilots, adjustment operations, sector investment loans, and safety net operations. Third, the Bank must include in its non-lending assistance to partner countries policy advice that addresses consumption effects of removing price and exchange rate controls, ending subsidies, liberalizing trade, and ending parastatal marketing boards. Often, strong safety nets will be needed during a transitional period.

Markets and Agribusiness: Expanding Opportunities for the Entire World Bank Group

Agricultural markets and agribusiness are the primary link between the rural economy and the urban and export economies. The degree to which public sector investments in agriculture actually contribute to poverty alleviation, productivity gains, food security, and growth depend critically on the proper functioning of input and commodity markets, and the performance of agribusiness enterprises.

Agribusiness provides the inputs to the farm sector and services, such as handling, processing, transportation, financing, and marketing of farm-based products. The agribusiness system delivers market signals and incentives to primary producers, assists in balancing market-related risks, balances commodity supply and

demand, and stimulates consumer demand and producer response. Agribusiness is thus a potentially significant catalyst or agent for change.

Developing of efficient agribusiness systems helps to increase farmers' incomes, while at the same time reducing urban consumers' food costs—therefore providing a "double" development and poverty alleviation impact. It will reduce postharvest losses and add value to agriculture products, both commodities and high-value crops. Without the development of this system progress in crop diversification to noncommodity specialized (high-value) crops will remain severely constrained.

In most developing countries, most agricultural processing, trading, and distribution operations range from microenterprises to medium-size enterprises. Private sector development in the rural economy normally consists of small-scale agricultural input supply, equipment repair, food processing, and other agribusiness services. The usually urban-focused industrial and private sector policies have proven not to have the focus necessary to account for, or support, the special characteristics of rural entrepreneurial operations.

Market reforms, stimulated through the Bank's structural adjustment programs, have opened up domestic food markets to competition from imports, and stimulated changes in consumer demand. In many instances local agribusiness firms have been poorly equipped to meet this changing demand and import competition, lacking requisite skills in product development and marketing.

After years of antientrepreneurial policies of many of our borrowers (across all our regional operations, not just in the transition economies), the recent adjustment processes have stimulated the emergence of a class of rural entrepreneurs, whose initial point of market entry has been into food marketing and the agribusiness chain. This transformation process from a state-dominated system to a private-sector system is only now beginning, and needs more stimulus and support beyond just "getting the prices

right." Strengthening the systems so that competitive markets reach the family farmer is essential. This often involves the deepening and extension of policy, regulatory (very often the "petty regulations" are the most critical), legal, and institutional reforms. Human skill development is essential after so many years of repressed entrepreneurship initiatives.

The future. There is a need for close collaboration between the Bank, the IFC, and the Multilateral Investment Guarantee Agency (MIGA). The role of IFC is different from that of the Bank (see box 2.1). IFC's mandate requires it to finance private sector projects that are catalytic and have demonstration effects. There is, reasonably, no expectation that IFC's activities should have a sectorwide impact. There is a reasonable expectation that Bank's efforts in marketing and agribusiness would include smaller-scale operations and have at least a regional impact, with a sectorwide impact being a reasonable goal in small and medium-size countries. Therefore,, there is a critical role for the Bank in this essentially private sector activity, where success requires both the provision of public goods that are "market appropriate" and support of emerging rural entrepreneurs.

Collaboration with external actors in the multilateral and bilateral donor communities, and in the private sector is also necessary. There are major rural development and poverty alleviation benefits from the promotion of domestic agribusiness, and foreign direct investment in agribusiness where these investments have large externalities. To date, most of the foreign direct investments in developing countries' agribusiness target exports, contribute to dualism in the sector, and do not achieve adequate rural economy linkages.

A new tool box. The Bank needs to develop a new tool box of analytical techniques and investment components to make the needed contributions to the CAS process, nonlending activities and, most of all, actual investments.

There are a wide range of public goods and quasipublic goods, for which the Bank could provide assistance, as well as in the financing of the rural private sector, and the nurturing of rural entrepreneurs and their agribusiness endeavors. The tool box could range from facilitating the public private dialogue on the development of agribusiness; methods of analyzing of the urban bias in regulations and discriminatory taxation of marketing and agribusiness; assessing adequacy of rural infrastructure (roads and telecommunications) for rural-to-urban market linkages; developing public goods (for example, grades and standards, public market infrastructure, market information); promoting exports; strengthening trade and commodity associations; tracking the development of international commodity markets; providing "matchmaking" services to promote foreign direct investment and the transfer of agricultural technology and the entrepreneurship culture; and providing adult education in entrepreneurship and agribusiness management training.

A number of new products are now being developed. The Bank Group needs to learn from these experiences, and from others, and give the success stories wider dissemination. Regrettably, the low levels of dialogue with our clients in this area (with some regional and country exceptions) reflects both the scarcity of staff expertise in this area, the absence of a systematic analysis and dissemination of best practices, and the consequent limited basket of products to offer our clients. A specific marketing and agribusiness focal point in the rural development family will correct this.

New Approaches to Rural Finance

There is a growing consensus on rural finance:

- Credit cannot compensate for urban bias.
- Credit subsidies almost never reach the poor.
- Providing financial services to poor people can be good business.

- Rural financial systems and institutions must be judged by outreach and self-sustainability.

There is also consensus on the characteristics that make rural finance institutions successful. Successful institutions are:

- Rural-based but not specialized on agriculture
- Autonomous
- Able to charge market interest rates
- Able to mobilize savings and reduce reliance on donor or state funds
- Able to collect on loans and have few losses
- Able to provide staff incentives.

Future activities. Building on its recently completed best-practices paper for rural finance, the Bank will help countries develop appropriate policy, legal, and institutional frameworks for rural finance (Yaron, McDonald, and Piprek 1997). In addition the Bank will support the strengthening of a plurality of formal and informal institutions that can perform the roles of intermediation and outreach. Finally, the Bank will help rural financial institutions graduate to commercial sources of refinance.

Sustainable banking with the poor. One of the most promising new mechanisms for providing credit to the poor are the microfinance operations modeled after the Grameen Bank and others (see World Bank 1996c). The World Bank is now actively supporting the development of these institutions. In particular the Bank will work to remove legal and regulatory constraints for small, often informal and unsecured loans; help build social infrastructure; promote new ways of managing microfinance (for example, FAO's micro-banker); and link the CGAP initiatives systematically to Bank operations (boxes 6.2 and 6.3).

What the Bank will not do. Also important are activities the Bank will not support. The Bank will not lend where financial sector policies, legal frameworks, and agricultural incentives

Box 6.2 The Consultative Group to Assist the Poorest: a microfinance program

The Consultative Group to Assist the Poorest (CGAP) is a multidonor effort to systematically increase resources in microfinance to broaden and deepen the success of the work of pioneers in the field. The objectives of CGAP are to strengthen donor coordination in microfinance, disseminate best practice for delivering financial services to the poor on a sustainable basis, mainstream microfinance in World Bank operations, and support microfinance institutions.

CGAP formally began operations in June 1995, with the participation of 9 donors, now expanded to 23, who jointly pledged US\$200 million to CGAP's portfolio. Most of that funding is being administered directly by the participating member donors. The World Bank has provided US\$30 million, which is the basis of a three-year core fund being administered by

the CGAP Secretariat to support eligible microfinance institutions. CGAP will provide grants to eligible financial institutions, such as NGOs, credit unions, cooperatives, and banks that meet the established criteria. The funds may be used for a variety of purposes such as to: capitalize loan funds for on-lending, fund guarantee schemes, fund technical assistance, and to fund institutional development. It is intended that eligible financial institutions develop to the point where they can access funds from local capital markets, loans, or equity.

To be eligible for funding, institutions must be able to demonstrate that they are reaching large numbers of poor people, women make up at least 50 percent of their client base, they are operationally self-sufficient, they are likely to be financially self-sufficient, and they can use additional funds effectively.

are not supportive; for credit lines rather than institution building; to government-owned rural financial institutions that are unwilling to change; and where there is inadequate monitoring of outreach and sustainability.

Agricultural Systems Intensification

Increasing farm productivity requires the development and application of new and improved technology from research and extension, private sector investment, and better management of the natural resources on which production and productivity depends.

In the past programs of agricultural intensification, such as research or extension, were usually dominated by government institutions that received most bilateral and multilateral donor assistance. Many programs focused on technical issues and specific crops, without sufficient concern for policy, private sector incentives, sustainable resource management, commodity diversification, or decentralization and participation of farmers and other rural dwellers in decisionmaking. Many of these programs bypassed rural women. Sustainable intensification of production systems therefore requires new approaches.

Research

Rapid technological change implemented on the hundreds of millions of farms in the developing world is essential for agricultural and rural income growth (box 6.4). The Bank has been a leader in fostering technological change both through its support to the CGIAR and as the world's largest financier of national agricultural research institutes. Each year the Bank provides about US\$45 million to the CGIAR, and loans US\$220 million for national agricultural research institutes.

Technological change is a complex process, involving farmer education and training, information, institutions, technology, policies, and infrastructure. In the future Bank operations in research and extension will be designed to strengthen and take advantage of the emergence of the global research system, as well as the information revolution. Particular emphasis will be placed on giving a strong voice to farmers (especially smallholders) and other resource users in setting research priorities, conducting research programs, and validating research results. The Bank will support reform of public research and extension institutions to help them become less bureaucratic, more flexible, more agile, and

Box 6.3 Village credit funds in Albania

The dismantling of Albania's agricultural cooperatives in 1992 created 380,000 farms, averaging 1.4 hectares each. This resulted in rapid recovery of food production and averted a major agricultural crisis. But because of the disarray in the financial sector, the new landholders were unable to obtain the credit they needed to invest in agriculture and animal husbandry.

To address this problem, the government of Albania is helping villages establish village credit funds, as part of the IDA-supported Rural Poverty Alleviation Pilot Project. The Albanian Development Fund, an autonomous government foundation, is responsible for implementing the project. Democratically elected village credit committees manage the funds. Credit officers, who are recruited and trained by the Albanian Development Fund, participate in village credit committee decisions, and are extending the network of village credit funds.

If a borrower fails to repay a loan, the line of credit to the whole village is suspended. Since only a fraction of the village's households receive loans for a given period, persons waiting to receive loans in the future exert strong social pressure on debtors to repay their loans on time.

Ninety-three village credit funds had been created by December 1995, and 4,300 loans had been disbursed, with an average size of US\$350. Nearly 100 percent of the loans that have come due have been repaid. The loans have been used mainly to purchase

livestock (65 percent); seeds, fertilizer, and farm machinery (25 percent); trade and services (6 percent); and crafts (4 percent). Interest rates have been raised from 6 percent to 10 percent in local currency (leks). Inflation in Albania was 8 percent in 1995.

Three main lessons can be drawn. First, village-based credit funds can succeed in delivering financial services to small-scale farmers. The social structure of villages in Albania is remarkably strong, even after 50 years of centralized control over farming, so village credit funds can build on existing social institutions. Second, funds are much more likely to succeed when villagers actively participate in their design and when the village credit committees maintain open communication with the villagers and government officials. Third, using a multipurpose project unit with a soft budget constraint to implement the project makes it more difficult to achieve the goal of financial self-sufficiency.

Therefore the objectives of the follow-up Rural Development Project, which began in 1995, are to: create 720 village credit funds by the year 2000; integrate savings with credit services, once a cooperative law is passed that provides a legal framework for fund operations; transform the credit department of the Albanian Development Fund into an apex institution subject to the banking law, and insulate it from political interference; and move the new rural financial institutions toward financial self-sufficiency.

more accountable to users. Active collaboration with the private sector, universities, NGOs, community organizations, and farmer organizations will be encouraged, as well as regional collaboration among national research systems and more effective partnerships with CGIAR centers and other advanced research organizations.

Building on the positive experience of the SPAAR, the Bank will continue to emphasize greater and more effective donor collaboration as a means to overcome the damage caused in many countries by the fragmentation of donor support. The current effort of ESDAR in this domain will be pursued, and other donors will be invited to join the current members of the group. Finally, the Bank will continue its strong financial and institutional support to the CGIAR system (box 5.1). (See boxes 2.4, 2.5,

and 6.6 for more on the Bank's work in agricultural research and extension.)

Extension and Rural Information Systems

The demand for extension services is growing rapidly. Both men and women are seeking advice on a wide variety of farm and nonfarm productive activities. Currently, about 80 percent of the world's extension services are publicly funded and delivered by civil servants. However, serious questions have arisen about its fiscal sustainability; coverage—type, gender, and numbers of farmers reached; and responsiveness to farmers' needs. More sustainable and responsive approaches have been piloted successfully and need to be mainstreamed. For instance, fiscal sustainability has been increased by

Box 6.4 Issues in setting research priorities

Research is essential to improving the productivity of agriculture. However, given scarce resources, priorities must be established. The following are just a few of the difficult issues that must be faced in determining how to use resources for research:

- *How should resources be distributed among local, national, regional, and international research?* Should every country have its own research system? How much more should donors contribute to the CGIAR?
- *How much should be focused on research for new technologies, as opposed to research on removing impediments to applying known technologies?* This is not a trivial question. It is estimated that if the average developing-country farmer produced at the level of the average Iowa farmer, the world could feed 10 billion persons on the land currently under production.
- *How should resources be distributed between production processes and postharvest technologies?* Today, as much as 15 percent of production is lost between the farm gate and the consumer. Furthermore, the transportability and storage of food will grow in importance as the number of urban consumers grows.
- *How should resources be distributed between favorable and marginal areas?* Focusing resources on favorable areas means higher food output—and low food prices for rural and urban consumers. How should we weigh this goal against that of reducing poverty in marginal areas where many rural poor live, relying on subsistence crops for their meager livelihoods?
- *How should resources be distributed between traditional and nontraditional crops?* The Sahel is one of the most difficult environments of the world. What is the best approach to raising the productivity of poor farmers in this region? Should investments be made to improve the yields of traditional crops—millet and sorghum—or to improve the stress resistance of higher-yielding, nontraditional maize? How much should be devoted to developing new export crops?
- *How should resources be distributed between the integration of traditional knowledge and modern science?* Traditional knowledge, including identification of indigenous species, must be documented before it is lost. It must be integrated in a two-way exchange of ideas with modern science, and small-scale farmers, who are the custodians of this knowledge, should benefit from these efforts. How much of the available resources should be dedicated to this effort?

Source: Serageldin 1996.

balancing public support with farmer contributions, by creating competitive markets for advisory services, and by cost-effective contracting of extension. Coverage has been increased by using mass media, and by farmer-to-farmer extension and NGO involvement. And responsiveness has been improved through decentralization of public services, community communication centers, increased farmer ownership of extension, and more participatory assessments of the needs of the rural population (box 6.5). The information technology revolution also provides opportunities to reach farmers much more quickly and cost-effectively than in the past. Especially important are approaches to reach women farmers and rural entrepreneurs, who, in many countries, play key roles in agriculture, but whose needs have not, until recently, been explicitly considered.

The Bank's support to extension is changing. There is widespread—but by no means universal—agreement that the Bank must promote greater diversity in advisory services and changes in institutional approaches to reach an increasingly heterogeneous population of farmers and other rural entrepreneurs. A pluralistic system of complementary extension services does not exclude the state. On the contrary, the state will continue to play a crucial role in financing advisory services that are important, but not financially rewarding for the private sector—such as advice on the management of natural resources, integrated pest management, or advisory services to the very poor. In addition the state also has a critical role to play in establishing markets for commercial and farmer-to-farmer extension services, ensuring rural communication infrastructure, and developing human resources.

Box 6.5 The decentralized approach to extension

While in Africa the emphasis has been on improving the successful training and visit (T&V) approach to extension (box 2.4), in Latin America countries are experimenting with delivering extension services through decentralized systems, building on major national decentralization initiatives that are common in the region. In Colombia municipalities are responsible for implementing extension services. Beneficiaries participate with municipal governments in managing extension services. Financing of the decentralized extension system is shared on a matching-grant basis by the federal government (partially financed through the World Bank loan), state governments, municipalities, and beneficiaries. An important objective of the approach is to make extension services much more responsive to farmers' needs than in the past.

The project in Colombia has progressed well in the past five years. Some 1,040 municipalities out of a total of 1,050 are participating in the project, employing 3,500 technicians and professional staff. These agents are providing extension services to 450,000 small farmers out of an estimated total of 1.6 million. By contrast, the centralized system reached fewer than 125,000 small farmers per year.

The project in Venezuela is just getting started. Results in five pilot municipalities have been encouraging. Three municipalities have contracted universities to form teams and manage extension services. The two others have contracted NGOs to form teams and to administer services. Field visits confirm that the client farmers place a high value on the very personal and practical attention that they are receiving from extension agents.

The Bank is:

- Supporting communication and capacity building at the rural community level, exploiting the increasing potential of information technology
- Promoting more holistic and participatory assessments of farmers' technological, educational, and organizational needs
- Working to ensure that farmers' needs are translated into realistic actions, resulting in a more diverse system of complementary public and private advisory services
- Negotiating the use of performance indicators that focus on impact, rather than input, while promoting the use of monitoring tools by the farmers
- Increasing awareness among Bank staff and others on the tremendous potential and cost-effectiveness of interactive information technology for rural development.

Managing Soil Productivity: High Priority, Especially in Africa

There is an increasing body of experience, particularly from Latin America, the United States, and Australia, demonstrating the immense potential of farming practices de-

signed to protect the fertility of soils. The Bank is in a unique position to promote changes for increasing productivity through new management-intensive approaches. The Bank will help build awareness and commitment from partner countries and funding agencies through policy dialogue. In addition it will support the implementation of pilot projects to discover which technical and institutional approaches will work best to protect the productivity of soils in different parts of the world.

Environmentally Sound Pest Management: Frontier Area of Bank Involvement

The Bank has long had a well-defined pesticide policy that governs the use and financing of pesticides in Bank projects. In addition the Bank is promoting integrated pest management in agriculture, forestry, and animal health, which has lowered the cost of pest control, reduced the risk of major outbreaks, decreased the development of resistance to pesticides and drugs, and reduced environmental and public health risks. Participatory approaches, drawing on traditional knowledge and techniques, also improve the chances that lending programs will succeed.

The major instruments available for promoting environmentally sound pest management are policy dialogues; cooperative pilot efforts with NGOs, FAO, and others; and project lending. Policy dialogues must include assurance that macroeconomic and fiscal policies (such as pesticide subsidies) do not encourage the use of environmentally damaging substances. In addition they will require an assessment of environmental policies and the regulatory framework, especially with regard to pesticide registration, safety regulation, and farmer and worker training. Pilot projects, followed by project lending, can target research, education, and the implementation of integrated pest management.

New Approaches to Livestock Development, Rangelands, and Pasture Management

In arid and semi-arid regions sustainable management of rangelands to increase livestock production and processing is the best option for income growth. Livestock production complements crop production in poor areas by providing alternative employment and income, better nutrition, better seasonal distribution of labor needs, and manure to improve soil structure and soil nutrients.

Future activities. The Bank will encourage more appropriate policies and institutions for the subsector, and support reforms with investments in livestock development, and pasture and rangeland management. Specifically, the Bank will:

- Assist in overall policy dialogue, especially in improving the efficiency of natural resource use and the biological efficiency of livestock production and processing
- Assist in arid land and pastoral development, especially using its experience in land tenure and in decentralization to support independent self-sustaining pastoral organizations
- Identify and support more appropriate roles for the public and private sector in veterinary research and extension, and

suitable institutional frameworks and investments for technology generation and dissemination through the public sector.

Management of Natural Resources and Forestry

In the past natural resources management was deficient and even reckless. This was not terribly important as long as resources were abundant. However, the economic and social costs of natural resources mismanagement are now increasing rapidly. Often, these costs are borne by the poorest. Fortunately, there are enormous win-win opportunities in policy reform and program design, which can lead to both sustainable intensification of production and environmental improvements. But there are also many instances of trade-offs, which will need to be identified and managed through cost-effective interventions.

The future. Improving natural resource management while intensifying production requires many interrelated actions:

- *Encourage the use of economic incentives for resource management*, instead of command and control. When people benefit economically from sound resource management, they are much more likely to work in favor of management objectives. Furthermore, economic instruments are more likely to allocate resources efficiently than are regulations.
- *Encourage equitable benefit sharing*, which reflects trade-offs between alternative uses of natural resources.
- *Ensure equitable access to land*, while recognizing traditional natural resources management systems.
- *Decentralize decisionmaking*. In many cases local people know best how to manage and sustain their natural resources, since they depend on them. When controls are placed on the use of natural resources in the national interest, local communities should be involved in decisions about how to manage resources to achieve national goals.

- *Enhance capacity for monitoring changes in the quality of natural resources through standardized information systems.*

The Bank is involved in many projects that are supporting intensification and, at the same time, promoting better natural resources management based on these principles. Projects currently underway include social forestry and watershed management projects in Asia and Africa, watershed management programs in the Loess Plateau in China (box 6.6), and community-based resource management projects in Burkina Faso.

Mainstreaming Biodiversity in Intensive Production Systems: the Potential is Great

Most of the world's biodiversity is concentrated in the tropical and subtropical regions of developing countries, and some of it is at risk of being irretrievably lost. Agriculture is both a threat to biodiversity and a key to its survival. With global demand for food and other agricultural products expected to about double over the next 30 years, much of the planet's remaining natural habitats will be lost unless future needs can be met from areas already cultivated or grazed. The productivity of existing farms and rangelands will have to increase dramatically in a sustainable manner if the twin challenges of improving living standards and enhancing the environment are to be met.

The fates of agriculture and biodiversity are intertwined. Wildlife habitats provide environmental services to agriculture, such as protecting water sources for irrigation. Relatively undisturbed habitats also contain wild populations of domesticated plants and animals, and these populations contain useful genes that are often absent in the domesticated gene pool. It will be possible to secure at least some of the remaining habitats that are home to endangered plants and animals only if agriculture is intensified in a sustainable manner. Doing so should reduce pressure on forests, grasslands, and other habitats important for conserving biodiversity. *How can agriculture be intensified while protecting biodiversity?*

An intersectoral effort is currently underway at the World Bank to mainstream biodiversity conservation in environmentally sustainable development activities. Mainstreaming biodiversity in agricultural development will mean addressing some strategic elements that arise from understanding the incentives driving land-use decisions made by millions of individual farmers. Any decisions to change land use should weigh the benefits obtained from that change against its costs. Win-win policies often exist, since policy distortions that exacerbate damage to biodiversity also tend to be economically inefficient. A basic principle of such reforms is to discourage agricultural extensification and encourage agricultural intensification. Improvements to available technologies could go along way toward both reducing conflicts between agriculture and biodiversity, and increasing the sustainability of agricultural development.

Forestry and Agroforestry

There is growing recognition of the diverse contributions that forest resources make to development, providing not only wood, but nuts, fruits, soil and water protection, flood control, recreational opportunities, carbon sequestration as a means of offsetting global warming, and perhaps the most complex and extensive source of biodiversity habitat. However, capture of the benefits from forest cover—especially by people living in or near forests—is frequently impeded by tenure and forest-use policies. The lack of effective mechanisms to transfer compensation from those who benefit from sustainable use and conservation of forests (including the international community as a whole for carbon sequestration and biodiversity preservation) to those who can gain more from conversion of forest land compromises sustainability. In many countries forests remain severely undervalued, because of the combination of strong rent-seeking behavior by commercial users and forest officials, and highly centralized and bureaucratic forest services. This leads

Box 6.6 The environment is key to raising incomes for 1.2 million people in the Loess Plateau in China

Over thousands of years erosion and irregular rainfall have kept the productivity of farmland in the Loess Plateau in China very low. Farmers in the region are among the poorest in China, with annual per capita incomes of only US\$35-50.

IDA is now supporting a project to increase agricultural production and incomes of 1.2 million people on 15,600 square kilometers of land in the Loess Plateau. The project involves the extensive planting of trees and grasses, construction of small dams and barricades, and terracing of hillsides to prevent the fertile topsoil from washing away. Since the project became effective in October 1994, grain production has risen significantly in nearly all 400 communities participating in the project. This is so even though the project area was affected by a persistent drought in 1995. In 1996, with better rainfall, yields have been two to three times higher on terraced land than on neighboring sloping lands. Using their increased income, villagers are now building health clinics, schools, roads, and water and sanitation infrastructure to improve their lives. Observing these changes, villages in areas adjacent to the project area have expressed an eagerness to participate in the project.

Four aspects of project design appear to have been especially important to its success:

- *Security of land tenure.* Local governments must grant long-term land-use contracts to farmers in order to participate in the project. More than 100,000 contracts, typically 30-50 years long,

have been issued. Farmers strongly support this arrangement, and say that they are more willing to maintain and care for their land than in the past.

- *Emphasis on delivering on-farm benefits.* The project was able to deliver tangible benefits to households very quickly. By retaining water, terracing allows a substantial increase in yields almost immediately (maize yields can double or triple in the first season). Farmers support activities that so clearly raise their incomes. They are also more willing to consider land management practices that provide less immediate or direct benefits such as afforestation and grassland development.
- *Political support at county, prefecture, and provincial levels.* Community leaders fully support the project. This is largely because the project furthers the individual ambitions of many leaders to reduce rural poverty, an effort for which they had inadequate funds in the past.
- *Widespread public participation.* The project managers have widely disseminated information about the project through public briefing materials, videos, radio, television, and traditional methods such as parades, drum corps, puppet shows, dance, and theater. As a result, farmers, herders, and even school children are aware of the project objectives and their responsibility in achieving them.

to inadequate forest management and protection, and a stifling of local communities' participation in the use and protection of the resources. Finally, the measurement of deforestation and forest degradation, and the valuation of biodiversity, carbon sequestration, and many other nonmarketed outputs from forests remain problematic.

In 1991 the Bank adopted a widely discussed forest policy that aims to: reduce deforestation of the world's remaining natural forests, through cross-cutting initiatives in population control, agricultural intensification, creation of employment opportunities, and control of potentially negative impacts from investments in infrastructure and land use; and promote sustainable forestry, policy reform and institu-

tional strengthening, investment in new plantings, and preservation of intact forest areas with high biodiversity value. In particular, the policy commits the Bank to take a precautionary approach to forest utilization and expressly prohibits direct Bank financing of logging of primary moist tropical forests. In pursuit of these objectives the policy requires governments to: adopt policies on conservation, sustainable use, and local participation in forestry and to set aside some forest areas to conserve biodiversity and protect the interests of forest dwellers; develop and adopt environmentally sound plans for forest utilization and conservation; undertake social, environmental, and economic assessments of forests under consideration for commercial use; and establish insti-

tutional capacity to implement and enforce these conditions.

In 1994 the Bank reviewed implementation of the forest policy. Although relatively few projects formulated under the new policies were implemented by the date of review, some positive developments were noted: agriculture, energy, and infrastructure projects had been modified to meet the new requirements; the GEF was supporting biodiversity conservation; and policy dialogue and investments were supporting reforms, tree planting and natural forest preservation. However, the review pointed out that much remains to be done to fully implement the policy, and that the alarmingly high rates of deforestation had not abated. The review proposed increased targeting to alleviate poverty, more efforts to reconcile conservation and forest-use objectives, promotion of increased sector investment (of the right type), and greater attention to mitigating the adverse impacts on forests of non-forest projects and lending.

The Bank reviewed the forest portfolio again in 1996. While it is too early to draw firm conclusions, it appears that there has been a significant decline in lending in the sector since 1994. Thus there are relatively few successful models that are directly applicable to most forested country situations. A political consensus among major stakeholders on the goals and directions of forest development has not yet been achieved. This is an area in which the Bank should play a leadership role in the future.

The future. As in the past five years, the Bank will increasingly be involved in forest conservation, alternative livelihoods, watershed management, and specific actions to promote sustainability. A particular effort will be made to broker new and innovative financing packages in conjunction with the private sector, donors, and others. Higher technical standards in forestry operations will be given even more priority in project design and supervision. Less emphasis will be given to direct financing of harvesting and new planting (which are increasingly matters for private sector investment), al-

though support for the necessary research and infrastructure to ensure that these activities are efficient, well-controlled, and sustainable will continue to be important. The Bank will also continue to incorporate agro-forestry and trees into operations in other agricultural subsectors, and to more effectively integrate forestry activities and issues into broader natural resource and land-use operations.

In addition the Bank will increase its assistance to countries for the development and implementation of sound and sustainable resource strategies, policies, and programs. Increasingly, especially in countries in which the forest sector is large in relation to the economy as a whole, this will involve mainstreaming forestry, biodiversity, and conservation issues into the macroeconomic dialogue and negotiations accompanying adjustment operations.

Small-Scale Fisheries and Aquaculture Provide Additional Options

Bank lending in fisheries and aquaculture has been growing recently (box 6.7). Fish products are a major source of animal protein for hundreds of millions of the world's poorest people, including in those in South and Southeast Asia, and most of Africa. But, the stocks of coastal and ocean fish are rapidly declining, because of overfishing, pollution, and the destruction of spawning grounds. There is considerable—and growing—interest among Bank partner countries to develop aquaculture and protect coastal fisheries through better management.

To sustainably manage fisheries, they be transformed from open-access resources into limited-access resources, whether state property, communal property, or private property. Successful approaches generally include a high degree of participation by local users in the management of the resource. This involves the establishment of new local management structures in which the main stakeholders are key players.

The Bank is a leader in implementing comprehensive approaches to the management of

Box 6.7 Aquaculture: providing food and income for displaced farmers

It is Bank policy that people displaced because of the construction of reservoirs are given access to resources that enable them to maintain, or improve, their previous living standards. The 1,400 megawatt Shuikou Hydroelectric Project on the Min River in China, 84 kilometers from Fuzhou, will inundate about 2,000 hectares of agricultural and forest lands, and displace about 67,000 persons living in 87 villages and 16 townships in Fujian Province. A major source of income and food for the resettled people is expected to be the fisheries of the newly created reservoir. With proper management, the reservoir fisheries can employ 1,500 people and produce 5,900 tons of fresh fish per year. The Bank is working with provincial, country, and municipal governments to design and implement a resettlement plan that gives displaced farmers exclusive access to the fisheries resources of the new reservoir, and that provides them with financial resources, training, and technical assistance for fisheries management.

Aquaculture projects work best when the following conditions are met:

- Reservoir resources must meet many different needs, including power generation, navigation, environmental protection, irrigation, fish production, and water supply. Comprehensive management plans, which address the needs of all stakeholders, can help ensure that resources

are used optimally and with minimal conflict among competing uses.

- If access to resources is open to everyone, people do not have an incentive to invest in them or manage them for future benefits. To ensure that the reservoir fisheries are managed sustainably, it is essential to establish—and enforce—rules regarding who may use the resources.
- Success is much more likely if practitioners of aquaculture have access to expert advice on all aspects of fisheries management, including the rapidly evolving technologies and practices. Technical assistance is needed for advice on pen and net placement, size, composition, and stocking density of fingerlings, fingerling pond construction, feeding regimes, pond fertilization, disease control, harvesting, storage, financial management, and marketing.
- While aquaculture can be highly profitable, substantial initial investment is required in equipment, fingerlings, and food supplies. Lack of access to credit was the primary complaint of resettled farmers in China.
- Pollutants from sewage systems, and industrial plants, and runoff from farms can destroy the productivity of fisheries. In successful aquaculture operations, water quality is monitored regularly, and problems are addressed as soon as they arise.

coastal zones, and lake and reservoir aquatic systems. Protection of biodiversity, small-scale fishery management, and coastal aquaculture management are all integral parts of coastal zone and lake and reservoir management.

The Bank will collaborate with its partners (especially FAO and regional development banks) to initiate new projects (including pilot projects). It will support research on community-based fisheries management and support (through the CGIAR) techniques to raise the productivity of fisheries, for example, disease control, stock assessment, and quality control.

Water Allocation and Management

Water is becoming an increasingly scarce resource, requiring careful environmental and economic management. As the engineering

and environmental costs of developing new supplies rises, so does the need to find ways to allocate existing water supplies more efficiently. The issue of water allocation is extremely important for rural development (box 6.8).

Irrigation and Drainage: Continuing a Mainline Business within a Comprehensive Water Management Framework

Irrigated farmland provides 60 percent of the world's grain production. Of the near doubling of world grain production that took place between 1966 and 1990, irrigated land (working synergistically with high-yielding seed varieties and fertilizer) was responsible for 92 percent of the total. Irrigation is the key to developing high-value cash crops. By helping

Box 6.8 River basin management and smallholder irrigation improvement project in Tanzania

Among predominantly rural countries, Tanzania is one of the poorest. To increase incomes and reduce poverty in Tanzania, it is essential to increase agricultural productivity. One way to do this is to increase irrigated agriculture. But, Tanzania has scarce water resources, and the withdrawal of water for irrigation is already causing serious problems for the production of hydropower. The main power stations in the Rufiji and Pangani basins—which supply 80 percent of the nation's electricity—are downstream of the irrigation water abstraction points. Without better management and allocation of water resources, water scarcity will become a serious constraint to agricultural growth in the country.

Tanzania is now undertaking an IDA-supported US\$26 million river basin management and smallholder irrigation project to improve the management and allocation of its water resources. The project will strengthen the capacity of national institutions to manage water resources comprehensively in the Rufiji and Pangani river basins, and will upgrade the

infrastructure of traditional smallholder irrigation schemes. Major elements of the project include:

- Strengthening the legislative framework on water use and pollution control by increasing penalties and water-use charges, broadening participation in management of water resources, and establishing a framework for preventing and resolving conflicts among competing users.
- Upgrading water quality and hydro-meteorological monitoring capabilities.
- Improving the analysis and understanding of hydrology and its interaction with other natural resources, such as soils and forest cover.
- Developing village- and community-based institutions to facilitate the participation of all stakeholders in water resource planning.
- Rehabilitating and upgrading traditional smallholder irrigation infrastructure, and improving the capacity of user groups to manage the schemes.

guarantee consistent production, irrigation spawns agro-industry. Finally, irrigation creates significant rural employment.

The Bank has been a major actor in the expansion of irrigation systems. Since 1950 the Bank has loaned US\$31 billion (constant 1991 dollars) for irrigation, which leveraged an additional US\$53 billion from partner countries and cofinanciers. More than 46 million farming families have benefited directly from the Bank's irrigation activities.

However, irrigation is the world's major user of water, responsible for about 70 percent of the water used by people. But water is becoming an increasingly scarce resource, especially in the Middle East and North Africa. And with population growth and urbanization in developing countries, there is increasing competition for irrigation water. Furthermore, irrigation may cause environmental problems such as salinization or waterlogging of soils. Therefore, it is imperative to create much more efficient and environmentally sound irrigation systems.

The irrigation and drainage sector faces enormous challenges. Maintaining and ex-

panding irrigation systems has become increasingly difficult. There has been a progressive loss of irrigated land to waterlogging, soil salinization, and urbanization. Many aquifers are becoming contaminated or depleted. Many of the problems are the result of inappropriate institutional frameworks for water allocation and management. In the future the irrigation and drainage sector must be part of comprehensive water resources planning, involving all stakeholders. Institutions capable of coordinating the implementation of plans will be needed. The introduction of transferable water rights and water charges will also be required in many places to prevent further deterioration of the resources. Finally, maintaining and developing irrigation systems and correcting problems in drainage will require massive investments.

The future. The first priority for the Bank (and countries) is to improve the reliability and equity of existing systems. The goal is to upgrade and modernize, not just restore the status quo. Furthermore, it is essential to complete maintenance that has been deferred, and invest in

drainage and flood control, and in water reuse schemes. This will not be possible without giving much greater responsibility to farmers' associations to manage their own systems. The Bank therefore supports institutional reforms that give responsibility for irrigation management to the people who benefit from the systems (box 6.9).

The second priority is to attract private sector finance to the sector. The funding requirements for rehabilitation, drainage, and water reuse investments are very large and cannot be met without private sector involvement. The Bank will seek greater complementarity of public and private funding, and encourage the devolution to, or cofinancing from the private sector. This is a complex agenda, because appropriate conditions do not yet exist in most places, and the solutions are not obvious. Therefore, the Bank will support research and best-practice devel-

opment on these issues. The Bank will also support efforts to use water charges, transferable water rights, and water markets to improve water allocation, and encourage private sector involvement. In mobilizing additional resources, closer collaboration with regional development banks will be essential.

Focusing on a more comprehensive approach to water allocation will require mechanisms for allocating water across sectors, full participation of stakeholders, and effective frameworks for resolving disputes. The Bank is providing leadership in establishing the Global Water Partnership (GWP), which involves the UNDP, the regional development banks, other multilateral agencies, bilateral donors, and NGOs. The GWP will support the comprehensive management of fragile water resources and will be used as a vehicle to mainstream the management of water resources

Box 6.9 Mexico's success in decentralizing irrigation spreads worldwide

Experience shows that when farmers actively participate in designing and managing irrigation systems, the systems are more likely to work efficiently, be financially sustainable, and deliver services that are more equitable.

Some East Asian countries, such as the Philippines, with the support of the Ford Foundation and, later, the World Bank, have been leaders in involving users in managing irrigation systems. These countries have focused mainly on transferring small and medium-scale schemes to user associations. Latin American countries, including Colombia, the Dominican Republic, Peru, and recently Mexico have pioneered the transfer of large schemes to users. The transfer in Mexico has been particularly successful.

In the late 1980s Mexico initiated a radical program to transfer management of many of the state-owned irrigation systems to water-user organizations. Over a period of four years, the government transferred irrigation systems covering nearly 2.5 million hectares—80 percent of state-owned irrigation systems—to 320,000 farmers organized into 316 water-user organizations. In addition "Societies of Limited Responsibility" were formed at the system level in some irrigation districts to administer and operate the main irrigation and drainage network.

To support the transfer of irrigation systems, a new National Water Law was enacted; the national irriga-

tion agency was restructured; a well-defined training and communications program was implemented, aimed at agency staff and water users; and formal agreements (concessions) between the agency and user organizations were developed. In addition water abstraction fees were raised by 60 to 180 percent. As a result more than 80 percent of the transferred projects became financially self-sufficient in 1992-94. Some 80 percent of farmers surveyed 2-3 years after the transfer, said that they were satisfied with the improvement in services, although they were concerned about rising water charges.

Turkey is now following Mexico in transferring its irrigation systems to users. In 1993 and 1994, at the initiative of the Bank, 60 irrigation officials from the headquarters and regional staff of the Turkish irrigation agency visited Mexico to learn about Mexico's experiences. Turkey has now transferred about 960,000 hectares to 176 user associations.

In 1994 the EDI embarked on a new program of "Participatory Irrigation Management" to disseminate the lessons from Mexico and Turkey to major borrowing partner countries, first in South Asia (Pakistan, India) and then in the Middle East (Egypt, Morocco). It will assist countries in developing their own strategies for transferring irrigation design and management responsibilities to farmers.

into the development planning process. The GWP will have four main features: integrated programs at the regional and national levels that adopt the Dublin/Rio de Janeiro principles on water resource management; capacity building to improve the way institutions operate and collaborate; sustainable investments, especially those that deal with competing demands from various user groups; and dissemination of information about the best irrigation and drainage practices worldwide. The GWP will also help countries to resolve international water allocation and management issues.

Local and Community Development and Rural Infrastructure

Promoting local and community development is one of the most important activities in which the Bank is engaged. Experience has shown that projects are much more likely to reflect people's priorities, reach their goals, and be sustainable when they are designed and executed with a high degree of influence from beneficiaries. Local and community-driven development therefore addresses the failed approaches of the past, which were too centralized and statist to effectively reach poor rural communities.

While rural services (productive, social, natural resources management, and local infrastructure) will remain publicly financed, delivering them will be largely the responsibility of local governments and beneficiary communities. All areas of natural resource development will also increasingly be the responsibility of communities, producer organizations, or local governments. Local community involvement is also necessary for banking with the poor, land management, and redistributive land reform. The objective of the Bank is therefore to strengthen the capacity of local governments and communities to manage their own development through decentralized, participatory mechanisms.

Separate routes have led to local and community-driven development approaches including:

- The development of social funds in Latin America and Africa
- Decentralization trends in rural infrastructure
- Decentralization studies and projects in the Bank (in RDV and LAC)
- Research on participation in the Bank, resulting in the *Participation Handbook*
- Local management of contracting and procurement in Bank operations.

Decentralization is no panacea, however. The scope for bottom-up decisionmaking will depend on the capacity to advance rural development at local and community levels. This capacity may indeed be limited. But, often, latent capacity is constrained by the lack of an enabling framework—that is, political, administrative, and fiscal decentralization—and the lack of an empowering framework for community participation. In centralized structures the main challenge is to establish demand-driven rural investment funds and to fine-tune frameworks to make them work even better.

Demand-driven rural investment funds are a new mechanism for funding rural development projects. They provide beneficiaries with a high degree of influence over project choice, design, financing, and execution (box 6.10). Starting in Latin America, where they have revitalized rural development programs in Brazil, Colombia, and Mexico, these flexible lending instruments are spreading to other regions and countries, such as Indonesia.

The future. The Bank will support policies and programs that will help local governments and communities carry out their responsibilities. In particular, the Bank will help local governments and communities find ways to finance services and local infrastructure, both through own revenues and well-designed fiscal transfer mechanisms; develop appropriate legal authority to enable local governments to be effective, legitimate, and accountable; strengthen administrative and technical competence; and develop participatory mechanisms for assessing preferences, project design, project execution, and project cofinancing.

Box 6.10 Demand-driven rural investment funds

The demand-driven rural investment fund (DRIF) is a new instrument for improving the design, implementation, and sustainability of rural development. The DRIF is a mechanism through which central governments transfer funds to local governments and communities to use to address their own priorities within a carefully defined set of guidelines. Beneficiaries are communities or groups of poor people, such as neighborhood associations, women's groups, parent associations, producer associations, or cooperatives. DRIFs are similar to social funds, but operate in a much more decentralized manner. They delegate responsibility for project design, execution, and financing decisions to local organizations.

Community projects funded by DRIFs must meet specific eligibility criteria. Typically, a project may not exceed a cost limit and must be implemented within a given time frame. For example, projects funded by a DRIF in Mexico may not exceed US\$50,000 in cost and must be implemented within one year. Beneficiary communities are required to contribute a portion of the project cost, in cash or in-kind, depending on the type of project. In Mexico communities must contribute a minimum of 20 percent of project cost, but must contribute 30 percent of the cost of road paving, and 40 percent of the cost of building leisure facilities. These rules provide incentives for local groups to undertake projects in line with national priorities, while permitting them to pursue their own.

Technical assistance. Local organizations almost always have much more latent capacity to design and implement projects than is recognized by governments with centralizing tendencies. Still, communities sometimes require technical assistance with project design and implementation. A key feature of

the community-driven approach is that communities decide for themselves what type of technical assistance they need and receive resources to pay for the technical services.

Monitoring and evaluation. The need to manage and supervise many small subprojects makes traditional management procedures inoperable. The DRIF must therefore have a strong and clear set of operating rules and eligibility criteria, to ensure high project quality from the outset. Computerized monitoring systems are essential to identify trends and generic problems quickly, so that rules and incentives can be modified if necessary. Monitoring and evaluation should be carried out by independent technical units.

Resistance to the establishment of DRIFs in many countries has come from central governments and donors concerned that the funds will be spent improperly or appropriated mainly by local elites. These problems can be minimized by taking care to inform the broad public about the fund, including its size and allocation rules. Steps can also be taken to strengthen democracy and participatory mechanisms.

While DRIFs are still new and their impacts still uncertain, results from Mexico and Brazil have been impressive. In Mexico local governments and communities have implemented 30,000 subprojects in three years with average costs 30-60 percent less than projects implemented in the traditional way. In Bank-financed projects in northeast Brazil the percentage of project funds reaching communities has risen from 45 percent to more than 90 percent. Local people are much more satisfied with the projects, which now meet their needs much better than in the past. The sustainability of the projects is also higher, since local groups are now more committed to maintaining them.

Issues of decentralization should be addressed in country strategies for rural development. The guiding principle should be to delegate decisionmaking to the lowest possible level, and to create enabling and empowering institutional frameworks where they are lacking. Nevertheless, for decisions on large projects, the lowest possible level may be regional rather than local, or even national.

Rules of the game should be set at a national level. What cost-sharing arrangements should be established for, say, primary school construction? What differential might be estab-

lished for rural and urban areas and, within rural areas, what further differential for areas with a higher incidence of poverty? With rules of the game in place, decisionmaking at the lowest possible level would be demand-driven and priced to reflect the public-good character of the options.

The Bank will continue to do research on decentralization and participation to gain a better understanding of the characteristics of environments and programs that provide the greatest hope of success. It will also continue seeking mechanisms for intersectoral and inter-

disciplinary cooperation. And it will disseminate innovative project designs that work.

Land Policy and Land Reform: Rapidly Increasing Demand for Services

There is strong evidence that when a nation's agrarian structure is dominated by family farms, farmers produce food more efficiently and are less likely to be poor. With the collapse of the Soviet Union, the new political climate in South Africa, and the move toward markets everywhere, there is now considerable interest in countries to strengthen land administration and undertake land reform. New approaches of land reform rely on voluntary and negotiated transactions between willing buyers and sellers, while providing grants to the landless poor to enable them to purchase land.

Land reform and broad changes in land policy require consensus to work. Therefore, Bank activities in land reform and land policy start with securing wide agreement in countries on land policy and land reform. A major example of successful interinstitutional collaboration in land policy formulation, piloting, and lending has occurred in the case of Russia, where after a slow start, there have been some recent successes with land reform (box 6.11).

The Bank is supporting the long-term sustainability of land reform programs by strengthening land administration. Programs currently underway in El Salvador, Nicaragua, and Bolivia to strengthen land administration have led to important land policy and institutional reforms in these countries.

In addition the Bank is supporting land titling programs in many countries, including

Box 6.11 Land policy in Russia

Although rich in land and human resources, Russia lags behind other industrial countries in crop capacity, livestock breeding, and labor productivity. Agricultural growth in Russia is vital to both the well-being of the rural population and the economic recovery of the country as a whole. In Russia security of land rights and farm reorganization are necessary conditions for more productive farms.

Since 1990 the World Bank Group has supported work of the Russian government in implementing land reform policies. The principle of private land ownership is now protected by the constitution, and private family farming has become accepted in the countryside. The IFC and the Bank have helped develop procedures for clarifying ownership and use rights to land, and reorganizing the collective farms—and procedures for members of the farm community to register their ownership rights.

Further progress was made when, in the fall of 1995, two critical land policy objectives were incorporated into the structural reform portion of the IMF's Extended Fund Facility for Russia. These were clarification and protection of land rights for the ten million members of the large collectives, and introduction of mechanisms to mortgage land.

These policy objectives were achieved during the first three months of 1996. Two Presidential decrees—On Guaranteeing the Constitutional Rights to Land of Citizens and On Additional Measures for the

Development of Mortgage Crediting—clarified the rights of land shareholders to sell, lease, transfer, or bequeath their land shares, and affirmed the rights of landowners to mortgage their land. The rights of land shareholders are to be protected through formal legal agreements between the individual owners of land shares and the collective farm organization, and the agreements are to be registered with the local land committee. All subsequent transactions of land shares are to be made on the basis of contracts, which are also to be registered with the local land committee.

The Bank and IFC are now helping the government to further improve methods for defining and exercising individual ownership rights, and to remove obstacles to farm restructuring. The actions being initiated include:

- A campaign to inform land shareholders of their rights
- Completion of the process of registering land shareholders
- Elaboration of standard forms of contract for all major land transactions
- Dissemination of best-practice experiences in farm restructuring in Russia and elsewhere in the region
- Analysis of the impact of current farm debt on the process of farm restructuring
- Allocation of land shares to members of selected collective organizations.

Bolivia, the Dominican Republic, Indonesia, Nicaragua, and Thailand. Land titling can generate many benefits, including improved efficiency of land markets, reduction in conflict over land, enhanced access to credit, and improved incentives to invest in agricultural production.

The Bank will assist with redistributive land reform in countries with unequal distribution of land. The Bank helped South Africa over 1992-94 to design a redistributive land reform program, which relies on voluntary and negotiated transactions between buyers and sellers, while providing grants to the landless poor to enable them to purchase land. This approach, called "negotiated" or "market-assisted" land reform, is also being piloted in Colombia, Brazil, and Guatemala. All three countries are preparing projects for land reform with Bank assistance. Finally, the Bank with its partners, FAO and IFAD, is supporting the development of a network to facilitate the sharing of country experiences with negotiated or market-assisted land reform.

Adequate Rural Infrastructure Benefits Farmers and Consumers

When there are adequate communications networks, roads, storage facilities, and electricity, farmers can obtain the information they need to grow the most profitable crops, store them, move them to market, and receive the best prices for them. Today, up to 15 percent of production is lost between the farm gate and the consumer because of poor roads and storage facilities—reducing incomes to farmers and raising costs to urban consumers. As cities grow, the need for infrastructure becomes all the more important.

Yet in most countries rural infrastructure has received very little attention, forming a serious impediment to rural development. Helping countries build the infrastructure they need has long been a core Bank activity, and will continue to be so. Along with providing investment capital for infrastructure, the Bank is helping countries develop rural infrastructure strategies, with clearly articulated priorities

that are founded on strong analysis of costs and benefits. The Bank is helping design new approaches to financing (for both initial investments and recurring expenditures), which involve the private sector, mobilize local resources, and use central government transfers more efficiently. Finally, recognizing that the sustainability of rural infrastructure is strictly dependent on a sense of ownership and responsibility at the local level, the Bank is helping to develop mechanisms and institutions that foster local participation and ownership (box 6.12).

Good Rural Water and Sanitation Improves Health and Productivity

Despite the growing level of investment in rural water and sanitation over the past decade, an increasing number of people lack access to these services in rural areas. Technology and increased investments are not enough. Projects failed to sustain themselves because not enough attention was paid to developing the capacities of institutions and communities that must manage and pay for them. Economic and financial analysis of the impact of the systems that were put into place was insufficient, and local communities and individual users were not consulted about the services they wanted and for which they were willing to pay. Based on these experiences, a clear set of principles has emerged that sets out the framework for delivering improved services on a sustained basis:

- Water is an economic good, as well as a social good, and should be managed as such.
- Water should be managed at the lowest appropriate level, with users involved in the planning and implementation of projects.

Managing water as an economic good requires careful attention to issues related to the allocation of water among users and between sectors, such as water supply and irrigation. It also implies that projects must be designed to provide incentives for the efficient and effec-

Box 6.12 Award-winning Africa Road Maintenance Initiative

In many countries it is easier to build roads than maintain them, although maintenance often provides much higher payoffs. The team managing the Africa Road Maintenance Initiative—comprising Bank staff, consultants, other donor agencies, and country coordinators and associates—is trying to change this by focusing on the issue of maintenance, getting road users involved in managing roads, and encouraging governments to introduce explicit road tariffs linked as closely as possible to the actual use of the roads. Due to the success of the team's efforts, many African governments have set up or are in the process of setting up road funds, are restructuring their road agencies, and are formally involving road users in management of roads. Governments are also learning from each other and are spreading the concept of commercialization to other parts of the world. An overview of developments in Africa—together with a detailed description of the Zambia National Roads Board—formed keynote presentations at a recent World Bank/ESCAP seminar on management and financing of roads for the Asia region held in Bangkok.

In its work the team is drawing on the lessons learned in many individual projects. For example, it

is encouraging groups of rural district councils to contract out their planning and management functions to local consultants, who then act as their agents for purposes of preparing and implementing their road maintenance programs. This approach, which has been successful in Zambia and Tanzania, gives the district control of the effort, but also provides sufficient scale economies to give districts access to high-quality staff.

The team is also supporting community participation and empowerment by encouraging villages to form road cooperatives for the purpose of managing their roads, tracks, and footpaths. Governments are also being urged to enact legislation to regularize these arrangements so that central-local cost-sharing can take place. The cooperatives define which roads and tracks are important, register their interest in these facilities, and nominate one of their members to be trained as a road supervisor. The villagers then maintain and improve their roads under their direction. The road fund provides the money to pay the supervisor and to purchase materials. In Zambia, social funds provide money for capital works only if a maintenance program is in place.

tive use of facilities. There must be a balance between the cost of providing services and the prices charged for them. The aim is to achieve water uses and investments in which the value that users attach to a given service is equal to or exceeds its cost, and therefore is a service for which they are willing to pay. Decisions about appropriate levels of services should be made by the communities themselves. The role of higher-level government agencies should be to establish institutional rules, regulations, and processes that encourage effective and efficient community choices, and reduce transaction costs.

Translating these principles into action requires that project planners establish rules and procedures. These can be distilled into four broad and interrelated categories:

- *Eligibility criteria.* Planners should not draw up a list of communities that should be served, but rather a set of eligibility criteria that communities must meet in order to participate. Communities should take the initiative to improve their services.

- *Technical options and service levels.* Communities should be actively involved in selecting service levels. A range of options should be offered and the cost implications made clear.
- *Cost-sharing arrangements.* The basic principles of cost-sharing should be specified and community responsibility for cost made clear at the outset. These principles should aim at negotiated cost-sharing arrangements in which the local community chooses the level of service for which it is willing to pay.
- *Responsibility for investment support.* Particular emphasis should be placed on responsibility for the sustainability of investments. Rules should be set regarding asset ownership, operations, maintenance, and the recovery of system costs.

The main project stakeholders must be actively involved in developing the rules and be committed to their enforcement. The best set of rules is the simplest: transparent and not

subject to interpretation. Rules should be widely disseminated, understood by all, and consistently applied by stakeholders. Sector policy must support the rules at the national level.

The future. The Bank will work with countries to help them design and implement projects based on these principles. It will also be actively involved in learning from project experiences, and measuring results in terms of implementation costs and sustainability of services. It will monitor project rules and procedures, and modify them as required. It will also support the analysis and exchange of experience among countries as part of its efforts to learn what does and does not work in rural water and sanitation projects.

Managing Bank Resources

If the Bank is to have an impact on rural development, it must allocate its resources efficiently. This requires matching demand with staff capacity, better managing the portfolio, and keeping unit costs down.

Projected Demand for Rural Development Services

As discussed at the beginning of this chapter, rural development issues addressed by the World Bank Group can be grouped into five clusters, or product lines. The five areas are:

1. Rural strategy and policy formulation
2. Agricultural systems intensification
3. Management of natural resources and forestry
4. Water allocation and management
5. Local and community development and rural infrastructure.

While there is some overlap among these five product lines, they are sufficiently distinct to be meaningful for projecting demand for rural development services, assessing current staff capabilities, identifying skill gaps, and determining a human resources strategy to equip the World Bank Group to revitalize rural de-

velopment. Projecting demand is problematic where demand from countries and country program managers will increasingly guide resource allocation in the Bank. Demand will ultimately be generated through the CAS process and be reflected in business plans. A key recommendation of the rural sector strategy is to improve rural strategy and policy formulation as part of the CAS process. If this is successful, demand should rise considerably. In the meantime, an approach relying on the judgment of regional managers was used to project demand. The principal findings are:

In the aggregate, demand by product line breaks down relatively evenly, with about 20 percent for each. But, with the exception of East Asia and the Pacific, the regional differences by product line are very striking:

- Africa projects that 39 percent of its work program will be in agricultural systems intensification.
- Europe and Central Asia projects that 36 percent of its work program will be in rural strategy and policy formulation.
- Latin America and the Caribbean emphasizes natural resources management, and local and community development/infrastructure, which together account for 69 percent of its demand.
- South Asia (42 percent) and the Middle East and North Africa (34 percent) both project high demand for services in water allocation, irrigation, and drainage.

Thus the even breakdown of overall demand among the five product lines masks highly differentiated demand patterns across regions. Indeed, the projections of future demand by managers are highly concordant with the diverse priorities identified in the regional rural sector strategies. The distribution of staff will need to be adjusted to correspond to these demands.

Staff Capacities and Needs

A comprehensive inventory of existing staff capabilities, projected retirements, and attrition, has been undertaken. Combined with

the demand projections, conclusions can be drawn about skill gaps and future recruitment needs.

There are currently about 470 staff working on rural development, including more than 100 long-term consultants. A very high percentage of the staff have the necessary technical skills and are fully competent, according to their managers. The Sector Board will emphasize maintaining and improving staff skills, and matching the special technical skills of staff members to the areas where they can contribute the most.

While staff competency is strong, more than one-third of experienced staff are likely to be lost through retirement or attrition over the next five years. This turnover provides an opportunity to make the necessary changes in staff skills to match changes in future demand for skills. Preventing an erosion of the Bank's skill base will require a major recruitment effort, which has significant upfront costs. Therefore:

- The Sector Board will make staff capacity building and recruitment a top priority, along with strengthening the knowledge base. In collaboration with the Human Resources Vice Presidency, the Sector Board will develop a four-year recruitment program.
- Demand is expected to rise significantly for expertise in two areas: water allocation, irrigation and drainage; and local and community development and rural infrastructure. Demand is likely to remain stable at current levels for agricultural systems intensification; and natural resources management and forestry. Demand is likely to grow for expertise in the subarea of markets and agribusiness.
- To improve expertise in strategy and policy formulation, a core training program has been initiated. In addition a special program to recruit and train economists and other social scientists for work on rural development strategy and policy issues is planned.

Trends in the Portfolio and Lending

There is a large undisbursed balance in the portfolio of rural development projects—US\$12 billion—which was 16 percent of the Bank's total outstanding commitments on December 31, 1996. (The transportation portfolio and the electric power portfolio each have around US\$11 billion in undisbursed commitments).

Lending for rural development has declined substantially over the past decade, from an average of US\$6.6 billion (61 new projects) in fiscal 1985-86 to an average of US\$2.7 billion (39 new projects) in fiscal 1995-96. Over the same period, there has been a decline in the number of projects under supervision, from an average of 563 in fiscal 1985-86, to 386 in fiscal 1995-96. The loan/credit amount per project has also gone down over this period, from an average of US\$108 million to US\$69 million. By fiscal 1996 rural development accounted for only 12 percent of the Bank's annual lending, compared with 29 percent in fiscal 1986.

The most immediate way to foster rural development is to implement the ongoing programs and disburse the existing portfolio. In accordance with the Wapenhans recommendations, over the past three years several of the Regions have carried out thorough portfolio reviews and reevaluated their pipeline of projects. Selected portfolio reviews have been carried out under the guidance of the Quality Assurance Group in the areas of forestry, and irrigation and drainage. A review of the research and extension portfolio is just getting under way.

Actions to Reduce Unit Costs

Costs of rural operations have always been higher than those of other operations because of the spatial dispersion and heterogeneity of rural areas, and the multiplicity of government and nongovernmental institutions involved. The average preparation cost per approved rural development project in fiscal 1996 was

19 percent higher than the Bankwide average. The cost of preparing rural development projects was second only to that of preparing environment projects and substantially higher than that of preparing human development projects. By comparison, average supervision costs for rural development projects in fiscal 1996 were about the same as the Bankwide average.

Reducing the cost of preparing rural development projects presents significant challenges for program design and coordination. Costs are high in part because of the greater need to carefully incorporate environmental concerns into project design and fully involve local people in project design and implementation.

Cost containment has been a major objective for rural operations ever since the Bank began operating in a more restrained environment, with containment of budget growth a focus. The number of rural development staff is continuing to decline, as several units are in the process of eliminating positions. There has also been a substantial increase in the use of local staff, particularly in South Asia and Africa Regions. Staff and related administrative costs have also been cut by merging units in Latin America and the Caribbean, Europe and Central Asia, and Africa and the Agriculture and Natural Resources Department.

There has been successful, but limited, experience with placing highly competent staff in countries to work with local staff and consultants in project design and implementation (without the burdens of more general tasks that reduce the cost-effectiveness of many staff assigned to field offices). This helps achieve the joint goals of enhancing the quality and cost-effectiveness of operational work. In Central America, cost-effectiveness has been achieved by assigning staff to the regional unit (RUTA), which has worked with national governments to enhance their capacities to prepare projects.

In Africa, and the Middle East and North Africa many poorly performing projects have been dropped, and the project pipeline cleaned out. While these actions have increased costs

in the short run, they will lead to lower costs for supervision in the long run. Important cost-saving measures are also being taken through ongoing portfolio reviews, which should lead to the closing or restructuring of poorly performing projects.

For the future the sector strategy calls for a more strategic approach to lending, with greater analysis, country and program selectivity, piloting, and consensus building than in the past. While these activities will require additional staff and budgetary resources, the resources required should be considerably less than those absorbed by failed project starts and the supervision of problem projects. Africa will further increase its use of locally hired staff to work with highly experienced staff from regional hubs.

Resources saved through the measures taken and proposed should be used to improve the quality of services to clients, including consulting with farmers and other stakeholders during the preparation and implementation of projects, and improving project analysis, monitoring, and evaluation. It is therefore unlikely that resource savings can be used to expand the volume of operations.

Priority Actions

Enhancing portfolio quality. The Regions have primary responsibility for portfolio management. No additional resources are required for this task. The Sector Board will undertake two special portfolio reviews each year through fiscal 2000. The increased effort that is needed can be funded through an expected decline in the rural development portfolio from around 400 projects in fiscal 1999 to around 300 by fiscal 2000.

Enhancing knowledge management. It is expected that the rural development family will eventually manage up to 15 knowledge nodes, including 5 or 6 jointly with other families. The nodes will rely heavily on staff from the Regions to supply substantive materials. Region staff may manage some of the nodes (for example,

Europe and Central Asia may manage markets and agroindustry).

Strengthening alliances. While preparing the rural sector strategy, the Bank has consulted extensively with existing and potential partners. The alliances that have been built need to be maintained and made stronger over the coming years, for which some additional upfront investment is envisaged.

Revitalizing the research program. The previously active research program in rural development has declined sharply during the 1990s because of a general decline in research across the Bank and the decision to allocate the shrinking resources to areas other than rural development. The rural sector strategy gives high priority to revitalizing the program.

Budget Priorities

Reversing the decline in lending and strengthening the quality of nonlending services will require adjustments in the Bank's allocation of resources. The activities to be pursued will depend on the resources available. The following is a list of seven key activities for the sector in descending order of priority:

1. Achieve impact on the ground by carefully managing and further improving the performance of the portfolio under implementation.
2. Initiate core functions of the rural development family, such as disseminating existing knowledge on best-practices, and providing all staff with core training.
- If resources available for rural development continue their recent modest decline, it will still be possible to implement the first two priorities by using resources previously absorbed by preparation of ultimately-dropped projects and the supervision of problem projects.
3. Pursue the focus programs within the existing resource constraint.
4. Increase economic and sector work, and reestablish a forward-looking research program.

If resources remain at current levels, it should be feasible to implement the first four priorities.

5. Initiate an enhanced recruitment drive to prevent the anticipated sharp erosion of staff skills, and hire staff with critical skills.
6. Accelerate implementation of focus programs.

Implementing the first six priorities will be feasible only if resources become available for additional upfront investments.

7. If capacities are built and demand rises as a result of the implementation of the rural development strategy, lending could expand by up to 50 percent. Budget resources for this expansion would be made available from country budgets through a demand-driven process.

Conclusion: What Are the Key Actions Proposed?

This rural sector strategy is not business as usual! It proposes a new way of doing business to meet the critical challenges of providing food for all, raising rural incomes and reducing poverty, and sustainably managing natural resources. The key recommendations are:

- *We need a broad rural focus. We will no longer use the narrow focus.* The rural sector strategy focuses on rural sector strategies as crucial for promoting rural growth. We will no longer look only at irrigation and drainage, but also at water resource allocation and comprehensive management. We will not deal with agriculture, forestry, or livestock separately, but with the management of natural resources in sustainable production systems. We will look at rural entrepreneurship instead of agricultural credit, off-farm employment, agro industries and marketing in isolation. And we will integrate human capital development, infrastructure, and social development into rural development strategies and programs.
- *The entire World Bank Group must be involved in promoting rural development.* Coordination among the different actors must be

greatly improved to ensure that efforts are not duplicated or hampered.

- *We must work with partner countries and the broader international community to integrate rural development in overall country development strategies.* The rural sector strategy stresses the formulation of country assistance strategies as critical to building consensus both within the Bank and among stakeholders in countries.
- *We will address long-ignored issues. We must not be timid on issues such as land reform, and we must greatly increase our commitment to food consumption and nutrition policy. Gender will be a relevant cut across many of these issues.* We must continue to tackle the "anti-trader" bias in many borrowers' regulatory frameworks. For many of our partner countries land reform, better land policies, and improved rural entrepreneurship would provide the incentives for investment and growth needed to raise food output and rural incomes. With appropriate policies all citizens could be made better off.
- *We will address old issues in new ways.* The Bank has acquired considerable knowledge about what works and what doesn't. We will implement more widely the promising new approaches. To name just a few:
 - We will revitalize rural development at local and community levels.
 - We will involve stakeholders in the development and execution of projects through all stages.
 - We will deliver rural financial services to the poor using new approaches.
 - We will involve the private sector in delivering infrastructure and other services.
 - We will promote sustainable resource use through community-based management.

What Will the Outcome Be, and How Will It Be Monitored?

Implications for the Bank. The one broad quantitative target for the Bank that the rural sector

strategy proposes is that 80 percent of projects receive ratings of satisfactory by fiscal 2002. The rural sector strategy does not set targets for nonlending and lending outputs, emphasizing instead the process of formulating national rural strategies and building consensus for rural development. Nevertheless, one result of successful consensus-building efforts with countries would be increased lending volume in focus countries and in others. This increase may well be offset by a complete or nearly complete withdrawal from countries where consensus-building efforts fail.

Implications for rural development. The major outcome of the rural sector strategy will be greater commitment to rural development by international donors and our partner countries. Action matrices for the subsectors of rural development provide detailed monitoring indicators for specific activities (the matrices are included in the March 1966 version of the rural sector strategy). These will enable staff and management to monitor the many diverse actions needed to achieve this overarching goal and to evaluate their results. For example, increased international commitment should be reflected in increased financial commitment by donor and client countries to the international agricultural research system. Bank-assisted national institutions and independent scholars will monitor country-specific progress in policies, institutions, and expenditure patterns for rural development, as well as the associated outcomes.

Three major outcomes. The success of the rural sector strategy must ultimately be judged by three main outcomes. First, will the Bank by fiscal 2000 be seen as a leader in the fight to reduce rural poverty and improve the management of the natural resource base, both in the international community and in partner countries? Will it be seen as a key ally of the rural poor and a major force in sustainable natural resource management? This outcome can be evaluated through systematic client consultations, as well as by other indicators of Bank leadership.

Second, will there be the complementary progress toward freer and fairer world agricultural trade and toward developing international coordination mechanisms to ensure that countries can safely rely on international markets for food security and for profitable outlets for their enhanced production? Progress under the high-profile international initiatives proposed will be monitored carefully.

Third, will the rural underperformers and dropouts have changed their ways, joining the countries of most of East Asia, which have had remarkable success in reducing rural poverty? This is a major goal of the rural sector strategy. Monitoring this impact will require evidence from several sources, including poverty assessments—the main instrument used by the Bank to identify social and economic priorities for low-income and vulnerable groups.

APPENDIX A

Focus Programs by Region

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Northeast Brazil

Program Focus

Northeast Brazil contains the highest concentration of poor rural people in Brazil and in all of Latin America. This Region contains 30 percent of Brazil's 148 million people, more than half of the country's poor and almost two-thirds of its rural poor.

The Brazilian government is faced with the dual challenge of achieving greater public sector efficiency and reducing the dire rural poverty in the northeast. The Bank, which has a long-term partnership with the Brazilian government in the northeast and a knowledge base developed from extensive experience working in the region, can help develop and implement ground-breaking initiatives in rural development.

Program Activities

Northeast Rural Poverty Alleviation Program. This program places resources in poor rural communities through small-scale community projects that encourage local participation and cost-sharing. Communities identify, plan, and implement priority investments and are responsible for their operation and maintenance. The high degree of commitment that comes with this approach, greatly enhances the prospects for long-term sustainability of these investments.

Water Resources Management Program. In order to improve water resource management in the semi-arid and drought-prone northeast region, this program would increase the capacity of government and final users to allocate water efficiently and would finance necessary infrastructure rehabilitation to ensure optimal resource utilization.

Land Reform and Poverty Alleviation Project. This project seeks to address the unequal distribution of land in Brazil and the resulting rural poverty by empowering communities

to take the lead in land purchases and development. Based on voluntary transactions between willing buyers and sellers—and a government role limited to ensuring land titles, verifying transactions prices and providing beneficiaries with financial resources—the project adopts an innovative, market-based approach. The Bank provides financing for complementary productive and infrastructure investments, essential for successful land reform.

Rural financial development. Through in-country sector work and pilot programs as well as study tours with state and local officials, users and practitioners, the Bank's initiative in rural financial development would build upon the lessons learned in Brazil and elsewhere to design and test projects in small-scale rural savings and credit.

Results

The performance and impact of these activities would be gauged by specific monitoring and evaluation systems built into the design of each program, and would be summarized and analyzed in their totality throughout the annual CAS updating process. The monitoring and evaluation of the country/region focus program would benefit from the supervision from the field from the Bank's Recife Office and local staff placed in Brasilia.

Next Steps

Once additional resources are confirmed, the Bank will work with the government to develop in detail the three-year country/region focus program for Brazil. This will be followed by its immediate implementation.

Guatemala

Program Focus

Guatemala is an ideal focus country because of the high level and concentration of rural poverty; the concentration of indigenous peoples;

the recent peace accords, in which rural development has a central role to play; and the professionalism and high degree of commitment of the current government to the implementation of the peace accords and to poverty alleviation more generally.

Program Activities

The proposed Guatemala rural development and agriculture focus program would cover three years and include the following activities. In addition there are other rural infrastructure projects relevant to rural development not listed here, such as the proposed Basic Education III and Rural Roads Projects.

Already programmed activities

- Preparation and start-up of a land administration project
- Preparation and start-up of a social investment fund project

Activities that could be accelerated due to focus country designation

- Preparation of a countrywide, multisector indigenous peoples development plan
- Execution of Institutional Development Fund grants for indigenous issues and women's activities in rural areas

Proposed incremental activities due to focus country designation

- Preparation and start-up of a rural financial services and rural development project
- Update of the 1993 Guatemala irrigation study and preparation of an investment program for rural water and sanitation suitable for external assistance
- Preparation and start-up of a FONAPAZ decentralized and local community investment project in selected indigenous areas

Focus country activities would be implemented through preparation and implementa-

tion of investment programs; and nonlending products, including not only traditional ESW, but innovative activities similar to the "Ancianos" meeting with Mayan elders, government officials, other donors and NGOs, which the Bank sponsored in September 1996. In addition implementation of the focus country program would benefit from coordination with activities of the RUTA-Agricola offices in Guatemala, and at RUTA-Agricola headquarters in San Jose, Costa Rica, as well as with the recently established Bank resident mission in Guatemala City.

Results

The desired results of the Guatemala focus country program would be an acceleration of the activities called for under the 1996 peace accords related to rural development, and especially indigenous peoples. Specific objectives would be more rural employment and higher incomes due to increased private and public rural investment; alleviation of some of the social and human consequences of rural poverty by improved access to safe rural water; and improved local decisionmaking in rural areas as part of a more general decentralization program.

The results of each activity would be monitored by specific monitoring and evaluation programs built in to the design of each activity and summarized and analyzed in their totality through the annual CAS update process. In addition monitoring and evaluation of the country focus program would benefit from the presence of the recently established Bank resident mission in Guatemala City.

Next Steps

- Confirm government interest in proposed focus country program activities
- Confirm availability of incremental Bank budget to carry out program activities
- Subject to the above, work with government to prepare a detailed three-year focus

country program for Guatemala and begin its execution

Mexico Southern States

Program Focus

In Mexico the level and concentration of rural poverty, indigenous peoples, and food insecurity is particularly high in the two states of Chiapas and Oaxaca.

Program Activities

The initiative is based on a multisectoral, multi-institutional action plan with several components, to be implemented between 1996 and 2002 (details documented in a draft proposal, "Mexico: The Southern States initiative," April 1996). Key components are:

- Ongoing relevant projects covering basic infrastructure, labor market, education, health, sanitation, and strengthening of local institutions (11 projects, the relevant parts of which total about US\$350 million) will be refocused on Chiapas and Oaxaca to facilitate immediate initiation of the initiative (beginning in March 1997)
- About 11 new investment operations (relevant parts totaling about US\$347 million), already under preparation and expected to be effective in fiscal 1997-98, will include specific components focused on Chiapas and Oaxaca, primarily supporting infrastructure investments complementary to private sector investments and activities to enhance agricultural productivity
- A task force including government, business community, and civil society will be organized to identify and tackle specific constraints to development of productive activities. The CGAP, the IFC, and the Inter-American Development Bank are planning or implementing complemen-

tary funding sources for private investments in the two states (starting in mid-1997).

Results

The initiative would facilitate (a) new private investments, expanded outreach to rural poor of research and extension, and accelerated land titling and registration; (b) development of rural financial markets; (c) provision of better productive infrastructure, development of forest-based community enterprises, upgraded skills and retrained labor; (d) improved quality and accessibility of basic education, health, water, and sanitation services; and (e) improved nutrition and strengthened state and municipal institutions.

Next Steps

The proposal was presented to the government in September 1996 and agreed to in principle at that time. Implementation of the action plan will begin by the end of fiscal 1997.

Regional Unit for Technical Assistance (RUTA) in Agriculture

Program Focus

RUTA is a cost-effective and client-oriented service unit based in Latin America that assists countries with project preparation and implementation, institutional strengthening, the development of trade policy, and training. The establishment of RUTA, with funding from seven different multilateral and bilateral sources, has helped greatly in addressing the needs of rural people in Central America, and is a major success.

RUTA's most important function is to serve as a focal point for partnership for the Bank, several multilateral and bilateral institutions, and borrowing member governments. Reliance on RUTA has enabled the Bank to meet rapidly growing client demands in Central America at

reduced cost. RUTA's non-Bank sponsors—FAO, IFAD, UNDP, Inter-American Development Bank, and bilateral donors (including Norway, which has contributed expertise on gender issues)—stress its value in strengthening their partnership with the World Bank. The Central American governments, in turn, are appreciative of the client-orientation and direct attention received from RUTA. Several governments are undergoing economic and social reforms and are seeking guidance or technical assistance from RUTA.

Program Activities

The Bank intends to continue support for RUTA at current levels. Support for RUTA thus comprises a much increased proportion of a reduced departmental budget. While these resources are sufficient to permit continuation of current preparation and supervision activities, they are not sufficient to meet the demand of the client countries for increased support (in the form of institutional strengthening and technical assistance) from the Bank in areas of trade policy, gender and ethno-development, and natural resources management and environmental economics. The Bank would like to augment RUTA's capacity in these areas through the hiring of the equivalent of one long-term consultant (in practice, the funds would provide leverage to solicit additional support from the Bank's partner institutions in these thematic areas). Augmenting RUTA's staff would cost 20-40 percent less than placing persons with similar skills at headquarters.

Results

The benefits would be monitored through the degree of satisfaction of client governments; better sectoral performance in the key areas of trade policy, gender and ethno-development, natural resource management and environmental economics; and willingness to obtain services from RUTA.

Next Steps

Detailed program proposals in each of the areas above have been drawn up. With confirmation of partial funding from the Bank, additional assistance from other partners will be sought.

Guinea

Context

The Africa Region's main foci in promoting rural development will be:

- Improved policy regime: creating an enabling policy environment for entrepreneurship and agribusiness development
- Technology development and adoption: promoting technical progress at farm level, and strengthening researcher-extension-farmer linkages
- Natural resource management: improving the sustainability of production systems through better management of soils, water, pasture and forests
- Rural infrastructure: establishing rural roads, water supply and sanitation, electrification, social services, and improving urban-rural linkages
- Empowerment of rural people: increasing farmer participation in the development process and resource allocation and management, and developing farmer organizations.

Program Focus

- Guinea is well endowed with rich soil and minerals and has good potential for agricultural growth. Recently, the country achieved a 5 percent agricultural real GDP growth rate since 1994, amongst the highest in Sub-Saharan Africa.
- Agriculture is to play an important role in the need to decrease the dependency of the economy on mining, an enclave sector, for a more balanced growth.

- Social indicators: mortality of children five years or younger is 223 per thousand live births or twice the rate for low-income countries; only 10 percent of rural dwellers have access to adequate sanitation and 33 percent to safe water, compared with 24 percent and 70 percent respectively for their urban counterparts.
- Notable successes were achieved in liberalization of markets and prices and eliminating direct public sector involvement in crop production, yet there is a need for a wide range of civil service reform in the agricultural sector and to rationalize the patterns of sectoral public finance.

Program Activities

- Strengthen and build on existing capacity to improve accessibility and quality of service delivery in the agricultural sector by formulating and implementing the sectoral strategy, furthering private sector development and reviewing and rationalizing existing institutional structures
- Strengthen the generation and dissemination of improved crop and animal husbandry by building the scientific and managerial capacity of the agro-economic research institute and extending the coverage of agricultural extension services
- Strengthen donor coordination by undertaking joint supervision of major agricultural sector operations

Activities to be accelerated as a result of Guinea being a focal country for rural action plan

- Use the future agricultural services operation to demonstrate usefulness of support for broader sector and subsector investment programs with a policy content (fiscal 1997 and fiscal 1998)
- Further the dialogue on the preparation of a follow-up program in rural infrastructure (especially rural road, health, water and sanitation), within the context of a subsector investment program focusing on an

infrastructure maintenance policy and strategy

Results

- Improved institutional and capacity building for the provision of key support services to farmers
- Increased agricultural production and productivity
- Decreased rate of deforestation due to intensification
- Increased rural gender equity
- Expansion of agricultural markets
- A sustained high agricultural GDP growth rate of at least 4 percent annually

Next Steps

- Obtain agreement with the country team on an action plan
- Confirm borrower interest in focus program, targeting rural community-based public works and infrastructure

Madagascar

Program Focus

- Almost 75 percent of Madagascar's people are poor.
- Reducing the proportion of the population living in poverty to less than 33 percent within a generation will require massive new foreign investment and improvements in the delivery of social and economic services to the rural population.
- A particular challenge is to raise agricultural productivity to yield an additional US\$450 million of agricultural output over the next decade (from about US\$1.3 billion) and to develop ecotourism with spin-off effects for rural communities while protecting the country's unique habitat.
- Constitutionally mandated decentralization presents a challenge and an opportunity to empower local communities to tackle their development needs.

- Maintenance and rehabilitation of local infrastructure such as irrigation, soil conservation and rural roads, together with investments in health, education, and water supply (only 29 percent of the population has access to clean water) are key to improving the productivity of the rural poor.
- The macroeconomic reforms and measures "to get prices right" are either completed or underway; development challenges now revolve around increasing the incomes of the poor by increasing their productivity.

Program Activities

Rural development is one of the main foci of the Madagascar Country Assistance Strategy, (drawing on the poverty assessment and private sector assessment). The Bank will support decentralization to ensure that public expenditure can be reallocated to provide real resources to local governments. Currently the central government provides over 80 percent of resources available to local governments. However these funds amount to only about US\$1 per capita while total central government expenditure is about US\$40 per capita. The key challenge is to help the government define a strategy over the next 6 months (to be reflected in the 1998 budget). The strategy would begin restructuring both public expenditure and local government finance so that local governments are provided real means to provide services. Some combination of block grants and matching grants will be needed together with a mechanism for quality control and auditing by the central government.

Bank interventions would build on the decentralization process through four channels:

- *Defining the rules of the game and capacity building.* A decentralization project would support the definition of the appropriate local government finance framework for all communes. The system will aim to encourage the mobilization of local resources by augmenting them with funds from the

center to achieve levels and quality of service delivery to be defined and monitored from the center. The project would also concentrate on capacity building and support for some critical investments in 30-60 of the largest communes with at least 10,000 inhabitants (accounting for over 60 percent of the population).

- *Providing the resources to effectively empower rural communities and support a rural road network.* A rural infrastructure project would aim to empower the rural communities to improve public services in accordance with the rules of the game defined under the decentralization project. The larger rural communes covered under the decentralization project would be able to "double dip" provided they have well-justified uses for the funds (this approach is in line with the need to support rural communities that have been largely neglected up to now). One large area of emphasis would be to ensure the availability of adequate funds for rehabilitating and maintaining rural roads. Coordination with the central government will be critical to ensure that a national network emerges from the decentralized approach.
- *Improving the effectiveness of key rural investments and services.* The Bank is adopting a comprehensive approach to deal with wide-ranging constraints: heavy government intervention; inadequate development and transfer of improved technologies; insufficient access to inputs and credit; problems with security of land tenure; poor rural infrastructure; inadequate development of farmer organizations and private animal health services; and weak local capacities for planning and implementation. The key investments and services (except for roads to be financed under the Rural Infrastructure Project) are already in the portfolio: irrigation, agricultural research, extension services, dams and other water-retention structures; livestock; rural finance; and soil conservation measures. The environment program and

a restructured agricultural portfolio would aim to ensure that these activities have a greater impact. Investments and delivery will be contingent on community demand rather than supply-driven from central ministries, which should make programs and projects much more responsive to community needs and sustainable.

- *Improving rural well-being through provision of social services.* The education, health and water projects under execution or preparation would be looked at closely with a view towards transferring resources to local communities with capacity for managing their resources, away from central government implementation units. The Bank will need to work closely with beneficiaries, local governments, sector ministries and other donors to devise national programs, standards of service delivery, procedures for releasing resources and audits and arrangements for filling in for a transitional period for those communities that are not able to organize themselves to take charge of their affairs.

Expected Results

- More public services through enhanced revenue mobilization
- Higher rural incomes, better social indicators and lower poverty incidence
- Improvements in the growth elasticity of poverty reduction (currently at about 1.5 versus 2 in Indonesia)
- Reduction of ethnic tensions between the relatively prosperous Antananarivo elites of Indonesian origin and the coastal poor of African origin

Malawi

Program Focus

Malawi has been selected as a focal country for a number of reasons. First, a major political change has taken place and there is evident commitment by the new government to reduc-

ing poverty and reforming the economy. The country appears relatively stable and macroeconomic performance has shown marked improvements. Second, there are extensive ongoing and newly planned agricultural and rural development programs plus programs of social infrastructure. Third, there have been positive developments in food and agricultural policies for which there is evidence of supply response. Fourth, our support includes a strong community focus, including a Social Action Fund to support community actions. Fifth, Malawi poses one of the toughest challenges for success in rural development due to its skewed asset distribution, absolute poverty in rural areas and erosion of basic natural resource base.

The rural development program is fully integrated with the CAS of March 1996 through the emphasis on growth, targeted poverty support program, and improved capacity building program. In addition both have put special emphasis on the need for agricultural diversification and generation of nonfarm employment.

Program Activities

Activities to be given special attention over the next three years

- Improved policy regime particularly related to land tenure and to the development of input and output markets.
- Technology development and adoption through improved research and extension development (through the implementation of the Agricultural Services Project and Smallholder Food Security Project, and increased attention to irrigation, crop diversification and livestock).
- Natural resource management through the implementation of ongoing soil fertility management, soil and moisture conservation activities and through the new environment support program. The latter will introduce a more environmentally friendly policy framework for natural resource management, including supporting initiatives in key areas of environmental degradation.

- Programs in education, health and social safety nets to improve the welfare of rural people.
- Village community and group development through the implementation of the proposed Malawi Agriculture and Livestock Investment Project (MAL SIP) and ongoing Agricultural Services Project and Smallholder Food Security Project.
- Enhanced monitoring and evaluation of the ongoing projects and of the policy reform process, including the setting up of more specific performance indicators.
- Accelerated agribusiness development through training, technical assistance and other means.

Incremental activities to be undertaken with additional financial support

- Land policy reform
- Drought mitigation and management
- Water allocation/management/irrigation
- Developing the off-farm rural economy, small scale processing and trading activities, agribusiness-smallholder linkages, and financial services for the rural poor
- Improved monitoring and evaluation, including periodic reviews of trends in market development (grain and other commodities), prices

The above activities would be implemented as part of portfolio implementation and supervision, the proposed growth options study, supplemental surveys and consultancies, and the MAL SIP.

Results

- Accelerated sustainable growth in the rural sector (4 percent over 3-5 years)
- Improved impact on poverty alleviation (including food security), and the capacity to monitor this
- Improved understanding for need to resolve regional interdependent development issues (for example, water, food security, agribusiness investments)

- Replicable lessons for other countries in the region and to refine agricultural action plan for Africa
- More sustainable and efficient use of natural resources

Results would be summarized in a separate focus country report to be prepared as an input to the annual Portfolio Management Review to be discussed with government.

Next Steps

- Agreement of country director and technical manager to draft country focus plan and budget
- Agreement of Government of Malawi to focus program, including their participation
- Implementation

Mali

Program Focus

Mali been chosen as a focus country for several reasons. First, the needs are pressing: 73 percent of the population live below the poverty line. Second, the challenges are enormous. Mali is experiencing severe natural resource degradation; has limited and erratic rainfall; has a low level of technology use and sluggish agricultural growth (with modest growth since 1994), this despite large external support; a relatively low level of education (20 percent adult literacy, 25-30 percent primary enrollment vs. 65 percent for Sub-Saharan Africa); low domestic savings (only 8.8 percent of GDP); and weak implementation capacity within the public services. But there is hope. The government is committed to poverty alleviation, reforms, and empowerment. There is great potential for cotton, rice and other cereal production, and livestock.

Program Activities

Put the local stakeholders in charge. Help them develop a local consensus on priority objectives and a clear operational strategy to get there

- Complete the unfinished reform agenda: trade and market liberalization, reduced agricultural taxation, and land policy
- Concentrate limited government resources on critical services and investments
- Create local capacity for monitoring changes in the sector
- Develop a weather-risk management strategy to be mainstreamed in government assistance to the sector

Fit our own assistance strategy to the above by:

- Measuring aggregate results (quantitative and qualitative) through sectorwide monitoring (as in Zambia) and systematic client consultation
- Moving toward national programs focusing on the following clearly established priorities:
 - Agriculture Sector Investment Program (fiscal 1998), including agricultural research, extension, support to farmers' organizations, institutional and policy reforms, and capacity building
 - Rural infrastructure (fiscal 1999): rural roads, irrigation, rural water supply
 - Natural resource management (fiscal 1999)
 - Private irrigation promotion (fiscal 1997): promoting services to private irrigators
 - Immediately restructuring our ongoing portfolio around these four areas for increased focus, better integration and enhanced synergy, and strengthening the decentralization and capacity building focus
 - Increasing donor coordination and project supervision.

Results

- Better ownership, focus of investments on national priority, transparency and effectiveness in execution
- A more sustainable utilization of the natural resource base

- Increased food security by reducing variability of agricultural output through better management of climatic risk
- Increased production and income due to improved agricultural incentives, know-how, better domestic resources mobilization, access to markets and basic agricultural services (5 percent minimum agricultural growth)

Next Steps (fiscal 1998)

- Agreement with government for the preparation of an Agriculture Sector Investment Program through a wide participatory process
- A rural CAS workshop organized by the government with all partners to begin Agriculture Sector Investment Program preparation process
- Agreement for the restructuring of portfolio in support of a pre-Agriculture Sector Investment Program phase

Uganda

Program Focus

Uganda is selected as a focus country because it has:

- Carried out comprehensive structural and institutional reforms designed to deregulate the economy (trade, payment systems, prices)
- Eliminated direct public sector involvement in all but the essential public services
- Achieved notable success in stabilizing the economy and in economic reforms
- Undertaken, and is in the process of, implementing a wide-ranging civil service reform, public expenditure reform, parastatal reform and privatization program, and financial sector reform
- Implemented agricultural sector policy reforms to enhance efficiency and private sector participation.

In addition the government has demonstrated its commitment to reduce poverty and carry out rural development initiatives.

Program Activities

Strategies for achieving rural growth and reducing rural poverty

- Create an enabling environment for entrepreneurship and agribusiness development
- Promote technical progress (through technology development and dissemination) at the farm level
- Increase beneficiary participation in the development process, resource allocation and management, and developing farmer organization
- Improve the sustainability of the production systems through better management of soils, water, pasture and forests

Activities to be accelerated as a result of focal country designation

- Move towards broader sector and subsector investment programs with policy content (concentrating on land tenure, rural finance), capacity building, participation of stakeholders
- Improve and strengthen policy analytic and formulation capability
- Enhance the policy/program impact; monitoring/evaluation capability
- Strengthen technology generation and dissemination, particularly, the extension-research-farmer linkages
- Expand and target support to small farmers, and expand the gender dimension of the support to ensure impact on poverty
- Promote private sector development and rural finance
- Expand off-farm rural economy, small scale production and service activities
- Carry out analysis of land and rural property issues and increase pace of reform

Modalities for implementation

- Ensure that CAS captures the renewed focus for rural sector development,

through analytic work and strategy formulation

- Ensure that there is a multisectoral strategy for development in rural areas, and coordinate donors
- Increase and balance government support to rural areas. Improved efficiency of government service delivery
- Implement incremental activities as part of the portfolio improvement plan, supervision, proposed sector strategy and policy preparation, new studies, proposed government poverty action plan, and Agriculture Sector Investment Program

Results

- Greater national and international commitment to rural development
- Improved incomes and participation of the poor and marginal groups
- Improved and sustainable agricultural growth

Monitoring indicators

- CAS content
- Financial commitment by donor and the government to key activities
- Level of participation in the development of rural development strategies (country scholars, civil society groups, donors)
- Number of new pilot initiatives within ongoing projects
- Number of projects adjusted/restructured to improve existing rural development portfolio
- Quality of analysis, ownership, timeliness of policy reform
- Training programs and modules, workshops, seminars
- Analytic reports and policy notes

Next Steps

- Country Director and task manager agree to prepare draft country focus plan and budget

- Agreement between Bank and government on focus country designation and what is expected of each party

Morocco

Program Focus

Morocco is at a crossroads in which challenges and opportunities demand fundamental strategic reorientation. A continuing large rural-urban gap threatens sociopolitical stability and the foundations of high growth. This problem is exacerbated by poor rural infrastructure, costly subsidies on food and a centralized bureaucracy. In addition the GATT and recent free trade agreements with Europe have substantially eroded traditional preferential access to European Union markets.

Overdesigned projects in the Bank portfolio suffer from government budget stress and the achievement of CAS objectives requires making the rural development a priority. Objectives should be to restore macro stability, stimulate competitiveness, reduce social disparities, strengthen human resources development, improve natural resource management and modernize the public sector.

Program Activities (fiscal 1998-99)

The problem calls for a truly "integrated" rural development strategy that cuts across traditional sector boundaries both in Morocco and the Bank. Lending must be focused to include projects that establish integrated water resource management (demand and efficiency); expand potable water supplies; upgrade agro-marketing and agricultural services and redefine public/private roles; rehabilitate medium and small-scale irrigation schemes; promote pilot rural development initiatives focusing on participation, human resource development, and rural women; and improve rural infrastructure. Key to this effort will be public expenditure reallocations since no additional Bank resources have been provided as a result of fo-

cus status. Bank and Moroccan budgets permitting, certain projects, such as pilot rural development programs and relevant large-scale follow-on initiatives, and the agro-marketing and services initiatives will be accelerated by two years.

Results

- Improved rural poverty indicators (for example, potable water, female literacy, infant mortality)
- Higher cost recovery in water management, especially irrigation
- Greater role of private sector in provision of agricultural services (phyto, veterinary, quality)
- Greater diversity of export products and markets
- Establishment of reliable statistical monitoring capacity

Next Steps

Preliminary discussions with the government began in mid-1996. Follow-up discussions with senior government economics and finance officials took place in late 1996. Detailed discussions with a wider audience in Morocco began in 1997. The Bank should propose dedicating at least one-third of its lending to rural development and rural poverty initiatives in fiscal 1998.

In addition coordination with major donors is needed to ensure consistency of goals and complementarity of financing. In Morocco a major effort should begin in early 1997 to ensure the government's fiscal 1998 budget reflects its priority of rural development.

Middle East and North Africa

Program Focus: Water Resources Management

Regionwide, the Bank will focus on establishing better water supply and demand management (particularly at the river basin level)

promoting efficient use of water in the rural and urban sectors, and improving rural infrastructure and services.

Program Activities

The Middle East and North Africa Water Program will have a regional dimension and a specific and concrete country aspect. The activities will include dissemination of lessons from policy dialogue, pilot projects, and selected flagship operations through conferences and seminars. Through awareness building, training, and pilot projects, the program will encourage new initiatives and investment throughout the region. An important feature of the program is the establishment of a Middle East and North Africa Regional Water Partnership through which initiatives and innovation can be supported. The program will be implemented over the period 1997-2000 in partnership with the countries and the concerned multilateral and bilateral donors.

Results

The program is expected to result in the implementation of a number of significant pilot and full-scale investment operations, including a number of public-private sector partnerships in the urban and rural sectors. Target countries will include Egypt and Morocco (rural water supply); Morocco (river basin management); Tunisia (strategic planning, and conjunctive use of surface and ground water); Jordan, Yemen, and Palestine Authority (improved urban water supply efficiency, and private sector participation); and Morocco, Tunisia, and Jordan (increased efficiency and returns to water in agriculture, and reuse of treated waste water).

Next Steps

Two key events will be organized to launch this program: a meeting of all concerned do-

nors; and a meeting of senior technical representatives of the countries of the region. The aim of the donor meeting will be to review the effectiveness of external support for the water allocation and management, to reach consensus on strategic priorities, and to consider mechanisms for better coordinated and enhanced levels of support for the countries of the region. The meeting with the country representatives will also be used to establish a continuing mechanism for their leadership and participation in the program.

Ukraine

Program Focus

Ukraine has been selected as a focus country for the following reasons:

- Food and agriculture have greater economic potential in Ukraine than in any other former Soviet Union country, due primarily to its favorable agro-climatic conditions and fertile soils.
- The country traditionally has been a net exporter of food and agriculture products, but current performance of agriculture is far below potential.
- Recent reforms (supported by the proposed Agriculture Sector Adjustment Loan) provide a framework for recovery. If these reforms are successfully implemented, Ukraine can become a prime example of using widespread agricultural reform to spur the growth of rural income and employment and to strengthen the constituency for economic reform generally.
- As the agricultural powerhouse of the region, Ukraine's agricultural reforms could serve as a model to other countries that are less advanced in agricultural reform (particularly Russia).

Program Activities

Under the Agriculture Sector Adjustment Loan, the focus will be on streamlining and

accelerating land reform and agro-industrial privatization procedures. Demonopolization of agro-industry and execution of government purchases of agricultural products through competitive tenders are also key reform steps.

Results

- Monitoring of agricultural policy reform implementation will be done by the National Agency for Reconstruction and Development with assistance from the Institute of Agrarian Economy. The analysis to establish benchmark indicators is being concluded by the Institute of Agrarian Economy under a Policy and Human Resource Development Fund grant for the preparation of the agriculture sector adjustment loan. Follow-up of these benchmark indicators will focus on tracking convergence of domestic market prices to border prices and monitoring the scope and pace of agro-industrial privatization, demonopolization, and farm restructuring. The over-arching theme will be on the development impacts of the policy reforms.
- The Bank will conduct an agricultural policy review update as part of project supervision, together with continued monitoring of land reform developments. Communication of the benefits of Ukrainian agricultural reforms to other countries in the former Soviet Union will be conducted through the network of former Soviet Union agricultural institutions.

Next Steps

The Agriculture Sector Adjustment Loan was approved by the Board in October 1996. Both the National Agency for Reconstruction and Development and the Institute of Agrarian Economy need to hire additional personnel to help implement and monitor policy reforms supported by the Agriculture Sector Adjustment Loan.

Cross-Country Focus Program: European Union Accession

Program Focus: European Union Accession

The Region has chosen the cross-country program regarding European Union accession because this is the first priority for our client countries in Central Europe and the Baltics. The overall objective of this initiative is to help our clients achieve their aspiration for European Union membership while strengthening policies likely to lead to long-term sustainable development. The reasons the Bank should undertake this initiative are fourfold:

- The Bank has a comparative advantage in advising on agricultural policy because of its broad experience in this area.
- Becoming members of the European Union will induce tremendous structural changes in these economies. Appropriate rural development strategies will be needed to address problems arising from regional disparities in income-earning opportunities and infrastructure. Integration with western markets will bring greater competition to these economies, bringing many advantages, but also posing considerable challenges for producers to become more efficient. Integration will also increase access to investment and better technology with which to meet these challenges, but taking advantage of these opportunities will be hardest in backward rural areas with a low base of human capital and poor social and physical infrastructure. There is a real danger that these areas will be left behind. This initiative will put the Bank and our clients in a better position to design and implement appropriate rural development programs to ensure that the accession contributes to the goal of rural, as well as urban, development.
- To maximize the benefits of European Union membership and minimize the adjustment costs will also require investments that are expected to be financed by the Bank.

- Because it has work programs in all countries in the region and a working relationship with the European Union, the Bank will be able to coordinate work on European Union accession to avoid redundancy and maximize complementarities and to ensure that country programs are consistent with the common rural development policy now being developed by the European Union.

Program Activities

We will work closely with our borrowing countries and European Union authorities on any structural issue which we might jointly judge important for European Union integration. In order to assist the accession countries, the Bank has to learn more about European Union criteria, standards, and processes. Then the Bank can be of significant help to client countries by providing them with advice and investment to improve rural infrastructure and enhance the competitiveness of agricultural production.

Bangladesh

Program Focus

Bangladesh has the highest density of poverty in the world. Despite some progress on reducing poverty, inadequate economic growth and continued population growth have kept nearly half the population of 120 million below the poverty line. And the number of poor continues to grow.

Why the rural economy? The rural economy and agriculture loom large in any view of Bangladesh. With 87 percent of the population residing in rural areas—over half living below the poverty line—no growth and poverty alleviation strategy for Bangladesh can succeed without a vibrant rural economy. Agriculture dominates the economy, accounting for about double (31 percent) the share of industry (18 percent) in GDP. The rural economy also fuels urban agglomeration and poverty through migration. But agricultural productivity has

largely plateaued in Bangladesh. Hence the importance of a rural action plan.

What does it mean for South Asia? The triangle formed by Nepal, Eastern India, and Bangladesh holds a large share of the world's poorest population, with per capita income less than \$250 per annum. Hence, success of policies and programs in Bangladesh under a rural action plan would contribute directly to regional and Bank priorities on poverty alleviation.

How will the rural action plan relate to the Bangladesh CAS? The Bangladesh rural action plan will be prepared expressly as a direct input for the fiscal 1998 Bangladesh CAS. The fiscal 1996 CAS envisaged increasing our attention to the rural economy, in preparation for which we set in motion several ESW pieces that will now comprise the key elements of the rural action plan.

Program Activities

What is likely to be included in the rural action plan? Through the rural action plan we will develop a conceptual framework that will integrate our lending and analytical activities in rural areas, thus potentially increasing their effectiveness. It would make use of ongoing and planned work in lending and nonlending services in SA1 and DEC, ESD, PSD, and from the outside. It would also change how we function as a department, since the rural action plan would permit staff to work on rural issues across divisional boundaries and establish links with resident missions, donors, local institutes and NGOs. The timeframe for completion of the rural action plan is within the next year, since it will feed into the next Bangladesh CAS.

Results

We expect results from an internal reorientation of how we work on related rural development to allow us to better integrate our efforts on issues such as rural roads, electrification, agricultural marketing, and the provision of primary health and education services. Focus

programs will encourage us to take advantage of the synergy between these areas and permit us to fill the gaps that will be revealed. The success of the policies and programs would be monitored through outcome indicators on poverty, access to credit, social services, infrastructure and energy, and agricultural growth and productivity.

Next Steps

The idea of preparing a rural action plan has already been discussed with the Prime Minister of Bangladesh. She is very committed to rural development and welcomes Bank assistance and that of other donors.

India

Program Focus

India has been chosen as a focus country for many reasons:

- About one-third of the world's poor live in India, and 80 percent of them live in rural areas.
- India is the second largest consumer and producer of food in the world.
- Agriculture has been growing slowly compared to other Asian countries and its potential; its productivity growth is declining.
- Although India has removed its macro-policy bias against agricultural growth, two main policy factors prevent Indian agriculture from performing better:
 - Over-regulation of domestic trade, agro-industry, and rural finance
 - Public expenditures in agriculture and rural development that are fiscally expensive, poorly allocated, and ineffective.
- The recently elected government is India's first to consider agricultural reforms as part of its political agenda since the onset of adjustment reforms (1991).
- The next Country Economic Memorandum will focus on rural development and

will serve as an input to the elaboration of the full CAS prepared in fiscal 1997.

Program Activities

The first activity is to build consensus for a strategy—and its implementation—to accelerate rural growth and poverty reduction. The outcome of the consensus-building exercise will be reflected in the Country Economic Memorandum on rural development. Activities are likely to include:

- Completing and disseminating the sector work on individual commodity marketing performance (cereals, sugar, oilseeds complex, cotton, textiles, livestock, tea, futures markets) to build consensus with central and state governments to reform food, nutrition, and safety net policies and their implementation. This activity may also involve study tours by concerned government officials and private sector representatives (for example, China, grain marketing; Australia, sugar industry; food stamps, Central America).
- Analyzing the impact of the subsidy program on the fertilizer industry and designing a reform program in collaboration with the government.
- Elaborating an action program with the Government of India's Working Group on rural finance reform.
- Developing a menu of options, (including identification and design of pilot operations and state-level investment operations), to raise the effectiveness, efficiency, and sustainability of public expenditures on local and community development. This would be done through dissemination of international and Indian experience, with decentralization and grassroots participation in agricultural and rural development programs, and close policy dialogue with client state and central government agencies.
- A dialogue on long-term, strategic opportunities and challenges facing the national agricultural research and exten-

sion system through workshops and individual studies.

Results

ESW and nonlending outputs. Country Economic Memorandum on rural development; Country Assistance Strategy; and sector policy notes (for example, rural finance, cereal grain marketing). The objective would be to build consensus with federal and state governments, and donors, about a comprehensive, integrated reform action program for agriculture and rural development.

Lending outputs. The focus program is expected to assist the department, and the agriculture and water operations division in particular, in the reorientation and design of its lending program for agriculture and rural development. At the federal level, the focus program would assist in the identification and design of lending operations to support the deregulation and modernization of food commodity markets, and related improvements of food, nutrition and safety net policies; the reform of the rural financial system; the liberalization of input markets, in particular fertilizer. At the state level, the focus program would assist us in the identification and design of investment operations to strengthen local institutions, and to raise the effectiveness, targeting and sustainability of public expenditures programs in agriculture and rural development.

China

Program Focus: Long-term Food Security Study

China is the world's largest consumer and producer of food. But agricultural productivity growth is slowing down, and domestic grain production is increasingly supplemented by imports. This is a growing concern to Chinese policymakers, but also to the rest of the world.

The proposed study will contribute to the Bank priorities of addressing poverty reduction,

sustainability and food security by providing policymakers with a transparent framework of scenarios and policy options to ensure long-term food security in China.

Program Activities

This study is consistent with the structural reform focus CAS; the underlying objective is to provide advice that will enable government to disengage from centralized grain marketing, to reform grain policies and institutions, rely more on domestic and international market forces to guide private sector decisions in grain marketing and distribution, and define an appropriate food security role for government. The corollary is to determine how China can most efficiently meet grain deficits in the twenty-first century. Secondary objectives of the study address the poverty and infrastructure bottlenecks foci of the CAS. Two elements related to poverty will be addressed; the potential development of additional resources (land and water) for agriculture and the possible upgrading (or discontinued use) of marginal lands. The principal hypotheses to be tested are:

- Marginal increases in domestic grain production can be efficiently achieved.
- Incremental domestic grain production will be more constrained by technical factors than by policy.
- China's incremental grain requirements can be provided by the international market without excessive long term world and domestic price increases.

Results

While performance indicators will be somewhat difficult to establish, even a marginal impact on China's long-term food security policy (perhaps through more efficient resource allocation in grain production, or a rejuvenation of China's agricultural research effort) will have a major impact on the ground. A realistic policy action plan will be developed together with the Chinese counterparts and regularly monitored.

Philippines

Program Focus

The high growth rates which the Philippines economy has been registering in recent years do not reflect the persistent sluggishness of the rural sector. With almost half of the population continuing to reside in rural areas and a rural poverty incidence of about 50 percent, the government has directed attention at the opportunities and constraints of the rural economy. The Bank has just completed a rural development strategy which identifies key policy, institutional and investment requirements and is currently under discussion. Follow-up work, lending and nonlending, would be facilitated under the action plan, particularly with regard to trade policy, rural infrastructure, water resource management, agricultural extension and research and sustainable uplands agricultural systems.

Program Activities

Nonlending services

- Dialogue with government on access to markets and implications of international agreements (fiscal 1998)
- Support on institutional rationalization in agriculture sector (fiscal 1998)
- Support on market-assisted approaches to agrarian reform (fiscal 1998)

Implementation and monitoring of approved lending

- Smallholder Coconut Farms Development
- First Water Supply, Sewerage and Sanitation Project (rural water and sanitation)
- Environment and Natural Resource Management Project (sector adjustment loan) and Conservation of Priority Protected Areas (GEF)
- Communal Irrigation Development Project II
- Irrigation Operations Support Project II
- Rural Finance II

Preparation and approval of new lending

- Water Resource Development Project

- Agrarian Reform Communities Development Project
- Community-Based Resource Management Project (fiscal 1998)
- Mindanao Integrated Rural Infrastructure Project (fiscal 1999)

Results

Among the short-term impacts to be expected are the following:

- Turnaround of problem project status of the smallholder coconuts project through improved project management and field orientation
- Development of government understanding of market-assisted options for the agrarian reform program, especially for farm sizes of 5-24 hectares
- Establishment of appropriate instrument for channeling donor and central government funds to rural communities, which enhances local demand-driven approach
- Initiation of key studies for water resource development planning and opening of dialogue on institutional reforms
- Exchange of views on concerns with regard to opportunities and constraints of international market access
- Expansion of rural finance sources through wholesaling operation
- Agreement on a plan for development of rural communities in Mindanao following peace agreement

Next Steps

The lending program has already been discussed with government and initial talks have been held on the priorities for follow-up work to the rural development strategy. The next steps concerning confirming the priorities for nonlending activities, clarifying the costs and timing for these activities and potential contribution in terms of financial and human resources, especially within the Bank.

Vietnam

Program Focus

The selection of Vietnam as one of East Asia's focus countries is based on the importance of the rural economy in promoting the nation's growth and alleviating its poverty. During fiscal 1998-99, a comprehensive program of lending and nonlending activities will be directed at rural development. Designation as a focus country is expected to enhance the analytical/policy work to be undertaken through greater partnership between EAP, RDV and EDI. This in turn will lead to more effective country dialogue and improved design and monitoring of lending operations. Policy and analytical activities in 1998 will include a study on the sources of agricultural growth, an EDI seminar on agricultural growth strategies, and identification of vulnerable populations.

Program Activities

Implementation and monitoring of approved lending

- Agriculture Rehabilitation Project
- Irrigation Rehabilitation Project
- Rural Finance Project
- Rural Transport Project

Preparation and approval of new lending

- Agriculture Diversification Project (fiscal 1999)
- Forest Protection and Barren Lands Development Project (fiscal 1998)
- Mekong Water Resources Development Project (fiscal 1999)
- Coastal Wetlands Protection and Development Project (fiscal 2000)

Results

Among the short-term impacts to be expected are the following:

- Greater recognition at the macro-level of the policy constraints on the agricultural sector and the need for a trade and

marketing regime to access international markets

- Clearer understanding of the rural-urban linkages, in particular migration pressures on urban centers
- Realistic assessment of the limits of rice production and the opportunities for diversification
- Development of appropriate social, economic, and technical packages for vulnerable populations, especially in environmentally sensitive areas
- Agreement on the preconditions for sustainable microcredit
- Initiation of a system of wholesaling and related accreditation of financial institutions to support and expand rural finance
- Testing of joint central/local strategy for tertiary canal development and operation and management of irrigation systems
- Establishment of viable method of local planning, design and execution of rural infrastructure
- Application of a basin approach to water resource development

Next Steps

The lending program has already been discussed and confirmed with government and initial talks have been held on the priorities for policy/analytical work. The next steps include confirming the timing and costs of the program and the potential contributors inside and outside the Bank.

World Trade Organization and the World Trading System

Program Focus

Agricultural products are for the most part highly tradable and distortions to international trade are among the more important obstacles to efficiency in the sector and to poverty alleviation in rural areas. The WTO is a major player in the management of agricultural trade

policies, and to a lesser extent domestic policies. It has a full work program in monitoring the implementation of agreed reforms, including their effects on food-deficit and least developed countries, and preparing for future negotiations in 2000.

The World Bank can aid this process in a number of ways, thereby helping to keep it up to speed and responsive to developing countries' needs. By strategic interventions, for example at the WTO's Ministerial Meetings and its Committee on Agriculture, it can press developed countries for reform. In developing countries the Bank can encourage trade policy reforms and help policymakers to take advantage of developments in the world trading sys-

tems. Through its analytical capability, which the WTO lacks, the Bank can inform debate and define agendas. For example, it was the Bank first quantified the small extent of liberalization in the Uruguay Round; current work is uncovering some distinctly illiberal elements in the implementation of the Round.

Analyzing the world trading system and maintaining the relationship with WTO are mainstream tasks for DEC through the international trade division. However, agriculture is only one of many topics that must be covered by a small staff. If the international dimension is to play an appropriate role in rural strategy and policy, incremental resources will be needed.

APPENDIX B

Regional Summaries

Diversity among regions is striking, as shown in appendix table B.1. Diversity within regions is also striking, as illustrated in appendix table B.2 for Latin America and the Caribbean Region.

Africa Region Rural Strategy

The overwhelming development imperative in Africa is to increase food production and raise incomes in rural areas. Sustained agricultural growth of at least 4 percent annually will contribute significantly to reduction of poverty and chronic food insecurity, while increasing the incomes of those involved in agriculture. But to improve the quality of living in rural areas, this effort needs to be combined with investments in people through

education, health, roads, and water supply and sanitation.

The leadership, drive, and responsibility for sustained agricultural growth must be in the hands of the Africans. Therefore, a major challenge is to ensure that there is a strong African commitment to agriculture and rural development. A second major challenge is for the African countries to increase productivity through improved seed, fertilizer, and weed control technologies and through better soil and moisture conservation. This will necessitate measures to improve research, extension, and seed systems. The third major challenge is to make agriculture competitive and profitable through policy changes, stronger institutions, and improved services. The fourth major chal-

Appendix table B.1 Regional differences

	Africa	East Asia and the Pacific	Europe and Central Asia	Latin America and the Caribbean	Middle East and North Africa	South Asia	Total
Agriculture							
Percent of GDP 1993	30 ^a	17	10 ^a	10 ^a	20 ^a	30	15
Growth rate 1980-93	1.7	4.0	-0.2	2.1	4.4	3.1	2.2
Rural population							
Percent of total 1993	70	69	35	29	45	74	62
Growth rate 1980-93	2.2	0.6	-0.7	0.7	2.0	1.7	1.0
Agriculture in trade							
Percent of exports 1992	32	15	n.a.	30	5	21	18
Percent of imports 1992	16	15	n.a.	16	21	21	17

Notes: Low- and middle-income countries as in *World Development Report 1995* (World Bank 1995b).

a. Estimated.

n.a. not available.

Appendix table B.2 Intraregional differences (Latin America and Caribbean example)

	<i>Latin America and the Caribbean average</i>	<i>Regional rank</i>	<i>Diversity within Latin America and the Caribbean Region</i>
<i>Agriculture</i>			
Percent of GDP 1992	10	5	25 percent in 4 countries
Growth rate 80-93 (percent)	2.1	4	3 percent in 6 countries
<i>Rural population</i>			
Percent of total 1993	29	6	50 percent in 5 countries
Growth rate 1980-93 (percent)	0.7	5	2 percent in 5 countries
<i>Agriculture in trade</i>			
Percent of exports 1992	30	2	50 percent in 11 countries
Percent of imports 1992	16	3	Little variation

Notes: Data for 21 countries of Latin America and the Caribbean with populations over one million, not including Cuba.

Regional rank: 1 = highest; 6 = lowest.

lenge is for African countries to improve the sustainability of production systems through better management of natural resources.

The Bank will be more selective in its support to countries, focusing on those demonstrating commitment to appropriate agricultural policy and investment program. The Bank will assist such countries to develop comprehensive agriculture and rural development strategies. Within these countries, the Bank will concentrate on a few selected national systemic programs of high impact. Infrastructure, health and education components would be supported through non-agricultural operations in the framework of a rural development strategy. Finally, the Bank will support region-wide African efforts such as by GCA, SPAAR, SG-2000, and other institutions to mobilize commitment within Africa. These efforts will seek to develop a donor consensus as well.

Assessment of African Agriculture

Sub-Saharan Africa is a diverse region in terms of physical environment, sociopolitical and economic characteristics, and resource base. Many African countries are still at the pre-take-off stage of development. Overall, Africa's economic growth and poverty reduction are dependent on agricultural performance. This is because agriculture accounts for 35 percent

of the Region's GNP, 40 percent of exports and 70 percent of employment. About 70 percent of Africa's poor live in rural areas and depend on agriculture and agribusiness.

But African agriculture has not performed to its potential. Agricultural production in this region has grown at about 2 percent a year over the past 25 years, compared with an average annual population growth of 2.8 percent during the same period. Under existing demand and supply trends, cereal imports and food aid are expected to rise to 30 million MT in 25 years, a threefold increase from the current level. In Africa, agricultural productivity for both food and cash crops remains low. Presently, less than 15 kilograms per hectare of fertilizers are used in the region compared to more than 50 kilograms per hectare in South Asia. Also, less than 6 percent of the cropped area is now irrigated in the region.

Africa's agricultural exports have also declined, harming Africa's ability to pay for needed imports of equipment and inputs for agriculture and industry. This is partly because of national policies which have discriminated against agriculture, including direct agricultural taxation, monopolistic practices and imperfect domestic marketing arrangements. But it is also because of policies in OECD countries which limit agricultural imports from African countries. The rural strategy includes proposals to improve access to the markets of OECD

countries, which, if successful, will especially benefit African countries.

The growing number of people in rural areas of many African countries need farmland which they create by converting forest and grazing land to farmland. This often results in considerable environmental damage: soil erosion, loss of soil fertility, water degradation, and deforestation are problems in virtually all Africa.

Unlocking the door to agricultural development requires a closer look at the diversity of experience within Africa. African countries with poorly performing agricultural sectors share common characteristics. For instance, in Angola, Democratic Republic of the Congo, Ethiopia, Liberia, Mozambique, Somalia, Sudan, and others social and political breakdowns have prevented development projects directed at agricultural and economic growth from being effective. In other countries over-valued exchange rates, government price controls, restrictions on private investment, poor technical advice provided to farmers, and inadequate infrastructure hinder private investment and growth.

However, there are pockets of success in Africa. Kenya's agricultural sector has grown between 3 and 4 percent a year for the past 25 years. Other countries that have experienced a turnaround in agriculture in the past few years include Benin, Botswana, Burkina Faso, Mali, Tanzania, Uganda, and Zimbabwe. The agricultural sector in Ghana, Côte d'Ivoire, Malawi, and Zambia is looking better. In these countries, the governments have improved economic management, kept exchange rates at an even keel, kept budget deficits down and the quality of public investment high, invested in rural infrastructure and in rural education and health. Each has also supported the development of agricultural technology that farmers use. Good economic and agricultural policy makes farming profitable and gives farmers incentives to invest and expand production. These countries have much more to do to keep agriculture growing, but their relative success points the way for the rest of Africa.

One type of agriculture project that is prominent in African countries is extension, which

incorporates the key elements of the T&V extension systems. In these projects, an existing public sector extension service is restructured so that trained African agricultural staff teach farmers improved agricultural techniques in farmers' fields. Studies of agricultural extension projects in Burkina Faso, Kenya, and Mali, financed by the World Bank, show high economic rates of return and millions of people benefiting. Increasingly, these projects help women, who are Africa's principal food producers. The World Bank presently finances some 27 such projects in Africa. Currently, following the findings of the OED review, the focus is on making national extension systems more responsive to the needs of the farmers, more cost effective, and more participatory (including farmer groups, NGOs, and the private sector).

On balance, the long-term sustainability of agriculture in African countries will depend largely on political stability, strong government commitment, improved capacity to plan and manage, strong private and cooperative sectors, and stakeholder participation in the development process. The success of agriculture will determine the success of African societies in meeting the needs of poor people and in moving onto a sustainable growth path. However, such success does not depend on agricultural investment alone. It requires a concerted effort towards the decentralization of service delivery and building of management capacity in communities at all levels, as well as complementary investments in the provision of key services such as education, health, water supply and sanitation, rural roads and markets, financial intermediation, and the promotion of small and medium-sized enterprises in rural areas.

African Development Imperative

Goal. Target a real agricultural growth rate of at least 4 percent annually through improved technology and increased productivity focusing on impact crops. Push more countries into this category within a decade.

Strategic interventions. Place emphasis on multi-sectoral development in rural areas with agriculture evolving as the impact sector to improve the livelihoods of people in rural areas.

African countries need to:

- Establish high commitment for agriculture
- Make agriculture profitable and competitive
- Involve empowered farmers and other stakeholders
- Create enabling political and macro-economic environment
- Implement high impact investments (agricultural services, infrastructure, natural resources management)
- Address "nexus" issue—population/agriculture/environment/poverty linkages.

Improving the welfare of the rural population will involve (a) supporting investments in agriculture, rural infrastructure, human health, and education; (b) ensuring that agriculture evolves into a business activity in an enabling environment; (c) providing economic opportunities that promote entrepreneurship and encourage investments; and (d) improving quality of life by making households self-sufficient in basic needs.

Bank Strategy and Action Plan for Africa

Mission. Poverty reduction and improvement in the quality of people's lives in African countries.

Objective. Get results on the ground. Promote development impact to:

- Increase food production and farm income
- make households' food, water, and energy secure
- Restore and maintain the natural resource base.

Strategy. The Bank's agricultural strategy in Africa has five key elements:

- Improved policy regime: creating an enabling policy environment for entrepreneurship and agribusiness development

- Technology development and adoption: promoting technical progress at the farm level, and strengthening researcher-extension-farmer linkages
- Rural infrastructure: establishing rural roads, water supply and sanitation, electrification, social services, and improving urban-rural linkages
- Empowerment of rural people: increasing farmer participation in the development process and resource allocation and management, and developing farmer organizations
- Natural resource management: improving the sustainability of production systems through better management of soils, water, pasture, and forests.

The above strategy is rural economy-oriented and multisectoral. Its emphasis is on pluralism based on public sector interventions, market-oriented approaches, and popular participation. The strategy promotes rural development that is equitable and environmentally sustainable.

In each country the Bank will focus on a few selected national programs of high impact. The key areas of support in agriculture would concentrate on systemic solutions, including research, extension, animal health, and natural resources management, plus one or two other areas (irrigation, rural finance, marketing, or private sector development). The Region will finance only time slices of these long-term national programs and eliminate financing of operations that fall outside the core areas. This approach will eventually lead to financing of integrated sector programs.

In research, extension, and animal health the focus will be on technological transfer that will augment productivity and farm income, and on pluralism by involving major stakeholders in planning, development, and provision of services for beneficiaries. In natural resources management the emphasis will be on soil and water conservation, recapitalization of soil fertility, agroforestry, and integrated water and forest investment programs. Special attention will be given to community capacity building and support to smallholders in agriculture.

The Region will continue to support policy reforms, capacity building, and good sector management in agriculture. In the area of policy changes more attention will be given to (a) land tenure and property rights; (b) market liberalization; (c) natural resource pricing; (d) financial sector reform in rural areas; and (e) cooperative development and strengthening of farmers groups/associations. Infrastructure operations, health, and education will be supported through non-agricultural operations under a common strategy for development in rural areas. Donor coordination and partnership will be an important element in the Region's approach to agricultural development, particularly as the Region moves toward a broader sector approach in providing support to agriculture. The Region will promote policy dialogue with a broad range of stakeholders, including other multinational institutions, bilateral donors, private sector groups, and local and international NGOs. Special emphasis will be placed on improving coordination with the IFC, CGAP, and MIGA. A collaborative initiative between the Region, the Center, and other international organizations to find ways of improving soil fertility in Africa is already underway. The Region will maintain and expand its presence in regional fora such as SPAAR and the Conferences of African Agricultural Ministers for West and Central Africa, and Eastern and Southern Countries.

Priorities. The Region has the following priorities for rural development:

- Further improving the performance and impact of the present rural development portfolio.
- Development, synthesis, and building consensus on coherent rural development strategies and policies, which in turn, are clearly reflected in our country assistance strategies.
- Increased client and field orientation. In particular, we will develop hubs in several African locations from which the needs of our clients and our locally-recruited staff can be served in a flexible, timely and ex-

pert manner. We are exploring how these hubs might include not just Bank staff, but also staff from alliance partners, such as FAO and IFAD.

- Intensified efforts in five high-potential countries: Guinea, Madagascar, Mali, Malawi, and Uganda. We want to demonstrate in these countries that, through a concerted effort of the government, the Bank, and alliance partners, it is possible to significantly accelerate the pace of rural growth and poverty reduction in Africa.
- A shift to program lending away from individual project lending. National programs will often be preceded by piloting, participatory sector work, and consensus building in the countries and with other donors, until scaling up of successful experiences becomes possible. The scope of program loans may be defined narrowly on a subsector basis, for example, agricultural services or rural primary health care, or include a broader slice of agricultural and natural resources management issues, as appropriate for specific country conditions and capacities.
- Strengthening our alliances in the area of rural development in Africa with civil society organizations, FAO, IFAD, AfDB, the EU, and bilateral donors. We are actively involved with NGOs and are well-advanced in restructuring our relationship with FAO and IFAD.

The task is difficult, but these agreed upon priorities will get us a long way towards increased impact on the rural poor of Africa, who have waited far too long for improvements in their lives (appendix table B.3).

East Asia and Pacific Region Rural Strategy

The main characteristic of East Asia and Pacific is fast growth, including fast agricultural growth (4 percent per year since 1980), and good social service provision nationwide. Except for Indochina and the poorer areas of China, East Asia and the Pacific countries are not IDA-eligible and have to borrow in IBRD

Appendix table B.3 Africa Region: Rural Development Action Plan priority actions

<i>Item</i>	<i>Required action</i>	<i>Actions completed and ongoing</i>	<i>Timetable for remaining actions</i>	<i>Responsible entity</i>
Country Assistance Strategies				
Develop strategies for rural development as key input into CASs. Include rural infrastructure, health, education, and private sector development	Develop multisectoral strategy for development in rural areas with agriculture as a focal sector (Target: Burkina Faso, Congo, Ghana, Kenya, Madagascar, Malawi, Senegal, Uganda, Zambia). Involve African stakeholders in preparation	Agricultural sector strategy notes prepared for most countries, but integration required with other components such as infrastructure, health. Rural strategy completed for Mali and being completed for Congo, Guinea, Guinea-Bissau, Mauritania, Sao Tome. Growth prospect studies underway for Ethiopia, Malawi, and Zambia. Next critical step is to ensure that CASs include rural strategies with multisectoral focus and comprehensive treatment of agriculture. Special attention will be given to the focus countries: Guinea, Madagascar, Malawi, Mali, and Uganda.	FY98 FY98	CDs with inputs from Technical Departments (TDs) in the Region and the Center CDs/TDs
Incorporate agricultural policy reform in the policy dialogue and in adjustment	Move toward broader sector and subsector investment programs with policy content (concentrating on market liberalization, land tenure, resources pricing, and rural finance), capacity building elements, and participation of stakeholders including donors (target: 20 percent of the five-year Lending Program, FY96-FY00)	Côte d'Ivoire and Malawi adjustment programs feature core sector reforms. Integrated agricultural sector investment programs (ASIPs) underway in Zambia and proposed for Kenya, Lesotho, Mali, Mozambique, Senegal, Swaziland, Tanzania, and Uganda. Other important work planned include Congo Privatization Review and Institutional Review in Nigeria and rural finance initiatives in Mali and Senegal.	FY98	CDs/TDs
Commitment and Capacity Building				
Help generate commitment to rural development by African governments and civil society	Establish an African Agricultural Council in collaboration with other donors and with the two regional conferences on Ministers of Agriculture	Further dialogue and discussions took place with the Africans through the Global Coalition for Africa Conference in November 1996 and the two Regional Conferences of the Ministers of Agriculture to establish a Council. The ESD Conference SG 2000 Workshop in September 1996 provided fora to discuss and develop a common approach to agriculture development in SSA.	FY98	TDs
	Support Special Program of African Agricultural Research in collaboration with International Agricultural Research Centers and CGIAR	Guinea, Mali, and Senegal selected as pilots to strengthen national research systems and linkages with IARCs. Emphasis on institutional reforms, priority setting, improved donor coordination, and better research, extensions, and farmer linkages. Ongoing capacity building initiatives in Kenya and Tanzania and proposed for Zimbabwe. New and ongoing subsector programs in agricultural services (research/extension/natural resources management) in most Eastern, Sahelian, and Southern countries. At the donors' meeting in Rome in October 1996, the Bank participated in discussions relating to agricultural services (research and extension) to develop consensus on a common approach to helping African countries.	FY98	TDs

(Table continues on the following page)

Appendix table B.3 (continued)

<i>Item</i>	<i>Required action</i>	<i>Actions completed and ongoing</i>	<i>Timetable for remaining actions</i>	<i>Responsible entity</i>
Build African capacity to manage agricultural development	All projects in the pipeline to include capacity building component	<p>Most projects include capacity building components and are prepared with more participatory approaches, including stakeholders, beneficiary surveys (Ethiopia, Guinea, Kenya, Mali, Mauritania, Senegal, Uganda). Continued attention would be emphasized through ongoing supervision efforts.</p> <p>Gender beneficiary assessment completed in Gambia, Mali, Mauritania, Senegal. Ongoing efforts will also be directed to developing monitoring and evaluation tools for NRM and establishing a region-wide network for support.</p>	FY98	TDs
Build commitment and partnership within the Africa Region regarding key elements of the regional strategy, priority areas of focus, and division action plans	Target commitment among the key Bank stakeholders (CDs, country teams, macroeconomists, agricultural and other operational staff)	<p>Ongoing efforts through country teams and cross-divisional ESW. A joint government/IDA review of implementation programs and preparation of CAS was conducted in December 1995 in Mali with the country team and management team participation. This is an example of best practice.</p> <p>A workshop for all agriculture and environment staff (including field staff) was held in October 1996 in Washington to finalize the agricultural strategy and work program. Another workshop is planned for FY98.</p>	FY98	Africa Region agriculture and environment group
Product Quality	Link 5-year Lending Program (FY96-FY00) and ongoing operations to core areas of support	Agricultural Group Team reviewed FY97 and FY98 Lending Programs to ensure that projects/programs support the Region's strategy and core areas of support.	FY98	CDs/agriculture environment group
	<p>Conduct beneficiary assessment in several countries to enhance client consultation and participation and assess results on the ground</p> <p>Focus on client consultation and development impact, and use participatory problem solving approaches to deal with ongoing operations.</p>	<p>Beneficiary assessment completed in Mali, Mauritania, and Senegal and planned for Cameroon, Mozambique, Guinea, Nigeria, Uganda, and Zambia in FY97.</p> <p>Well underway through systematic reviews of agriculture and environment portfolios and mid-term reviews relating to specific projects in many countries. Region completed the bulk of its restructuring of the agriculture portfolio in 1995/96.</p>	FY98 Ongoing	TDs CDs/TDs
	Provide incentives to staff for getting results on the ground; establish criteria for evaluation	Further work needed to establish a feedback system that includes all task team members, clients, country teams, and management	FY98	CDs/TDs

Special Initiatives	Implement the soil fertility action plan	Through a participatory approach and consultations with other partners, steps have been taken to: (1) establish an informal secretariat, (2) form an Advisory Group of African and donor participants, (3) raise trust funds for pilot programs and analytical work, (4) address soil fertility measures through several agricultural services projects, and (5) develop a work program jointly with FAO to implement pilot projects in a few countries.	FY98	Environment group, RDV CDs/TDs FAO
	Implement agricultural services action plan Promote private sector development and rural finance through pilot programs in Ghana, Guinea, Malawi, Zambia	Ongoing work on the preparation of soil fertility action plans and rock phosphate studies for Burkina Faso, Ghana, Kenya, Madagascar, Malawi is progressing, to be completed in FY97. Soil fertility was discussed during the World Hunger Conference in Rome in 1996. Efforts ongoing with emphasis in Benin, Burkina Faso, Ghana, Guinea, Madagascar, Mozambique, Tanzania, Uganda Rural finance initiatives including pilot programs underway in Mali, Senegal, Tanzania, and Uganda and initiatives to promote agribusiness development in Malawi and Zambia	FY98 FY98	TDs CDs/TDs
Documentation and Processing	Reduce time, cost, and documentation in processing operations (Target: 4 operations in FY98)	Guinea and Tanzania agricultural services projects were placed on fast track; the Nigeria Second Technology Project saved 20 staff weeks by combining appraisal and preappraisal activities. Review of FY98-99 Lending Program to identify operations that can be targeted for time, cost, and documentation reduction	FY98	CDs/TDs
Donor Coordination/ Partnership	Enhance donor consultation, improve dissemination of information, and build consensus	Steps taken to strengthen collaborative partnership with FAO, IFAD (including Cooperative Agreement with FAO and IFAD), and SG 2000 on food production efforts in Africa and on new approaches: irrigation, soil fertility, fertilizer marketing (Kenya, Madagascar, Malawi, Mali, Mauritania, Senegal, Tanzania, Zambia, Zimbabwe). This effort will continue to establish partnerships with the EU and bilaterals. <ul style="list-style-type: none"> • Region cosponsored workshop on African Forest Policy Forum in August 1996 to focus on best practices in management of forest resources. Next forum in FY98, focusing on policy reforms and capacity building. 	FY98 FY98	TDs CDs
		<ul style="list-style-type: none"> • Region sponsored water workshops in Nairobi and Dakar, involving bilateral and multilateral agencies and representatives from African Public Agencies, private sector, and NGOs to develop integrated approach to water resources management. The Region is designated as the co-chair of the water component of the UN's Special Initiative for Africa. Efforts will continue to develop programs at country level and support measures to foster regional cooperation. 	FY98	CDs

(Table continues on the following page)

Appendix table 2.3 (continued)

Item	Required action	Actions completed and ongoing	Timetable for remaining actions	Responsible entity
Staff Development and Training	Deploy agricultural staff in the Region as a core group focusing on development impact at the country level	Plan for effective deployment of agricultural staff in the Region being implemented. Skill mix being adjusted toward new priorities	FY98	Agriculture and environment group
	Implement training program for local agricultural staff and develop terms of reference for functions and responsibilities	Most local staff participated in rural week and strategy training during FY97. Will again attend rural week and complete strategy training.	FY98	Agriculture and environment group
	Complete ESSD training at Duke University for CDs that have not participated in the program (CD1, CD5)	The Region prepared a training component for the ESD training at Duke within the context of the overall training program.	FY98	Task managers/TDs
	Build partnership among sectoral staff within the Africa Region; agricultural staff to take initiative in working and planning jointly with staff dealing with infrastructure, health, education, and private sector development	The agriculture and environment group will implement a framework for increased collaboration with infrastructure, human resources, and private sector groups.	FY98	Agriculture and environment group

terms. A major challenge is that borrowers have their own preferences for uses of IBRD lending, that may not be coincident with other priorities. Virtually all East Asia and Pacific clients are willing to borrow for large dams, and the Bank response should be based solely on evaluation of economic, environmental, and resettlement costs and benefits. Many countries seem to have become less interested in borrowing for agricultural research or watershed management (Indonesia is an exception) and more persuasive analysis will have to be undertaken. A related challenge, in the sense that a sophisticated Bank response is required, arises in respect to (a) financing of high technology agribusiness and (b) reform of marketing parastatals. For the former, new types of lending instruments are needed and new types of collaboration with the IFC. For parastatal reform, there sometimes is a danger, in nominally market economies, of replacement of a relatively transparent and efficient parastatal by an opaque private monopoly. Pragmatism will be required in parastatal reform. A third challenge is the sheer heterogeneity of the region, ranging from some of the largest Bank borrowers (China and Indonesia) to some of the smallest borrowers (Fiji, Laos, Mongolia, Pacific Islands). Donor competition is strong but can be turned to an advantage, where another donor is willing to take the lead in the agricultural sector of entire small countries. Three countries in the Region have been selected as focus countries within the rural development action plan. These are China, Vietnam, and the Philippines.

Other significant agricultural programs already undertaken by the Region are the Indonesia rural and natural resources program, which involves on average an annual administrative budget of US\$2.9 million, and an additional trust fund budget of US\$1.0 million. The Indonesia program entails a series of agricultural area development projects (each focusing on one or two of Indonesia's 24 outer island provinces (which lag behind Java in most aspects of rural development) where agricultural technology diffusion and village infrastructure development are promoted (two such projects

approved in 1996, and five additional projects being prepared). In parallel stand-alone village infrastructure projects are targeted to poverty villages. In addition the Indonesia rural development program supported by the Bank emphasizes a series of micro-credit projects targeting under-served rural groups, and several projects designed to arrest natural resource degradation and conserve threatened biodiversity resources.

Some of the actions undertaken to improve the performance of rural sector interventions supported by the Bank are shown in appendix table B.4).

The areas of emphasis are funded in part by redeployment with the rural sector activities. Thus, in Indonesia, more integrated regional projects have taken over commodity-focused projects (such as tree crop, fisheries, or livestock projects which were more common in the late 80's and first half of this decade. Across the Region, micro credit projects have replaced more traditional directed credit programs, and comprehensive water management projects are replacing traditional narrow-focus irrigation projects.

While the program described above is by and large funded from existing and projected budget allocations, there are additional non-lending initiatives being contemplated, for which resources have not yet been secured. They are discussed below.

Analysis and Best Practice Guidelines on Upland Agricultural Technology

An economically viable agricultural farming system for upland (rainfed and hilly) areas is an issue on which the information available is not yet adequate. Many areas in South East Asia fall under this category, and they are typically inhabited by poorer segments of the rural population. Furthermore, in many such areas the existing farming practices are not fully compatible with long-term sustainability of the ecosystem (for example, slash-and-burn agriculture). While agricultural research in research stations within the region and interna-

Appendix table B.4 Actions taken to improve performance of rural development projects

Action	Objective	Expected outcome
Indonesia		
Introduced a participatory "Needs Assessment" procedure for agricultural area development projects under preparation (1995).	Increase the effectiveness of rural development projects by targeting interventions to bottlenecks identified as most pressing by the ultimate beneficiaries.	Greater impact of Bank-financed rural development projects being introduced during 1996-1998, to be completed in 2001-2003
Design rural development projects with local government (province and district level) as key implementing agency (in the past, central agencies were the key implementing organizations).	Improve "ownership" of development activities by local authorities and the likelihood that design will fit local needs and capacities	Greater likelihood that Bank-financed interventions, initiated in the years 1990-1999, will be sustainable after project completions in 2001-2003
Design village infrastructure projects in a flexible manner whereby village community select the types of infrastructure most suitable to their needs. The community controls and implements the project in the village (VIP I project, 1995; VIP II project, 1996).	Improve effectiveness of Bank-financed village infrastructure investments	Improved productivity of village economics through better transport. Improved living standards through better water supply
Vietnam, Philippines		
Clustering of related projects and task teams	Ensure consistency in approach, learning across projects and skill synergies	Improve project implementation performance (fiscal 1998-99) <ul style="list-style-type: none"> • Cost efficiencies (fiscal 1998-99) • Improved technical quality in multi-sector projects and/or combined approach of parallel single sector projects (fiscal 1998-99)
Vietnam		
Delegation of Vietnam Irrigation Project to resident mission	<ul style="list-style-type: none"> • Improve implementation performance at critical launching phase • Improve Bank response time • Reduce cost 	<ul style="list-style-type: none"> • First year implementation and Bank response already helped avoid obstacles due to complex Bank guidelines • Costs reduced by more than 30 percent in fiscal 97 versus fiscal 1996. Further reductions expected in fiscal 1998-99
General (EA1)		
Hiring of specialists in natural resource management (senior ecologist and water resource specialists)	<ul style="list-style-type: none"> • Enhance divisional skills to address critical natural resource management issues 	<ul style="list-style-type: none"> • Engage client and enhance portfolio for water, coastal resource, and forestry issues (evident in all countries) • Create synergistic teams (already in place)
Transfer of rural infrastructure responsibilities from infrastructure to agriculture division	<ul style="list-style-type: none"> • Enhance community based approach, sustainability across rural infrastructure sectors • Raise quality level of what comprise major investment in rural development projects 	<ul style="list-style-type: none"> • Manor rural infrastructure initiatives in Philippines and Vietnam/Laos applying new approaches (already underway)

tionally produced various proposals, many of these are not fully tested under the typical socio-economic conditions prevalent in upland areas. A compilation and analysis of actual diffusion experience will benefit agricultural assistance programs across the Region. Currently, there are no staff with up-to-date expertise in such farming. It is estimated that an analytical effort to shed light on the issue would require US\$500,000 over the next three-year period. Client interest in the topic is evident from interactions in the context of research and extension projects as well as upland development projects. The information gained through a study and in-house expertise would allow an increase in the number of projects addressed to such areas over the medium term.

Agro-Industrial Development

There is much interest among the faster growing countries in the region in agro-industrial growth as an avenue for increased value added. While this is an area where private sector activity is dominant (and the IFC is increasingly active in), there are some public good aspects where governments can contribute in the earlier phases of agro-industrial development, such as market information, and facilitation of technical know-how acquisition, specific types of insurance etc. International experience has indicated some useful formats of government assistance as a catalyst for institutional arrangements that are ultimately taken over by the industry (for example, producers' associations). However, the Region lacks the expertise and the resources to provide sustained advice and assistance on this topic (presently, ad hoc inputs are sought from short-term consultants). It is estimated that US\$600,000 would be required to facilitate an adequate level of service to Regional clients over the next three-year period.

Europe and Central Asia Region Rural Strategy

There are a number of features of the rural sector in Europe and Central Asia countries

which are either unique to the Region or important for Bank strategy in the Region. Many of these features give rise to issues which the Bank must address either through strategic choices about approaches to different issues or through changes in internal Bank processes. This note describes some of those features, lays out the Region's general strategy for lending and non-lending services, and then proposes specific actions to address the issues.

Features and Issues of the Rural Sector in ECA Countries

- The Region is comprised of twenty-seven countries, the majority of which are new members of the Bank and have limited experience with its operations. Independence has brought profound changes to the political and economic systems of these countries and the situation continues to evolve rapidly and dramatically.
- The political transition in many ECA countries has resulted in a wide divergence of viewpoints (from communist holdovers to bold reformers) and this has made reaching consensus on a vision for agriculture difficult. While generally true across the board, this has been particularly important in agriculture where anti-reform agrarian lobbies are strong and ministries of agriculture tend to be the least reform-oriented.
- There is extreme heterogeneity across countries, exemplified in a number of ways, for example, (a) the extent to which policies have moved from command to market, (b) the types of farms that exist (from large-scale collectives to small-scale subsistence), and (c) whether the agricultural sector has historically been net taxed or net subsidized (and, therefore, whether the sector is likely to expand considerably or whether it may need to contract).
- In many countries there has been a complete collapse of the basic systems (financial, marketing, trade, and payments) which have devastated the highly commercially-

linked farming sector that existed prior to Independence. The challenge of abrupt restructuring and rebuilding of agriculture is very different from the gradual sector development occurring in other Regions.

- Many of the former state or collective farms were inefficient producers of agricultural commodities, generating large losses for the budget, and producing poor quality output that could be sold only at heavily subsidized prices.
- While not specific to agriculture, the labor force is generally not trained for operating in a market economy, does not understand the basic principles or consequences of the transition and has not developed coping skills or strategies. It is thus ill prepared and somewhat resistant to change. On the other hand, the agriculture labor force is much better educated than in other Regions and probably has considerable potential to succeed under a new economic paradigm.
- Rural poverty has a different character from that in other Regions. It is not the key issue in ECA countries, although poverty in general has increased during the transition. In most ECA countries, those with access to private plots of land have been best able to cope with the general economic crisis. Nonetheless, the increasing poverty rates have raised sensitivities to policies that create even short-term reductions in income.
- Many of the Central European countries and the Baltics are actively engaged in accession discussions with the European Union and are developing agricultural policies both to better position themselves during membership negotiations and in anticipation of eventually applying the Common Agricultural Policy. These concerns often transcend concerns for efficiency and rationality of public policy in the agricultural sector.
- There are severe environmental problems fostered by former command policies, particularly the inappropriate use of marginal

land, excessive use of chemicals and lack of policies to ensure sustainable use of forest resources.

Internal Bank Issues Influencing Rural Development in ECA

- There is a lack of integration of rural development issues into the CAS due, in part, to insufficient consideration of macro-economic issues on the part of agricultural staff and a lack of understanding of the agricultural sector by the country economists.
- There is a fragmentation of agricultural staff into small divisions without a critical mass for productive intellectual interaction and intra-sectoral liaison.
- There is a difficulty Bank-wide in supporting public intervention in agriculture as it is essentially a private-sector activity. The Bank as a whole is limited to financing TA (including institutional development), basic public goods (primarily rural infrastructure) and intermediation (lines of credit). Member governments are often unwilling to borrow for TA and the relatively greater distortions in price and trade systems, and the general lack of privatization in ECA countries has made it all the more difficult to identify projects that can productively add resources in the rural sector at this point in time.
- The multidisciplinary nature of activities in the rural sector (encompassing infrastructure, basic social services, agriculture, agribusiness, micro-enterprises, communication networks) means that Bank staff must be fielded from diverse sources. Yet divisional boundaries in the Bank often inhibit coordination necessary for this to occur.
- There is a dearth of staff in particularly key areas, most notably, sector economists who can bridge the gap between technicians and macroeconomists, financial institutions specialists and practitioners in agribusiness.

- There is also a dichotomy between very competent technical/analytical staff who are not particularly well suited to working closely with governments, and staff who relate well to borrowers, can integrate their needs and bring them along with a program, but who are not as strong at analysis. The Bank has traditionally assumed that one person can always embody all of these skills and can task manage a project alone, but this has not proven to be true in all cases.
- There has been inadequate cooperation and liaison with key partner organizations, particularly the EU which is playing an increasingly influential role in the development of ECA countries.

Portfolio Strategy

Lending strategy

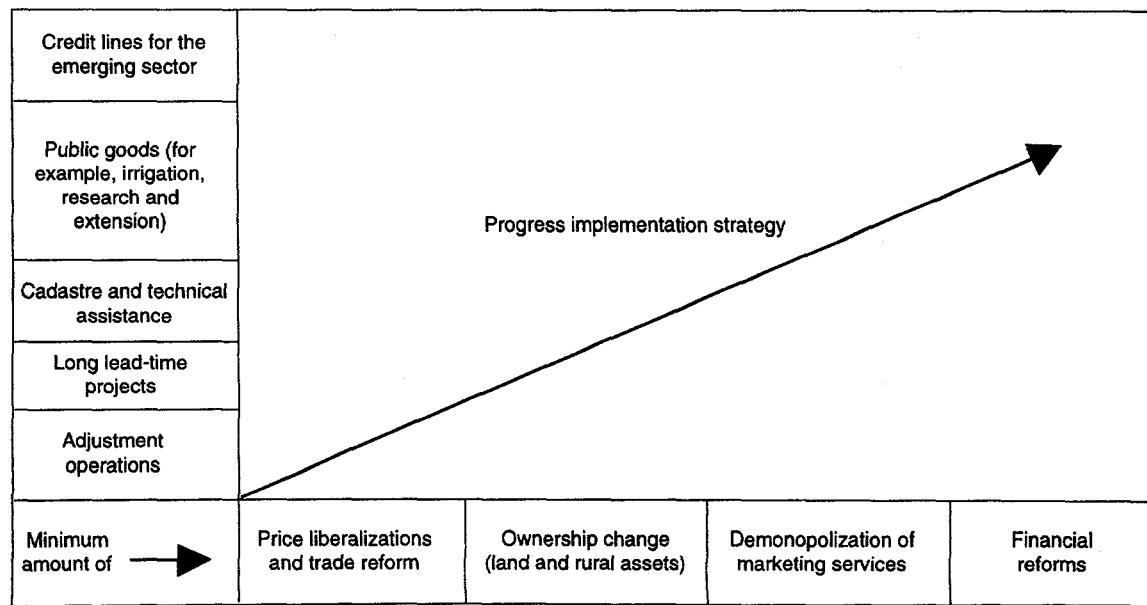
- A minimum amount of reform in the macroeconomic and agricultural policy framework is required before there can be any intervention in the sector. This mini-

mum package, along with specific targets, should be defined in the CAS.

- Rural sector lending should be based on a graduated response to thresholds for macroeconomic and sector policy reforms (for example, trade and price reforms, ownership change, demonopolization/deregulation and financial sector reforms) as shown in appendix figure B.1.
- Adjustment loans supporting policy reforms in all four areas can begin early on in the process to support progress in macroeconomic policy and support liberalization.
- Projects with long lead times, for example, research programs where there is a clear public goods component, may need to begin before anticipated reforms are actually implemented.
- Cadastre and technical assistance projects can also be introduced early in the reform process to accelerate land privatization and other policy changes.

Appendix figure B.1 Progress implementation strategy

Operational initiatives



- There should be a minimum amount of progress on reforms in the incentive framework (price and trade policy) and on ownership change (land privatization) before projects are introduced to provide public goods such as irrigation infrastructure or support services such as research and extension.
- There should be a minimum amount of progress in the incentive framework, ownership change, demonopolization and financial sector reforms before the Bank introduces lines of credit to private farmers.
- The minimum reform package for interventions in public goods and credit lines will be defined on a country-by-country basis and will be detailed in the CAS. Reforms in these areas are critical to ensure that i) the policy environment is not giving signals that encourage productive activities in areas where the country does not have a comparative advantage; and ii) new investments are facilitating private activity in the sector and not further entrenching publicly-owned enterprises.
- ECA countries are likely to fall into three broad categories according to their progress in the different areas for reform

and the Bank strategy will differ accordingly. A broad schematic indicating the type of Bank programs that are likely is shown in appendix table B.5.

ESW strategy. The substantive areas that will likely warrant the most attention in the near to medium term include:

- Continued work on identification of macro and sector policy distortions that affect efficient and equitable development in the sector
- Public expenditure reviews, with a particular emphasis on allocation and incidence of subsidies
- Analysis of land and rural property issues and the impact of privatization on efficiency, equity, employment, and rural income
- Analysis of the legal and regulatory framework for agribusiness and rural services
- Identification of an appropriate policy framework for management of natural resources
- Identification of needs for building rural infrastructure (rural roads, potable water supplies, and communication networks) to provide the essential platform for rural development.

Appendix table B.5 Bank strategies for countries in different stages of reform

<i>Stage of transition to market economy</i>	<i>Transition of macro-economy</i>	<i>Transition to private ownership</i>	<i>Transition to free markets</i>	<i>Implications for World Bank operations</i>
Stage I	Limited adjustment; command policies still existing	Fundamental intra-government policy disagreements	Modest progress, mostly state controlled	Focus on basic ESW and adjustment lending tied to crucial reform issues, some institution building
Stage II	Partial adjustment	Policies agreed, significant progress in primary agriculture but slow progress with agribusiness	Policies defined but enactment delayed	Emphasize privatization, efficiency enhancement and institution building
Stage III	Adjustment mostly complete	Agriculture mostly privatized	Variable progress, but fairly well progressed	Active program for rural development; focus on rural infrastructure, intermediation for private agents

Action Plan

Country issues

- *Issue.* The political and economic situations are evolving rapidly and dramatically. In many instances, the Bank started with a poor information base and is having difficulty keeping up with the changes that continue to occur.
- *Action.* The Region will continue to devote a relatively larger proportion of its resources to ESW, both formal and informal, to stay current.
- *Issue.* There is a wide divergence of opinion between reformers and non-reformers on their vision for the rural sector, making it difficult to obtain consensus on an appropriate course of action.
- *Action.* New instruments and techniques to generate broad-based support for Bank recommendations need to be employed including, perhaps, greater use of EDI, more public information campaigns, more in-country seminars and workshops, etc. These would be aimed at all branches of the government, of course, but also at all other stakeholders in the sector whose input and support are crucial for any rural strategy to succeed. For example, the broad-based participation at the agricultural workshop in the Kyrgyz Republic has resulted in agreement on a rural lending program there. While not agriculturally oriented, the Social Reform Support Project in Macedonia has helped support downsizing of industrial enterprises under the Sector Adjustment Loan. This Project provides for a public information campaign and programs to support re-training and redeployment of employees who lose their jobs or wish to move. Such an approach could be applied in the rural sector as well.

The Region will also try to expand the breadth of sector dialogue on rural development issues

with key decisionmakers (most notably in the ministry of finance) which may be more supportive than the ministry of agriculture.

Finally, the Region will make use of decentralized programs involving pilot projects designed by receptive communities covering the gamut of interventions from regional-level policy reform to community-led environmental protection. These will be used particularly in cases where it is difficult to obtain national consensus but where reform-minded local governments are eager to press ahead.

- *Issue.* In the majority of countries basic systems supporting agriculture have collapsed (including financial, marketing, trade, payments). Because of the highly integrated farming systems that existed prior to Independence, this void is having a devastating effect on agriculture.
- *Action.* The Bank will move on two fronts in this regard. First, and most important, is to get started rebuilding the systems. This will take a long time, and, for the most part, will be done with operations not directed at the rural sector. Nonetheless, it is critical for long-run sustainability of the sector. In the interim, ad-hoc solutions may be necessary to provide critical services and avoid decapitalizing agricultural assets while the systems are being developed. One key example in this regard is likely to be in the area of rural finance. The Region has created temporary institutions such as Government credit windows (with sunset clauses), based on commercial banking principles, and sovereign risk guarantee instruments designed to mobilize farm financing primarily from multinational corporations to bridge the gap. Other temporary schemes to prevent the sector from collapse will also be pursued.
- *Issue.* Much of the farming sector was inefficient prior to Independence, generating losses for the budget and poor quality or expensive output.

- *Action.* ESW will be used to determine where inefficiencies can be eliminated through improved incentives (policy reform), technology transfer, training, or other interventions. Much ESW has already been done in this area and the Bank is quite experienced with these kinds of solutions. In those areas where there is inefficiency due to lack of comparative advantage in the production of the output in question, the Bank will need to assist in the process of shifting production to other activities—be they in agriculture or elsewhere. The task of shifting resources out of agriculture is a delicate one and a great deal of care must be used to balance objectives of efficiency with political and social concerns about preventing rural-urban migration. The Bank needs to develop tools to help governments manage this process with the sensitivity required. The Region will be actively supporting additional research, brainstorming and development of innovative ideas in this area.
- *Issue.* The labor force does not fully understand market principles and is ill-prepared for coping with a market economy, however, it is relatively well educated and has considerable potential to achieve international competitiveness.
- *Action.* The Region will use techniques to disseminate information and explain objectives and principles as discussed in Action 2 above.
- *Issue.* Rural poverty is not the issue it is in other countries, in fact rural residents have had some of the best success coping with the transition because of their access to land.
- *Action.* The Region will continue to monitor the poverty situation; however, equity concerns will not be a primary justification for intervening in the sector in most instances. The Region will remain sensitive to reforms that might exacerbate poverty, even in the short term, and will work with governments to ensure that measures are taken to reduce the impact on affected populations.
- *Issue.* Many Central European countries and the Baltics are formulating their agricultural policies to better position themselves with their accession negotiations with the EU and in anticipation of eventually applying the Common Agricultural Policy (CAP).
- *Action.* The Region will use its ESW to demonstrate the net social gains from not introducing CAP-type policies prematurely; and it will work with the EU to reduce the likelihood that introduction of over-protectionist measures prior to accession negotiations will result in compensation benefits from the EU after membership. The Region will also actively encourage EU staff to join Bank missions to ensure that the right balance is struck between efficiency and harmony with EU policy.

Internal Bank Issues

- *Issue.* There is a lack of integration of rural development issues into the CAS.
- *Action.* Country teams will be formed (where they don't already exist) and will be responsible for ensuring that agricultural and rural development issues are duly integrated into the CAS. These teams will also be responsible for developing the minimum set of reforms that will be a prerequisite for any lending to the sector, as well as the minimum thresholds for price and trade reforms, privatization and financial sector reforms that will permit lending for public goods or lines of credit.
- *Issue.* There is fragmentation of agricultural staff into small divisions without a critical mass for productive intellectual interaction. Moreover, the multi-disciplinary nature of activities in the rural sector requires a broader set of interventions than those pertaining exclusively to agriculture

(including rural infrastructure, rural social services, communications networks and so forth). This has been difficult to achieve because of divisional boundaries within the Bank.

- **Action.** The Region has already decided to combine the Agriculture/Natural Resources Divisions for EC1 and EC2. To overcome divisional rigidities against a multi-disciplinary type of approach, the Region will rely on the country team model in the context of the CAS preparation to identify operations that might not fall neatly within divisional jurisdictions.
- **Issue.** With agriculture being a primarily private activity, there is little the Bank can directly finance in the sector. Basic progress on price and trade reform, as well as on privatization, is necessary before public goods and lines of credit make sense. Because ECA is further behind than most Regions in these areas, it is difficult to find projects that can make a productive contribution at this point in time.
- **Action.** The Region will continue to actively pursue progress in reforms and privatization through all of the instruments at its disposal: adjustment lending, ESW and dialogue, other types of outreach such as workshops, seminars, EDI training, and technical assistance for institutional reform to achieve the minimum thresholds necessary for traditional projects.
- **Issue.** There is a dearth of particular skills in the Region, most notably in the areas of sector economists, financial institutions specialists, and agribusiness practitioners.
- **Action.** The Region will concentrate its recruitment in these areas.
- **Issue.** The Region has a number of excellent analyst/technicians who are not strong at inter-personal relations and a number of staff who are extremely good at working with their counterparts and ensuring full ownership of a program but who are not as strong at analysis. The Bank has traditionally rewarded only one task manager per operation and assumed that one person could carry out all of these functions.
- **Action.** Rather than insisting that one person play both of these roles, the Region will actively try to team staff with complementary skills while giving both the credit for designing and implementing a successful operation.
- **Issue.** There has been inadequate cooperation and liaison with key partner organizations, particularly with the EU.
- **Action.** As noted above, these links will be strengthened, in part by inviting other donors and the EU to participate in Bank missions. This will be key in several areas, most notably (a) where policies should be consistent with future directions of the EU's CAP; or (b) where governments may be unwilling to borrow for needed technical assistance, but where other donors who are active participants in ESW or projects may be willing to finance those elements.

Latin America and the Caribbean Region Rural Strategy

Priority Areas for Agriculture

Agriculture in LAC must be seen through the dual lenses of rural poverty alleviation and sustainable natural resource management. The two most striking characteristics of LAC are that a high proportion of the rural poor have fled to the urban peripheries, and the continuing severe levels of land and water resource inequality found in the rural population. While urban slums are extensive and poverty is particularly visible in urban areas, poverty is deeper and more prevalent in rural areas—and is the source of urban poverty. In twelve of our countries the majority of the poor are rural. In the region as a whole, the poorest 10-20 percent of the population live in rural areas. Some 80 percent of the indigenous population of LAC are rural poor. The severe level of income

inequality observed in rural areas is a historical phenomenon, still not adequately addressed, where governments provided discriminatory access to land and capital, to the wealthy and powerful.

Another characteristic of rural poverty in the region is the areas of extreme geographic concentration of the "poorest of the poor." The rural areas of Southern Mexico, with the Chiapas "uprising," are well known. Similar areas exist in the isthmus of Central America, the Northeast of Brazil, and the Andean highlands. In most cases these poor are of indigenous ancestry.

Many rural poor earn their livelihoods as laborers or subsistence smallholders in environmentally fragile areas or on the frontiers between agriculture and the remaining forest. Consequently, rural poverty is closely connected to natural resource management issues. Poor farmers are more concerned with everyday survival than they are with stewardship of the land or forest. At the same time, commercial farmers are beginning to better understand the concept of land conservation and sustainable farming, and are seeking assistance in developing and implementing these techniques.

Despite the focus on poverty and natural resource management in LAC, there is a need to recognize the importance of a fast output growth of the "modern" commercial sector. In most LAC countries, this sector provides a high share of the overall marketed output in agriculture and is a major contributor to the supply of foreign exchange. Indirectly, it contributes to rural employment and hence plays a key role in poverty alleviation. Thus, policy makers are very concerned about both equity and growth considerations in the struggle to alleviate rural poverty. In this effort, the ongoing economic policy reforms in LAC countries—perhaps the deepest in the developing world today—must be followed up by institutional change and public investment directed at the poor.

Despite the importance of the rural sector in LAC, resources to the sector have recently experienced a precipitous decline. While resources have declined, rural poverty remains;

we have achieved measurable successes in pioneering many innovative approaches to rural development, and the demand for our services from clients has increased. Recent approaches to projects put the region in the forefront of Bank practice. The lessons of LAC will be salutary for other regions as they approach the same level of development.

There exist many opportunities in our region for operations and policy reform that will pass if they are not developed. Further, the possibility of policy changes to remove the biases against farm employment and smallholder farming, offers the potential for rapid creation of employment in the rural areas. The creation of employment opportunities will occur not only on farms but in rural towns that will develop to service the increased farming activity. There are few, if any, sectors that can generate employment as quickly and inexpensively as this. This, combined with improved policy towards goods and factor markets, will enhance the effectiveness of our investment lending and rural development efforts. The challenge for the region is increase the effectiveness of our policy dialogue as a means to improving portfolio performance, and to extend our successes throughout the region and the Bank.

Priorities. The thrust of our efforts in LAC have been in redefining the role of government: decentralization, strengthening local government and community groups, targeting interventions, and greater reliance on market mechanisms. This effort is creating a new vision for the roles of different levels of government and the limits of central government. As a result Bank interventions are being designed and implemented differently. In these areas, the experience of LAC, both the successes and the less than fully successful efforts, provide valuable lessons for other regions in the Bank. The following are areas where the region has experienced successful outcomes and where we continue to place emphasis:

- Community development/participation, emphasizing decentralization and indigenous people

- The creation of partnerships with rural communities and NGOs
- Targeted rural poverty programs and employment generation such as rural infrastructure, social infrastructure, micro-irrigation, and access to markets
- Market-assisted land reform using innovative and newly developed approaches
- Policy advice regarding public investment in the sector, the rural poor, commercial agriculture, and (especially) removing the policy biases against small farmers
- Water allocation/transferability using newly developed approaches to water rights
- Rural financial resource mobilization
- Sustainable land management/conservation
- The generation, adoption, and organization of agricultural technology.

Incremental activities. There are several areas where the region could greatly increase its effectiveness if it did more. Some have budget implications and others do not. The expected outcomes or outputs would include (further work will be needed to identify and quantify monitorable success indicators):

- Increased pace of land and tenure reform
- Increased pace of water management reform
- Increased pace of agricultural policy reform through consensus building and outreach programs that raise the awareness of the need for change
- Better diagnosis of rural financial markets and additional pilot projects in rural finance to test new approaches
- Improved monitoring and evaluation of the new rural social projects
- Improved targeting of existing social and rural poverty alleviation projects, emphasizing indigenous peoples.

The areas where actions are required center on three issues. First, to better meet the varied demands of our clients, the priority and visibility of the rural sector needs to be increased at the country level and within the Bank. Facilitating actions would include:

- Stronger sectoral participation in country poverty studies, to help ensure rural issues are well represented in CAS and other country strategy discussions
- More attention given to sound sector work to precede project development
- Encouragement for some involvement in experimental, difficult, and more participatory operations
- Improving the skills mix—such as more practical sociologists, specialists in gender, indigenous people, off-farm employment, and land issues.

A second issue in LAC is that *our operational portfolio increasingly consists of difficult, experimental, and costly-to-prepare projects*. This is due to (a) limited prospects for large-volume, low-cost lending in areas like intermediary credit, forestry, water resources, and second-generation institutional reforms; (b) some overlap with significant parallel incentives in rural infrastructure and the social sectors; and (c) procedural discouragement of pilot operations. Actions to alleviate these constraints could include:

- Working with RDV, LATAD, and LATEN toward creation of frameworks which encourage and facilitate lending in these areas
- Developing realistic internal strategies for fomenting incremental institutional change in our clients
- Better integrating the rural elements of development (roads, health, education) on the agenda for process change
- Simplification of processing for small pilots.

A third issue is that *there is in some cases a mismatch of priorities between the Bank and its nominal "clients"* (that is, government ministries). This has been contributed to by the change of Bank priorities in favor of rural poverty alleviation and sustainable natural resource management, which has not always been matched by corresponding change among our clients. Ways to bring Bank and client priorities more in line with one another include:

- Stronger sector work, with broader dissemination audiences
- Development of nongovernmental interlocutors through stakeholder participation, social assessments, and multi-party project steering committees
- Diversification of client contacts
- Working internally with and through country departments to influence the core ministries.

Middle East and North Africa Region Rural Strategy

Overview of MENA Characteristics

- Severe land and water resource constraints
- Scope for intensification
- High population growth (+ 2.5 percent per annum), rural outmigration
- Low food self-sufficiency
- Urban bias in policies and public expenditures
- Government commitment to agricultural policy reform unstable
- Agriculture poorly represented politically
- Agriculture (irrigated and rainfed) could be more efficient
- Agricultural production involves high climatic risks
- Government interventions prevalent in response to "market failure," but declining
- Market-oriented adjustment underway in some countries
- Macro adjustment, for example, of terms of trade can have big impact
- Export promotion constrained by foreign markets and local market organization
- Regional political profile high
- Need for donor coordination is high.

Rural Perspective for MENA

Rural areas remain important

- Population and share in GDP will decline but absolute numbers still high and production potential considerable.

- Large populations in MENA still live in rural areas.
- An efficient agriculture will be of high priority to economies of MENA.

Political focus is on urban areas

- Political advocacy of rural interests currently low in most countries (N.B.: Jordan an exception)
- Priority to ensuring balanced support to rural areas.

Our focus should be on

- The totality of the rural environment, not only agriculture
- Increasing returns to scarcest factor, usually water
- Shifting balance increasingly to market forces
- Increased private sector roles in agricultural and food production, including agribusiness, marketing, storage, transport, agro-industrial transformation, exports, and their financing.

Integrated rural development

- Competitiveness of production and transformation
- Efficient services
- Manage transition in rural areas
- Long-term preservation of natural resources (soil, water, biodiversity).

Comparative Advantages of the World Bank

Cross-Country Experience, Honest Broker, Continuity

Given fiscal constraints

- Help set priorities in public expenditures
- Help establish relative roles of public and private sector
- Promote efficient markets and market solutions.

Given vigorous cofinancing

- Bank leadership and analytical skills solicited by clients and cofinanciers.

- However, cofinanciers' agenda (especially EU) may differ from Bank's and cheaper EU financing leverage can affect Bank lending volume.

Implications for Lending in MENA

Trends in Lending during the Past Ten Years

- *Lending for agriculture, and natural resource management stagnated* during the last five years when compared with the previous five years. The lending would have shown a decline if a new borrower (Iran) had not been added.

1986-90	\$1.65 billion
1991-95	\$1.66 billion.
- The main areas of decline:
 - *adjustment lending*, which accounted for 30 percent of the lending in 1986-90, was reduced by 83 percent during the next five years:

1986-90	\$459 million
1991-95	\$ 80 million.
 - *rural finance*, which accounted for another 30 percent of lending, declined by 36 percent:

1986-90	\$450 million
1991-95	\$286 million.
 - *extension and research*, although much smaller (5 percent), also showed 54 percent reduction:

1986-90	\$85 million
1991-95	\$39 million.
- The reasons for the decline in adjustment lending are well known. The 1980s was a period of large macro-economic and sectoral imbalances, and the debt crisis. This is for the most part over for most of our active borrowers (except for Algeria, Yemen, and, to a lesser extent, Jordan). The reasons for the reduction in rural finance lending are also well known—the new theology which dictates a lack of direction.
- The decline in lending for extension and research projects were due to rather mixed performance of earlier projects, which re-

duced the enthusiasm of the Governments to go for new projects.

New Directions

The picture is not all bleak. Several new directions are being explored, and show increased lending.

- *Natural resource lending* is increasing (*up 87 percent*):

1986-90	\$ 69 million
1991-95	\$ 129 million.
- *Environmental lending* (including GEF) has made a modest start (*up \$23 million from zero*):

1986-90	\$ 0 million
1991-95	\$ 23 million.
- And last but not least, lending for *water resources*, has shown a substantial increase (63 percent) and now accounts for 43 percent of the lending:

1986-90	\$ 441 million
1991-95	\$ 719 million.

The Future

Looking to the future, we see the following opportunities:

- *Integrated water resources management* will become more important, and in the next five years, we would like to maintain lending in the \$400 to 600 million range (some of it may be substituted by cheaper cofinancing). These will emphasize institutional development (river basin authorities) and more efficient water use in both rural and urban sectors.
- *Natural resource management* lending would also be expanded in the range of \$150 to 250 million stressing improved management of forests, pastures, and watersheds.
- *Rural participatory development* would also be strengthened by emphasizing the provision of rural infrastructure and services with active involvement of local people. We expect to lend \$250 to 350 million for such projects.

Appendix table B.6 Middle East and North Africa: Matrix of issues and action

<i>Issues and Background</i>	<i>Progress</i>	<i>Future action</i>
Water Agriculture has to adjust to using less and more expensive water more efficiently: <ul style="list-style-type: none"> • Water scarce • Agriculture high and inefficient user • Water charges low; Q&M inadequate • Intersectoral water transfers inevitable and entail political and policy decisions backed by sound information • User participation weak. 	<ul style="list-style-type: none"> • Irrigation investments and, increasingly, focus on improving efficiency and user role of existing systems • Water Sector Investment Loan in Jordan, Morocco, Tunisia, and Yemen under preparation • SAL & AGSECAL in Algeria for Q&M • Policy dialogue for integrated water resource management • AGSECAL in Jordan began sector adjustment • Yemen Water Strategy: participatory policy work underway 	<ul style="list-style-type: none"> • Water Sector Investment Loan • Integrated water resource management studies and projects • Specific irrigation, drainage and sanitation projects • Sector adjustment loans and ESW for policy dialogue on water pricing, Q&M • Water Action Plan: establishing a MENA water fund
Rural development and poverty alleviation <ul style="list-style-type: none"> • Poverty higher in rural areas • A politically sensitive issue • Extensive despite progress • Limited access to land, and insecurity of tenure • Poor access to basic infrastructure, and productive and social services, especially health, education, potable water • Poor rural women even more disadvantaged • Poor social development indicators. 	<ul style="list-style-type: none"> • Regional projects targeting rural poverty alleviation (for example, Tunisia NW project, Yemen Southern Governorates, Egypt Matruh Resource Management) • Poverty reduced substantially in some countries but remains an issue in others, and more so in rural areas in terms of access to services (health and education in particular) 	<ul style="list-style-type: none"> • Increased lending for rural participatory development, including poverty alleviation • Rural development and employment strategy and projects • Increased private sector involvement • Emphasize rural health and education, particularly for women, as well as other services (roads, electrification, potable water) • Mountainous areas development • Rainfed agriculture development
Competitiveness of agriculture <i>Rural finance</i> <ul style="list-style-type: none"> • Inadequate agricultural and rural credit from official sources • System finances itself but at a high cost including inefficiency. <i>Food price stability for urban consumers has fed to:</i> <ul style="list-style-type: none"> • Distortions due to market controls and subsidies • Dominance of state enterprises in agricultural marketing and transformation • Inadequate marketing organization and infrastructure for domestic and export market development • inefficient price formation and transmission • Rent seeking intermediaries • Insufficient product and market diversification. <i>Food security</i> <ul style="list-style-type: none"> • Region is net importer of basic foodstuffs (cereals, milk, sugar, cooking oil). • Food self-sufficiency is low and concern about food security is increasing in the face of rising cereal prices as a consequence of trade liberalization. 	<ul style="list-style-type: none"> • Projects to increase productivity and efficiency • Research and extension projects. • AGSECALs have made significant progress in addressing these issues but there are remaining issues on the agenda depending on the country. • Irrigation investments. 	<ul style="list-style-type: none"> • Redefine public goods; focus on institutions and incentives to promote the private sector (services, marketing, agribusiness, exports). • New approaches needed to revitalize rural finance projects. • New instruments need to be utilized along with investment projects (guarantees, non-balance of payment support sector adjustment loans targeting private sector development, for example, Industrial Renovation project in Tunisia). • Adjustment lending on the decline; needs to be resuscitated. • Need to increase lending for private sector development, competitiveness in agriculture, marketing and agroindustry in the light of increased global trade liberalization. • Rainfed agriculture needs special focus, especially research and extension, and balance between production support and social transfers. • Close coordination needed with EU/European Investment Bank, Germany, Netherlands, and France. • Macro agenda should include liberalization of internal and external marketing, privatization of state marketing companies.

<p><i>Support for cereal production</i></p> <ul style="list-style-type: none"> • Targets mainly in low rainfall areas. • Heavy budgetary burden. • No incentive to increase productivity due to inadequate research and extension. • These supports entail social subsidies to producers who have few alternatives to cereal production. <p><i>EU agenda</i></p> <ul style="list-style-type: none"> • Proximity of EU has advantages, but EU trade barriers limit diversification towards higher value crops for export. 		
<p>Natural resource management and environment</p> <ul style="list-style-type: none"> • Arable land resources have reached their limit under current irrigation and rainfed water availability. • Productivity increases are the only way to increase production. • Require efficient and sustainable use. • Common land resources (steppes, ranges, fallow) are over-exploited for livestock production (links land tenure). • Soil erosion a major environmental problem (importance of forestry). • Desert encroachment and desertification a problem. • Overexploitation of groundwater a major problem in some countries. • Watershed management inadequate; participatory approaches needed as top-down approaches are not effective. 	<ul style="list-style-type: none"> • Forestry and watershed management projects • Increased national and donor resources for environmental problems • Implementation capacity development 	<ul style="list-style-type: none"> • Soil, watershed, and rangeland projects. • Natural resource management and environment lending needs to be maintained. • Participatory approaches need to be an integral part of projects. • Rainfed agriculture should not be overlooked. • Governments need to reassert control over groundwater .
<p>Land tenure</p> <ul style="list-style-type: none"> • Politically sensitive. • Small landholders predominate, for many farm size may be economically inadequate, especially with fragmentation. • Insecurity of tenure and lack of land titles cause inefficient and unsustainable exploitation, as well constraints in access to official credit (collateral issue). • Historical and social factors lead to smaller farm sizes through division for inheritance. • Common lands are exploited without any titles but through customary rights. • Much of the agricultural land has not been surveyed for cadastre and this process moves slowly due to the cadastre techniques used. • Land markets are virtually nonexistent and are encumbered by costly and time consuming bureaucratic processes. 	<ul style="list-style-type: none"> • Cadastre projects • Pilot components for land consolidation in some projects 	<ul style="list-style-type: none"> • Bank is timid in this area, including policy dialogue. • Should the Bank get involved? if Bank decides not to get involved, we have to live with the consequences in that what we do in other areas may have limited effectiveness due to constraints posed by land tenure.

Appendix table B.7 Implications for the Bank

<i>How to meet challenges and improve performance?</i>	<i>Bank process and resource implications</i>	<i>Indicators</i>
<ul style="list-style-type: none"> • Diversified overall rural economic growth, not just agriculture • Coordinate rural strategy/ESW with CAS/macro • Focus on rural employment and incomes • Set realistic objectives • Selectivity, small-scale, "staged" projects part of long-term program • Lending on parallel track with macro (potable water) • Empower and strengthen local institutions • Donor coordination vital 	<ul style="list-style-type: none"> • Coordination with COD and other SODs (for example, Morocco Rural Development Strategy) • Flexibility in Process Management post-CAS (cut steps but reinstate technical review) • SODs vs. Urban: Rural Structure? • Control of divisions through adherence to CAS and total budget allocations (not micro-management of individual operations) • Skills shifts, not necessarily increased budgets <ul style="list-style-type: none"> □ Operations management □ Water resource planning □ Participatory development □ Marketing/agribusiness/finance • Need to strengthen intersectoral country team approach • Need to constitute thematic teams for, for example, water • Greater use of local TA capacity and local staff in Resident Missions • Cofinanciers (and clients) pay more of direct processing and management costs 	<p><i>Caveat</i></p> <ul style="list-style-type: none"> • Must take long-term perspective • Very significant weather risk <p><i>Impact indicators</i></p> <ul style="list-style-type: none"> • Baseline data critical • Sector performance indicators (RDV) • Coverage of basic services • Rural poverty reduction • Rural employment generation • Export growth—diversification • Agricultural GDP/water used • Income-consumption stability • Level of participation <p><i>Bank quality control indicators</i></p> <ul style="list-style-type: none"> • Portfolio improvements (590) • Progress towards staffing profile changes • Improvement in delivery times • Monitoring of processing costs

- Projects for *environment*, for quick and responsive *emergency assistance*, and for *increasing competitiveness* of the rural economy would also be emphasized. These would account for \$250 to 400 million.
- Recognizing, the emergence of many concessionary sources of financing such as the European Union, we will also help our borrowers mobilize these resources for co-financing of the projects that we will support. Cost sharing to cover preparation and supervision costs will be promoted if loan size is not sufficient to cover preparation and supervision costs.
- Return to Integrated Rural Development with agriculture—rainfed and irrigated as the main production sector and source of employment in rural areas in a catalytic leadership role.

South Asia Region Rural Strategy

Regional Characteristics

South Asia has a large and rapidly growing population. Rural poverty is high. The region has the world's largest concentration of rural poor people. Most rural poor are landless. Rural poor dominate rainfed areas, and have a limited and fragile resource base.

The physical environment in the region is quite diverse ranging from tropical areas in Sri Lanka and Kerala state in India to desert conditions in Balochistan province in Pakistan and Rajasthan state in India. The natural resource base (land and water) is critically constrained by high population pressures. The limit for expansion of new areas has been reached in almost all countries. But there is still scope for more intensive land use. Resettlement is a major issue. Forestry and other natural resources are continuously being degraded. The pressures on water resources are more acutely felt in Pakistan and parts of India which are heavily dependent on irrigation for agriculture.

There is good potential for growth in rural nonfarm sector and strengthening backward and forward linkages to agriculture. There are

regional trade (quantitative restrictions and trade barriers within the region) and regional water allocation problems.

Agricultural Performance

Agriculture continues to be very important to the economies of South Asia. Its contribution to GDP, employment, poverty alleviation and export earnings remain relatively high, though relative shares of its contribution have been declining.

Although agricultural performance has been relatively good in the past with growth rates varying from 1 percent to 3.1 percent across the region, it has been stagnating in recent years in all countries except India. But even in India, its performance is below potential. With the land constraints, the key to future agricultural growth is productivity increase. There is substantial scope for this as yield gaps are high when compared with other countries.

Constraints

The major constraints are:

- *Inappropriate policies*: distortions in product and factor markets particularly on water and credit; too much government intervention in marketing, distribution, and credit, consequently reducing competitiveness in domestic and international markets; inefficient planning and utilization of public expenditures (large public outlays on safety net programs are poorly targeted and are ineffective); and weak government commitment to rural reforms. Progress on policy reforms in recent years has varied across countries. For example, there has been some progress on land and water resources in India and Pakistan while much remains to be done in other countries; similarly Bangladesh and Sri Lanka have been making better progress on rural poverty alleviation programs than other countries in the Region. However, there is need for substantial improvement in the policy environment in all countries.

- *Weak institutions* at both federal and state/provincial levels: overcentralized decisionmaking, weak ministries (except in India) and poor interministerial coordination, multiplicity of agencies, and poor use of local institutes, universities, and NGOs.
- *Physical constraints*: inefficient use of land and water resources leading to rapid degradation of the natural resource base and unsustainable development, in part due to slow pace of technology generation and diffusion.
- Strengthen inter-sectoral linkages to ensure multi-sectoral rural development
- Strengthen institutions and build local capacity including community empowerment and participation, and foster greater role for local institutions and NGOs
- Support resource management and environmental protection in view of the close relationship between environmental degradation, poverty and population growth
- build regional and global partnerships with experts in related fields and NGOs, other institutions and donors.

Goals

The major goals of the Region are: (a) to sustain and increase agricultural growth rate to 4 percent per annum,¹ (b) to increase agriculture's contribution to poverty alleviation, and (c) to ensure environmentally sustainable agricultural development. We envisage the major source of growth to be in smallholder market-oriented agriculture.

Strategic Elements

We would work closely with our clients to:

- Raise commitment of government and donors to agricultural development
- Redefine the role of public and private sectors—provide a more active role for and expand the private sector, and strengthen the public sector's capability in its proper roles
- Remove policy distortions including policy, institutional and technical measures to improve the allocative efficiency of factor and product markets
- Improve the efficiency and productivity of agricultural public expenditures through measures such as rationalization of the budget process for capital and recurrent expenditures, and prudent phasing of new projects
- Ensure development and diffusion of new technology to promote technical progress at the farm level

What Should We Be Doing More of and Doing Differently? Who Should Do It and By When?

We should make a better effort to ensure that agriculture becomes a central part of our economic and poverty alleviation dialogue, and raise commitment of government and donors. To do this, we would make a better effort to ensure that agriculture and rural development issues are adequately addressed in the Country Assistance Strategies and the Country Economic Memoranda, and secure commitment of government and donors to address these issues. This should be done by the Country Departments including the resident missions; and implemented for all countries by the end of the fiscal 1998-99 Business Plan period.

We should take a broader look at agriculture in the context of the rural economy and take a multi-sectoral approach to rural development. To do this, we would prepare rural development strategies which take a multi-sectoral perspective. This would be done by establishing task teams with complementary skills. In addition to ensuring adequate cross-fertilization of disciplines at departmental level, we would better integrate the work of field offices, technical departments and center departments with these task teams. We would provide incentives and reward staff for effective contribution to the teams. Rural

strategies for all countries would be completed by the end of the fiscal 1998-99 Business Plan period.²

We should better integrate macro and other sector aspects into agricultural sector work. For this, we would work with other sector and country operations divisions to break barriers across divisions and better integrate work of macroeconomists into our work program. The chief economist, country departments, resident missions and center departments would be responsible for this. The action is ongoing.

We should become more proactive in resolving inter-sectoral and inter-country water disputes, and resettlement issues. We would raise country commitment to inter- and intra-sector water resources planning, management, and institutions by launching participatory water resources management sector work, supporting regulatory measures, and disseminating policy advice. This requires coordinate effort by the regional management team, technical departments, country operations divisions, sector operations divisions, and resident missions. Later on, we may have to call on help from the President to address inter-country water disputes. Background studies and dialogue have begun.

We would continue to restructure and streamline the portfolio in line with implementation progress and changing political and economic conditions, and strengthen the quality of our supervision to implement our sector assistance strategy. This would be done by the sector operations divisions and resident missions with support from technical departments and RDV. All problem projects would be restructured or canceled as soon as possible.

To increase the effectiveness of our local dialogue, we would establish partnerships with local institutions and NGOs, and cultivate local interlocutors to disseminate findings and build consensus on policy issues. We would work closely with our External Affairs Vice Presidency to develop an external relations strategy. We would continue to enhance the roles of beneficiaries in project, program and sector

work design and implementation. This would be done by the country departments and resident missions. The work is ongoing.

We would make more use of pilots in cases where there is need to test innovative approaches and best practices, and where time is required to build institutions and bring about policy changes. This would be done by the sector operations divisions, resident missions and center departments; and is ongoing.

We would bring more experts from outside the Region, to ensure that best practices from around the world and latest technologies are transferred to countries in the Region. This would be done by sector operations divisions, technical departments and RDV; and is ongoing.

To ensure that we better use the local knowledge and closeness to the ground of the fields offices, we would strengthen co-ordination between headquarters and field office staff, and integrate them into task teams. We would better integrate work of technical departments and center departments (RDV, ESSD), and collaborate with EDI, the IFC and MIGA in the broad spectrum of activities including participatory water management and agribusiness development. We would establish better working relationships with WTO, FAO, IFAD, UNDP, and other donor partners. This would be done by the sector operations divisions and country departments, and is ongoing.

We would ensure that our staff make maximum use of the opportunities to enhance their skills. At minimum all task managers would have taken the task managers' training modules. Training plans have been developed for all staff and are being implemented on a continuing basis.

What Should We Support in Future?

We would continue to be selective and tailor our nonlending and lending services to address critical constraints and implement our strategies. The blend of services would vary by country. In Sri Lanka, for example, we do not

envision any significant increase in lending, but would continue to do sector work on issues related to irrigation, tree crops and non-plantation agriculture. In the larger countries such as India, Pakistan and Bangladesh, we would provide a full range of services. In Bangladesh and Pakistan we would focus on sector investments through which we would work with development partners to bring about policy and institutional changes in key areas such as trade, marketing and public expenditure management. In all our countries we would continue to do sector work and lending to address critical environmental, forestry, and water (including irrigation, drainage and water supply) management issues. In some cases such as Pakistan and Nepal we would do sector work and lend to address land issues. We would continue to support agricultural support services focusing on technology generation and diffusion, and provision of rural finance. In all these areas we would work with partners in bringing about significant institutional changes as we implement projects. In all our efforts we would make maximum use of pilots and pursue participatory approaches. We would, over the next plan period, in some countries such as India explore possibilities for lending and implementing rural development strategies on a regional basis.

How Should We Monitor Our Progress?

We would use several methods to monitor our performance. We would use the Region's Learning Group to monitor staff development and training and ensure appropriate skill mix. The resident missions and sector operations divisions would submit six month progress reports to the Staff Learning Group.

The department directors' front offices and chief economist's office would monitor the integration of agricultural and rural strategies into the Country Assistance Strategies (CASs) and ensure that actions associated with key

policy and institutional reforms are built in as triggers into the CASs.

For portfolio performance, we would monitor movement in number of problem projects, levels of disbursements, quality at entry, consistency with the CAS and Sector Assistance Strategy, use of participatory approaches and degree of decentralization achieved in projects. In addition to ensuring that performance indicators are relevant and realistic for each project, we would ensure that those projects in the portfolio without indicators are retrofitted by the end of fiscal 1998. We would monitor the dissemination of our ESW work, and the impact of ESW on sectoral reforms.

To monitor impacts in client countries, we would focus more on sectoral (policy and institutional) reforms deemed important in the CASs and Sector Assistance Strategies, and their outcomes (for example, reduction in price distortion, cost recovery in irrigation, resettlement and rehabilitation performance). To monitor longer-term trends, we would monitor indicators such as agricultural growth rate, level of distortions, shares of private ownership of major assets, share of public goods expenditure in agricultural sector expenditure, total factor productivity, returns on public spending, and share of poverty alleviation expenditure in agricultural sector expenditure.

We would monitor the integration of macro and other sector aspects into agricultural sector work. We would update our Regional Management semi-annually on integration of headquarters and field office staff into task teams; on joint tasks carried out with technical departments, center departments (RDV, ESD), EDI, the IFC and MIGA; and on our working with WTO, FAO, IFAD, UNDP and other donor partners.

Notes

1. Some states in India are already achieving this; the challenge is to maintain this rate.
2. In India we would have to work at the state and regional levels.

Appendix table B.8 Action matrix

Issues	Actions
POLICY FRAMEWORK FOR AGRICULTURE	
<p><i>Agricultural price and market distortions</i></p> <ul style="list-style-type: none"> • Distortions in agricultural product and factor markets reducing returns to wage labor. • Direct government interventions remain significant, although declining. Indirect interventions through higher protection of domestic industry which gives comparative disincentives to agriculture. • Lack of competitiveness of agro-processing in major sectors (sugar, cotton-textiles, oilseeds, cereals, and dairy). Fiscally and economically expensive pursuit of food security objectives • Insufficient understanding and attention to stakeholders' interests in ESW. • Weak government commitment to policy reforms; ineffective policy dialogue. • Lack of adequate number of strong interlocutors to push policy agenda. • Regional trade barriers (quantitative restrictions and tariff barriers within the region). <p><i>Rural economy and poverty alleviation</i></p> <ul style="list-style-type: none"> • Poor rural infrastructure, particularly markets, roads, utilities, and communications. • High rural poverty, large number of landless poor and disadvantaged rural women, uneven access to farm land and agricultural credit. Limited and fragile resource base in rainfed areas which are dominated by poor. • Weak ministries and lack of interministerial coordination • Need for decentralization of public expenditure decision-making and reprioritization to fund key aspects of rural development strategy. Weak capability of local government institutions for program planning and implementation monitoring • Lack of coordination and integration with NGOs working on poverty issues. 	<ul style="list-style-type: none"> • Complement ESW by dissemination and policy dialogue with government agencies and stakeholders to formulate policy matrix, and identify sequencing of reforms and transition costs. Explicitly analyze stakeholders' interests in sector reports and tailor dissemination efforts accordingly • Carry out ESW on agricultural price and trade policies. Encourage speedy completion of trade policy reform, including liberalization of input and output markets with an orderly transition to full private-sector orientation. Support removal of any policies with pro-industry bias • Support agricultural sector and agribusiness investments along with critical sector reforms to increase competitiveness • Complete portfolio review and redesign existing operations to achieve policy objectives • Conduct analysis of regional trade issues by task team comprising sector divisions, COD, technical departments and resident missions; and initiation of dialogue with governments including through interlocutors. <ul style="list-style-type: none"> • Conduct ESW on rural development issues including nonfarm linkages and opportunities for growth outside agriculture, and strengthen ESW dissemination and dialogue with stakeholders to raise country commitment to the design and implementation of decentralized, participatory watershed and rural development programs. In India priority to completion of participatory ESW on rainfed agriculture. • Increase Bank support for funding rural infrastructure including rural roads, rural health, rural electrification, and education. • Incorporate sectoral strategy into Country Assistance Strategy and policy dialogue, develop rural development strategy and regional action plans. • Assist federal, state and local governments in creation of new funding mechanisms in line with decentralization. • Encourage closer collaboration among ministries by establishing inter-ministerial task forces. • Increase use of NGOs and stakeholders in design and implementation of poverty programs.
RESOURCE MANAGEMENT	
<p><i>Water resource management</i></p> <ul style="list-style-type: none"> • Scarcity of water; intersectoral and intercountry disputes over water allocation which lead to inefficient water allocation. • Irrigation is facing a crisis. Service delivery dominated by public sector, weak ministries and poor coordination. O&M expenditure vastly inadequate, lack of beneficiary contribution in O&M. Cost recovery in water and rural power is minimal and fiscally unsustainable. • Agriculture is an inefficient, inequitable, and unsustainable user of water. Lack of integration of water delivery and on-farm water management. Worsening problem of waterlogging and salinity. Ground and surface water becoming increasingly polluted making rural domestic water supply unsafe. 	<ul style="list-style-type: none"> • Bank should take proactive role in resolving intersectoral water allocation and water disputes between states, provinces, and countries. Raise country commitment to inter- and intra-sector water resources planning, management, and institutions by launching participatory water resources management ESW, supporting regulatory measures, and disseminating policy advice. • Pursue irrigation, drainage, flood control, and rural water supply projects, test new approaches through pilots, and support efforts to decentralize irrigation systems based on water user associations and public utilities which would efficiently operate and maintain facilities, and by formalizing water rights and

(Table continues on the following page.)

Appendix table B.8 (continued)

Issues	Actions
RESOURCE MANAGEMENT (continued)	
<p><i>Land and forest resource management</i></p> <ul style="list-style-type: none"> • Land degradation serious problem in some areas. Lack of sustainable management of productive forests including a rundown of forestry resources • Weak government commitment (financial and institutional) for natural resources management including forestry. Ineffective project implementation. Lack of counterpart funding, lack of country commitment to sectoral reforms, weak project administration capacity in country. Inadequate human resources, and civil service practices • Limited capacity within the Bank to scale-up sectoral operations • Need for more upfront actions to address resettlement issues. <p><i>Land markets</i></p> <ul style="list-style-type: none"> • Systems of land records and land registration are faulty and outdated. • Land markets highly distorted. • Land tenure systems have created disincentives in some countries. 	<ul style="list-style-type: none"> water markets. Promote more effective O&M planning and arrangements including full recovery of O&M costs from users. • Pursue project design which effectively addresses inter-sectoral issues by ensuring access to appropriate skill mix. • Strengthen quality of preparation, supervision, institutional reforms and policy reforms (including subsidy policy). • Undertake ESW on environment and land issues. Incorporate key actions (such as funding and institutional changes) as triggers in CAS. Enhance country awareness and support efforts to increase productivity through technological and policy changes. • Pursue efforts, including pilot projects, at participatory management of land and forest resources by involving beneficiaries in planning and implementation of activities. Foster greater involvement of NGOs. Help strengthen institutions with oversight over green environment and remove economic incentives to degrade land. • Training program in Bank guidelines and procedures to government officials. • Secure access to needed skill mix by Bank staff. • Beef up capacity in resident missions to address resettlement issues. • Develop projects to improve and computerize systems of land records. • Carry out ESW on land market issues (including land tenure). • Support land market and tenure projects.
TECHNOLOGY AND CREDIT	
<p><i>Research and extension</i></p> <ul style="list-style-type: none"> • Research activities not addressing many key production problems. Research priorities not focused on environmental friendly production techniques (for example, farming systems research). Failure to import and adapt technology to local conditions. • Extension is often too centralized and not responsive to local conditions. Duplication of research efforts and lack of coordination between research institutions. • Weak incentives for profitable private sector research. • Excessive numbers of front-line extension workers. <p><i>Rural credit</i></p> <ul style="list-style-type: none"> • Lack of access to credit by poor and women • Rural credit markets highly distorted. • Poor repayment discipline. • Rural credit policies pursue conflicting commercial and social objectives. • Weak rural financial intermediaries; poor administration and outreach; high unit cost per dollar lent in rural areas. 	<ul style="list-style-type: none"> • Raise country commitment through ESW on strategies for future growth in agriculture, agricultural technology generation and its dissemination, integration of technology into sectoral policy dialogue. • Support agricultural research management, agricultural support services, and agricultural sector investments. • Increase Bank staff effectiveness through training of technical staff, improve access to Bank extension/research specialists, and develop partnerships with regional banks. • Support rural finance reform program with associated institutional and policy reforms that will support phasing out public sector institutions from rural credit and remove subsidies. Develop participatory ESW and stakeholder analysis to address sequencing of reforms and estimate transition costs • Give guidance in improving legal framework (for use of collateral and recovery of loans).

Appendix table 2.8 (continued)

Issues	Actions
TECHNOLOGY AND CREDIT (continued)	
	<ul style="list-style-type: none"> • Raise country commitment to establishing links between rural financial sector reforms and overall rural development policy reform agenda, sustainable rural financial system for bankable clients, and efficient and targeted system for the non-bankable poor. • Work with NGOs on rural credit for the poor. • Better integrate work of Technical Departments and Central Departments with that of Region.
ORGANIZATIONAL	
<ul style="list-style-type: none"> • Incentives for promotion and standard working systems have led to "lone ranger" task managers with inadequate cross-fertilization, and lack of adequate cross-sectoral work. • Inadequate coordination between agriculture SODs and CODs and other divisions. Skills mix is inadequate to deliver higher economic content of lending and nonlending services. • Inadequate skill mix in technical areas including forestry, water resources planning, land issues, extension and rural finance. • Need for more coordination with EDI, the IFC, and MIGA. • Need to strengthen links with FAO, FAO/CP, UNDP, WTO, IFAD, and multilateral and bilateral lending agencies. 	<ul style="list-style-type: none"> • Establish task teams with complementary skills ensuring adequate cross-fertilization of disciplines (agronomist / engineer /economist /rural sociologist) including staff from other divisions, technical departments, and central departments. Strengthen coordination and cross-support mechanisms with CODs and SODs on sectoral reforms and fiscal decentralization and ESW, and with the IFC and MIGA on lending and non-lending services. Relieve technical staff of part of current processing and editorial burden. Amend promotion and evaluation standards to reward effective contribution to task teams, not just task management and report authorship. • Better coordination between headquarters and field offices, and beneficiary consultation. • (Re)create in technical department or central departments a unit which can support regions with technical staff who cannot be fully used in one department or region. • Establish ad hoc cross-divisional task teams for strategy/sector work, such as food/nutrition policy, rural infrastructure, and role of local governments. • Within the Bank, continuously build up skills to conduct ESW, policy dialogue, monitor policy reforms and their outcomes. • Collaborate with EDI in developing training program for clients, staff and fostering participatory management in water and natural resources. • Strengthen links with FAO, FAO/CP, UNDP, WTO, IFAD, and multilateral and bilateral lending agencies.

APPENDIX C

The International Finance Corporation's Vision for Agribusiness

The IFC has been active in projects involving agribusiness development since its early days. The Corporation's involvement in this sector reflects the pervasive importance of the agribusiness sector to the economies of its borrowing member countries. Food/agribusiness portfolio currently represents about 9 percent of the IFC's portfolio. The IFC's experience indicates that the financing of agribusiness generates significant benefits in terms of development, but that it also implies unusual risks that are not generally found in other manufacturing activities.

The IFC's Approach to Rural Development

The 1992 reorganization was the opportunity for the Corporation to reflect on its mediocre past agribusiness experience and bring renewed focus to its investments in the sector. The Corporation's activities in the agribusiness sector were consolidated in the new Agribusiness Department. This decision was based on the lessons learned in past operations and emphasized the following points:

- Recognizing the global nature of agribusiness and the need to develop further an agribusiness expertise in the Corporation, staff resources were concentrated in a specialist department with the capability to identify and evaluate agribusiness projects on a worldwide basis;

- Recognizing the specific risks attached to agribusiness ventures, and the fact that these risks are best handled within a supply-chain perspective, the department was oriented to develop projects ranging from farm production to final consumption. This approach is also fully in line with the industry's approach to its business.

The merging of the IFC operations into the specialized Agribusiness Department was also designed to ensure continuity and consistency in relations with clients, and a careful evaluation of the appropriate role of the Corporation in each country. This new structure has had a determining impact on the operational strategy to be adopted by the new department; the inheritance of a portfolio which had a higher share of under or non-performing projects led to the adoption of a two-pronged approach:

- Aggressive cleaning-up of inherited portfolio through workouts and restructuring, to minimize impact on bottom line
- Selective build-up of new quality assets.

This approach has been successfully implemented since 1992: all profitability parameters of the department are now in line with the rest of the IFC, while the volume of financing in fiscal 1995 exceeded \$600 million (including syndications), a six-fold increase over fiscal 1992.

The IFC's Role in Rural Development

The late 1980s have seen a significant improvement of the environment for private investment in developing countries: structural adjustment programs, sectoral liberalization, enterprise privatization and international trade liberalization have created a new situation with tremendous opportunities for the private sector to expand and regain its role in economic development. It has also raised a formidable challenge for entrepreneurs to replace the public sector and overcome years of under- or ill-advised investment in agribusiness. Disappointment with structural adjustment has also been voiced as output and growth response have sometimes been slow to materialize and overcome the perceived costs of adjustments, or have been temporarily derailed by exogenous climatic or economic factors.

In general, the IFC does not have a comparative advantage in contributing to plan government institutional reforms and public sector technical assistance components that are best handled by the World Bank. The IFC can, however, stimulate the supply response to reform by supporting selected agribusiness investments that have a catalytic and demonstration value. The IFC is also in a favorable position to support enterprise restructuring and modernization through transition periods when these enterprises become fully exposed to the consequences of a country's economic adjustment.

Principles of Operation

The IFC's agribusiness strategy was presented to the Board and approved in 1994 (IFC/SecM94-53). Another review of the IFC's agribusiness operations by the Board is planned in December 1996, that will provide an opportunity to articulate more fully this strategy within the overall Bank Group's vision for rural development.

The IFC is able to play a valuable role in the development process only when it promotes well structured, profitable projects. There is no

economic justification for lowering investment standards with regard to agribusiness, even in low-income countries where agricultural related activities dominate the economy. The IFC therefore intends to apply the same standards to its agribusiness operations, while formulating a strategy that takes account of the diversity of country situations and specific risks attached to the sector.

The long-term objective for the IFC is to support the development of efficient agribusiness systems in developing countries. This objective can best be attained by judging the suitability of an IFC investment according to the following criteria.

Enabling environment. The IFC's and the World Bank's experiences have clearly established that support will be more effective and profitable in countries that have adopted sound macroeconomic and sectoral policies, and have followed generally recognized principles and set up the necessary prudential and regulatory environment to support private sector development.

Competitiveness. Financing of tradable commodity projects must be conditional on agricultural production and processing being internationally competitive, or offering clear indications of becoming so over the project life.

Supply chain approach. Vertical coordination features (quality control, risk-sharing arrangements, and others) are essential to the overall competitiveness and project robustness of a project. The IFC therefore evaluates projects with an overall supply chain perspective. It then focuses in each country on those projects that are likely to have the highest benefits to the industry.

Development impact. In general the IFC does not have a clear comparative advantage in the financing of farm production itself, with the exception of some plantation-type enterprises. The IFC will more effectively fulfill its development mandate when it supports those projects

upstream or downstream of agricultural production that have a clear but indirect impact on small and medium-sized farms; for example seeds, packing houses for fruits and vegetables, processing enterprises with significant technical linkages to farmers.

Consolidating the IFC's Agribusiness Operations

Barring a strong reversal of the current favorable investment climate in client countries, the IFC foresees a continued but controlled growth of its agribusiness financing for the years to come. Recent experience has demonstrated that financing the development of agriculture is not doomed to be unprofitable and therefore unsustainable for the Corporation. Since the Agribusiness Department has managed to increase its activity while achieving a high level of productivity, future expansion will clearly be in line with its staff resources, particularly industry experts.

Extending the IFC's Reach

As the level of financing increases, the department has also undertaken to extend its reach along two lines: (1) country coverage, especially those countries where the department is not yet present and where agribusiness is a significant economic activity; and, (2) small and medium-sized enterprises.

The importance of being able to support the development of small and medium-sized enterprises is well recognized, particularly in agribusiness and more specifically in Sub-Saharan Africa. It is also important to identify a delivery mechanism that will be cost-efficient and therefore sustainable and replicable.

One such model has been arranged specifically for Africa at the IFC level and is therefore not sector specific: Africa Project Development Facility, Africa Enterprise Fund, and Enterprise Support Services for Africa are general facilities to support small and medium-sized enterprises at all stages of their development. Every year, a large number of small agribusiness projects

(project cost of US\$500,000 to US\$5 million) is financed by Africa Enterprise Fund.

The Agribusiness Department in the IFC is also exploring several possibilities to increase its exposure to small and medium-sized companies, as well as to individual farmers:

- A multicountry loan facility targeting small and medium-sized enterprises is being discussed with a major agribusiness bank.
- In Central America a regional loan facility is being discussed with an agribusiness investment bank.
- In Brazil the Agribusiness Department has been very active in supporting the development of the integrated poultry and pig sector; it is now investigating the structuring of a credit line that would finance necessary investments to be made by individual farmers who have contractual agreements with the industrial processors.

Interacting with IBRD

IBRD and the IFC activities in the agribusiness sector are complementary to each other. Requirements for successful agricultural development are listed by IBRD as follows: (a) adequate economic incentives; (b) appropriate institutions; (c) appropriate infrastructures (roads, ports and telecommunications); and, (d) appropriate technologies. IBRD has long been involved in the process of strengthening the enabling environment for agribusiness through a range of instruments including agricultural sectoral adjustment loans, investment loans, technical assistance, or hybrids of these that can be targeted to specific situations.

On the other hand, the "private good" nature of the main agribusiness activities (production, processing, agricultural marketing and distribution) enables them to be efficiently supplied by the private sector. When sectoral policies are appropriate, the IFC will therefore be in a position to adequately support the development of private agribusiness, including the privatization of state-owned concerns through its provision of advisory services and financing.

The debate about the appropriate role of the public and private sectors in agricultural development has certainly progressed in recent years, but a precise boundary between the two will never definitely be drawn. The optimal allocation of public and private resources will continue to vary according to the country, the depth of its private sector, its income level and quality of its public sector institutions. The domain of agricultural marketing is a case in point: building the market architecture involves both public and private components that will justify involvement by the Bank and the IFC.

Interaction is therefore a natural and desirable outcome of each institution's objective to leverage each other's work by sharing sectoral knowledge and operational experience, while each institution confines its operations to areas where it has a recognized comparative advantage. This may take different forms: discussions with Bank staff are particularly valuable in orienting the IFC's promotion effort in each country, positioning each investment within

the framework of ongoing macroeconomic and sectoral reforms, and identifying potential investments. Conversely, the IFC staff have routinely participated in workshops, sectoral studies and as peer reviewers for IBRD sector work and projects.

The nature and scope of the IFC's operations requires substantial knowledge about agribusiness subsectors (technology, market, and others), particularly the key drivers of competitiveness on the global markets. This knowledge is essential to the IFC's advisory role in the proper structuring of agribusiness projects, in complement to its financing. This led the IFC to initiate recently the publication of a series entitled "IFC Global Agribusiness Series" that analyzes strategic trends in agribusiness sub-sectors, with particular reference to emerging countries. It is the Agribusiness Department's intention to continue developing its industrial expertise in areas which it does not currently cover. It will thus provide an effective resource base to the World Bank Group for the main agribusiness subsectors.

APPENDIX D

The Role of the Economic Development Institute's Training Strategy in Agriculture and Natural Resources

EDI is presently expanding its activities. In this expansion plan, EDI aspires to play a catalytic role in mainstreaming learning as a core Bank activity. While EDI will not be the sole source of learning activities in the Bank, it does aspire to become the Bank's learning center of excellence—applying the highest standards in the design and execution of training activities, continuously updating its training materials and outreach, and piloting innovative approaches that can subsequently be adopted widely in Bank operations.

EDI's Vision

EDI shares with the Bank a vision of the world in which knowledge can improve the pace and quality of development—a vision of learning that allows countries to avoid costly policy mistakes, that allows countries to make the most of available resources, and that enables people to participate in development fully.

EDI's mission is to help the Bank achieve this vision for the world by making available lessons of experience to policymakers, providing the skills needed to use and to manage resources effectively, and reaching the civil society to build the basis for sustained reforms. EDI pursues this mission by working with its partner institutions in delivering seminars, the training of trainers,

study tours, publications, and now through broader outreach to wider audiences using new technologies.

As EDI expands its activities, it intends to build a closer partnership with the rest of the Bank. Among other things, EDI will work together with Operations to mainstream learning into country dialogue, CAS definition, ESW, and the project cycle in order to assist Operations in improving the quality and impact of Bank activities.

EDI's Strategy for a Closer Partnership with the Rest of the Bank

EDI's strategic contribution towards increasing the impact of Bank-wide support for borrower learning will have four components:

1. A program framework within EDI (rather than ad hoc, disparate activities) in which EDI divisions annually identify programmatic priorities (that is, cutting edge development issues and themes) jointly with Regions and the central vice presidencies
2. Annual agreement with the Regions on priority regions or countries for EDI learning efforts
3. Identification of "touchpoints" in the CAS preparation process, ESW, and the project

cycle where training and public education activities will have the highest payoff

4. Systematic collaboration with the Learning and Leadership Center on joint learning efforts.

Six touchpoints that have been identified where training and public education activities can significantly affect project quality include the following (see appendix figure D.1).

1. At the initial identification phase, assembling diverse stakeholders together to build *consensus* on both the issues and the assessment of options
2. During preparation presenting client staff with *systematic cross-country* experience to help guide project design in productive directions
3. At appraisal helping to *define training components*
4. During implementation helping to *organize and provide training*, such as participatory management skills, to project and program managers
5. At project completion and in conjunction with OED *extracting lessons* from individual projects for the benefit of others
6. In adjustment operations or projects that support the adoption of major reforms *public outreach* in order to develop understanding of the rationale for the policies being adopted.

Obviously, EDI will not have the resources to become systematically involved in all phases of the lending cycle, and the Regions will, in any event, take the lead in most of these areas. Rather, EDI will contribute in accordance with its comparative advantages in relation to the rest of the Bank. First is EDI's reputation for neutrality and willingness to listen, and its ability to facilitate, for example, consensus-building at the project identification stage (see appendix box D.1).

Second is EDI's specialization in training. In the context of its programmatic approach to training, in which EDI plans and delivers a series of training activities on a particular topic to different audiences from parliamentarians

and senior policy makers to journalists and NGOs, EDI is continually developing more effective approaches to learning and outreach.

EDI's Training Strategy for Agriculture and Natural Resources: Guiding Principles

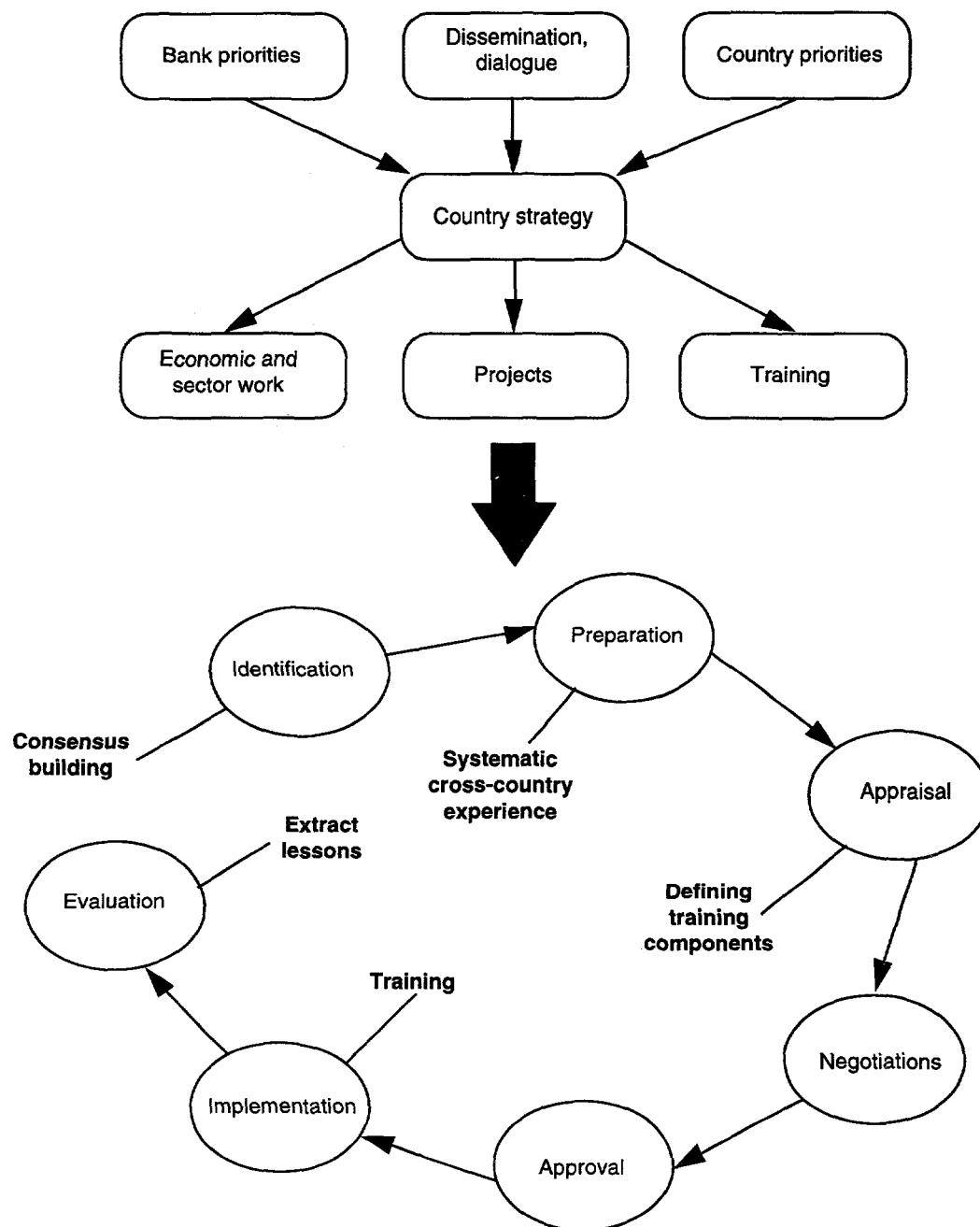
As the division of EDI that is responsible for training in agriculture and natural resources, EDI Environment and Natural Resources Division (EDIEN) shares both the vision of EDI for mainstreaming learning as a core Bank activity and the vision of the World Bank Group for agriculture and natural resources, as articulated in the main body of this document.

EDIEN will be demand-driven within a supply framework. On the demand side, the geographic distribution of its training activities will roughly mirror the emphasis which the Regions give to agriculture and natural resource activities. And within each region, EDIEN will establish priority issues, priority countries, and priority operations in consultation with RDV, the Regions, client countries, and EDI's partner institutions.

On the supply side, among the range of policy issues, EDIEN has developed expertise in agricultural policy adjustment, water resource policy, participatory natural resource management, and forestry. While EDIEN will continue to maintain such expertise in policy issues that cut across countries in a given region (or the entire developing world), EDIEN will not attempt to duplicate the research activities of Center. Rather EDIEN will continue to focus on distilling and disseminating these research findings, cross-country experience, and best practices to a wider audience.

EDIEN will also continue to focus its training on analytical and other approaches to addressing the range of policy issues. These include *cross-disciplinary approaches* (or processes) such as public information, awareness-raising, consensus-building, and participatory project preparation as well as *disciplinary approaches* (or substance) such as economic policy analysis, sector analysis, project analysis, environmental economics, ecology, and sociology.

Appendix figure D.1 Lending and learning in the year 2000



Appendix box D.1 Program on participatory irrigation management

In October 1994 when EDI organized a national seminar in Pakistan on participatory irrigation management, reaction ranged from skeptical to hostile. A Bank review of the irrigation sector earlier that year had raised apprehensions about possible commercialization and privatization. By the end of the five-day seminar, however, there emerged a consensus that the participation of water users in the management of irrigation systems should be explored.

One year later in October 1995 a subsequent seminar saw a transformed atmosphere. Senior officials from each province discussed not the "why" of participation but the "how" of the optimal speed for introducing it, and the nature and scope of pilot projects. Representatives of farmers and NGOs also spoke out in favor of user-based management, and the seminar participants drafted detailed action plans for implementing participatory irrigation management. Why the changed attitude in one year?

One factor was an EDI-sponsored study tour and internal travel seminar in Mexico for Pakistani officials, NGOs, and farmers in February 1995, which showcased Mexico's ongoing program of irrigation

management transfer. This convinced the Pakistani participants of the validity of transferring the operation and maintenance of irrigation systems from the public sector to water users associations. These participants subsequently presented action plans to the central as well as provincial governments, which contributed to the announcement by the Pakistani President of a key policy reform in August 1995: provincial irrigation departments would be transformed into authorities, and financially accountable water boards, composed largely of farmer representatives, would be established for each major canal system.

While EDI cannot claim credit for a presidential decision, there has clearly been a meeting of the minds in Pakistan. Whether the participatory irrigation management program is playing a leading or a supporting role is less important than the indisputable fact that progress is being made in reforming the irrigation sector. EDI will continue to facilitate a mutual learning process in Pakistan to help refine and implement the nation-wide participatory irrigation management program.

With respect to *process*, three cross-cutting initiatives in all our agricultural and natural resource activities are expanding the audience to include opinion leaders, the private sector, and civil society, facilitating a learning dialogue and exchange of experiences among seminar participants, and using innovative communications technology. With respect to *substance*, the major cross-cutting theme is policy and institutional reform for sustainable development—that is, building ecological, economic, fiscal, and institutional sustainability into the design of new policies and institutions from the very beginning.

While EDIEN already has multiyear programs in agricultural policy analysis, rural project analysis, agricultural management, water resources management, forestry management, and biodiversity, it will continue to revise and update these with new analytical frameworks and illustrative case studies. EDIEN is already working closely with RDV and LLC in developing the core training modules in agriculture and natural resources for Bank staff, with the

objective of adapting these for use in borrowing countries, so that Bank and borrower staff will receive similar types of training. EDIEN is also open to joint Bank/borrower training activities, and is attempting to shorten its response time to requests from operations.

EDIEN: Major Programs in Agriculture and Natural Resources

Agricultural Policy Analysis and Institutional Reform

This is a continuing and multiyear program. The overall goal is to contribute to the formulation and implementation of improved and better informed agricultural policies that will strengthen the contribution of the agricultural and rural sector to national development in member countries, with a particular focus on Sub-Saharan Africa, China, and the Russian Federation. By means of senior policy seminars, sector management seminars, and training of trainers workshops, the program aims

to improve analytical and training capacity—in government, universities, and other training institutions—for agricultural policy analysis and implementation. Increasingly, the emphasis of the program is shifting from the “first generation” issues of adjustment such as macroeconomic and sectoral pricing policy reform to the “second generation” issues of policy and institutional reform at the subsector level, in the context of the changing role of the state from a direct provider of agricultural services to a facilitator of increased private and non-profit sector provision of agricultural services.

Rural Project Analysis

This program introduces project analysis, and participatory planning and management methods, with a focus on the transition economies in Eastern Europe, Central Asia and East Asia. Seminars train trainers in the general principles and techniques of project analysis, planning, and management as these apply to agricultural and agro-industrial investment projects. In addition sessions provide hands-on experience in identifying agricultural projects suitable for financing, in preparing a feasibility study, and in applying microcomputer and software. The project analysis criteria are those employed by multilateral and bilateral public financing institutions and private sector investors. Through collaboration with local training institutions, EDI also assists in the development and dissemination of suitable training materials in investment project analysis.

Agricultural Services and Management

In conjunction with the African Development Bank and the International Fund for Agricultural Development, EDI is helping national, regional, and subregional institutions in Sub-Saharan Africa, North Africa, and the Middle East to expand their capacity to provide training in agricultural services and management. The emphases of the program are agri-project

design and management; agribusiness management; strategic planning and policy formulation by agricultural sector managers; agricultural services for small-scale commercial farmers; and community management of natural resources and community finances. The program is being implemented through training activities including training of trainers, development of training materials, and support for rural training networks. Seminars for senior project management staff help them upgrade their general management skills and learn how to apply these skills through management consultant-client relationships and follow-up activities.

Sustainable Agricultural Development for Central Asia

The objective of the program is to change the attitudes towards conservation and to incorporate issues of the environment into comprehensive agricultural reform policies under conditions of financial constraints and economic transition, and through synergies with the development sector. Central to the program is the analysis of the long-term and incentive framework for securing environmental and natural resource assets and pricing of environmental damage. The content of the program consists of modules on managing sustainable agro-environmental development, macroeconomic and agricultural sector policy, mechanisms of environmental protection and managing natural resources, and experiences of other transition economies.

Water Resources Management

Water is essential to all human activities. However, in the years to come, water shortages and pollution are likely to cause extreme hardship in the poorer countries, national and international conflicts, and practically irreversible damage to the environment. In many parts of the world, this is already occurring. There is a widespread consensus that, to address the complex and multi-disciplinary issues associ-

ated with the water sector, water management should be approached in a holistic manner, and capacity building in the sector should be geared to facilitating the development of sustainable policies and plans that ensure efficiency and comprehensive management in the sector. The primary objective of the water resources management program is to increase the capacity of policymakers, decisionmakers, and managers to design and implement sustainable policies and programs geared to the efficient management and conservation of water resources in their countries. Program activities emphasize, among other things, the need for a comprehensive policy framework for analyzing policies and options, as well as the issues of water as an economic good, decentralized management and delivery structures, greater reliance on pricing, and stakeholder participation. Activities take the form of national and regional seminar series tailored, jointly with beneficiaries, to specific needs and country conditions; creation and operation of international water resources networks; and launching of regional programs to strengthen water sector training institutions. Activities are planned for Sub-Saharan Africa, Middle East and North Africa, and Latin America.

Participatory Irrigation Management

The irrigation sector, which accounts for roughly three-quarters of total water use in the world, is in a state of management crisis. National irrigation agencies incur severe losses of up to ten times the actual costs of operating and maintaining the dams, control structures, and canal networks under their jurisdiction. Since the mid-1980s, countries including Mexico, Turkey, Indonesia, the Philippines, Colombia, India, Sri Lanka, and Nepal have adopted policies to encourage greater participation in management by water users. One of the most dramatic management transfer programs has occurred in Mexico, where the government adopted a policy of gradually transferring all its large scale irrigation districts to 78 water users associations. As of mid-1993 the manage-

ment of more than 1.2 million hectares of irrigated land has been transferred to water users associations. The overall purpose of EDI's program on participatory irrigation management is to stimulate high level policy dialogue on participatory irrigation management within client countries, leading to commitment and programmatic action. The program offers five phases of training activities, depending on the needs of a particular country: national seminars to introduce policymakers to the implications of participatory irrigation management; study tours to model countries; follow-up national seminars to formulate a national action plan for participatory irrigation management; special-purpose seminars to help support the implementation of a national participatory irrigation management program; and support for evaluating participatory irrigation management programs and disseminating lessons learned to other countries. EDIEN also serves as the secretariat for the International Network on Participatory Irrigation Management, an autonomous, not-for-profit organization which facilitates participatory irrigation management through the exchange of people, ideas, and training materials.

Forestry Management

Now in its fifth year, EDI's forestry program focuses on policy and institutional reforms for the management of forests on a sustainable basis. Participants learn how their countries can sustain indigenous forests and reduce the rate of deforestation, preserve genetic resources, and maintain a flow of timber and nontimber forest products. The program helps public sector forestry institutions to carry out new mandates (such as managing externalities, conservation, and biodiversity) through collaboration with new partners (such as local communities, NGOs, and the private sector), while addressing other pertinent issues, such as institution building and reform, technological improvements, social problems in forestry, the environmental services rendered by forests, and the links between forestry and other sec-

tors of the economy. In discussing the options available for addressing these issues, attention is also given to the possibilities of preparing a plan of action. These seminars are of interest to directors of departments of forestry, planning, finance, and the environment, along with representatives of private sector and nongovernmental organizations. At the present time, the program focuses on India and other South Asian countries. Future plans include Africa and the Russian Federation.

Biodiversity

Global biodiversity is estimated at 10-30 million species, of which at best 10 percent has been documented, and an unknown number of diverse ecosystems with life-supporting functions in the major biomes of the world (tropical forests, deserts, grasslands, temperate and boreal forests, tundra and taiga, coral reefs, and marginal seas and oceans). Biodiversity provides economic goods and services, and acts as a sink for wastes, through a variety of life-

support functions, many of which are not well understood. Significant knowledge about the value of species and ecosystems lies in the oral traditions of indigenous peoples whose lives are being transformed by economic development. The objective of this program is to increase awareness and knowledge among senior policy-makers, advisers, and leading opinion-makers of the need, the benefits, the opportunities, and the constraints for conserving biodiversity. Among other things, the program addresses the implications of macroeconomic and sectoral policies on biodiversity, on ecosystems, and on traditional knowledge endangerment in terms of their nature, the immediate and root causes of threat, and the symptoms of endangerment. The program promotes a learning dialogue among participants, among other things, by means of case studies and interchange of experiences, which enable participants to identify and internalize concepts, approaches, and lessons most meaningful to their immediate problems and environmental situations.

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