NUMBER 56

OED Précis

Operations Evaluation Department November 1993

Evaluation Results for 1992: The Agricultural Portfolio

OED's recent review of evaluation results examines the Bank's experience with agricultural lending, with emphasis on the factors behind changing trends in performance. The review covers 887 completed agricultural projects approved by the Board during 1970-85, the years both of most rapid growth in the Bank's agricultural lending and of most serious decline in project performance. Other sections of the review assess the Bank's role in institutional development (Précis No. 57), the performance of operations evaluated in 1992, and long-term trends and factors in portfolio performance (Précis No. 55).*

World Bank lending for agriculture

Agriculture is the main source of income for the majority of people in developing countries. The increasing numbers of workers competing for limited land, and the poverty resulting from low levels of productivity, make investment and technological change in agriculture imperative.

Early Bank lending for agriculture was largely production-oriented (mechanization, land reclamation, irrigation works). The McNamara Presidency (1968-80), with its strong emphasis on poverty reduction, brought far-reaching changes to this orientation. Bank lending for agriculture grew even more rapidly than total lending, increasing from 11 percent of total Bank/IDA lending in 1961-65 to more than 37 percent in 1978. Along with increased lending came new approaches to agriculture. The reduction of rural poverty became an overriding goal, and area development projects the chosen means to achieve it.

But by the mid-1980s, performance audits showed that the majority of area development projects—often described as integrated rural development projects—were not succeeding. Irrigation projects also began experiencing serious difficulties. Moreover, sustainability came under scrutiny in the late 1980s as many projects initially rated satisfactory broke down. In reaction, practitioners began to question the impact on agriculture of administered pricing, governmental regulation, and reliance on parastatal organizations for inputs and other market support.

Following the Bank's reorganization in 1987 and the increased emphasis on structural adjustment lending, there was a pronounced decrease in Bank lending for agriculture, partly in reaction to its poor track record. New lending approaches were sought. In an effort to improve project outcomes, the checklist of items to be considered when developing an agricultural project grew ever larger.

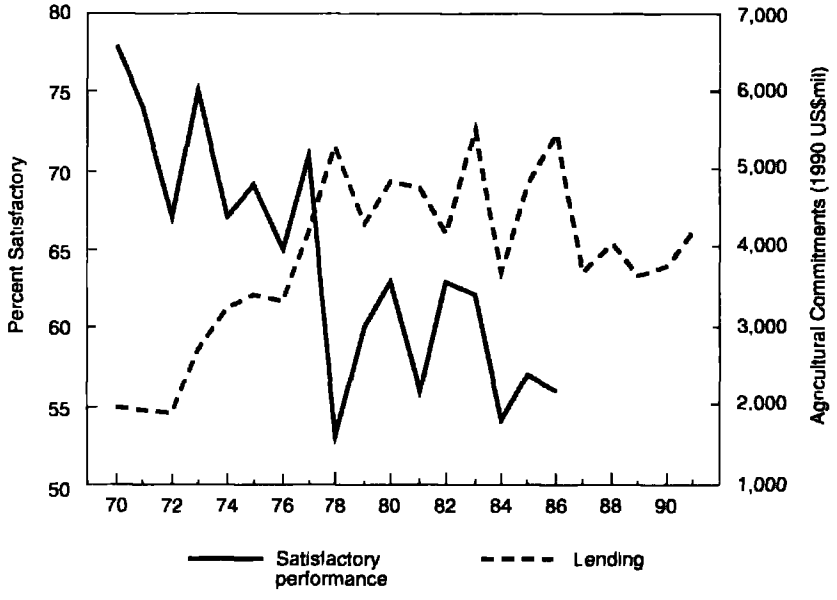
Agriculture portfolio performance, 1970-85: For the first half of the sixteen-year period, the agricultural portfolio recorded an average satisfactory performance rating of 70 percent. Projects approved after 1977 netted a mean satisfactory rating of 59 percent. Moreover, from 1970-85, agricultural project performance also lagged behind that of other sectors by an average of 14 percentage points. Area development projects accounted for half of the overall decline in agricultural performance. Their performance ratings fell from 61 percent satisfactory in 1970-77 to only 40 percent satisfactory in 1978-85.

Two sets of reasons for the general deterioration stand out:

Unfavorable incentives: In order for farmers to invest, they need favorable and dependable output and input price relationships. Output-input price ratios depend on factors such as exchange rates, tariffs, and market prices. After 1977, falling commodity prices worldwide became a serious impediment to agricultural development. This outcome is illustrated by the experience of many Bank-supported commodity projects (especially cotton, palm oil, rice). Their success was contingent on achieving output prices as forecast by the Bank, forecasts that usually proved too optimistic. Particularly after 1977, the poor price relationships discouraged farmer investment and many projects failed as a result. Low commodity prices also had considerable impact on government revenues in low-income agrarian countries, leading many countries to cut agricultural funding across the board.

**Evaluation Results for 1992*, Washington, D.C.: World Bank, forthcoming.

Agriculture Performance and Lending
(Evaluation of operations by year of approval)



Source OED Database.

Project factors: Shortcomings in performance were also caused by institutional problems, including lack of government funding and commitment, weak project management, and complexity and lack of flexibility in project design. Lending for new projects—despite inadequate preparation and weak supervision of ongoing projects—contributed to the portfolio's decline. Agricultural projects were further burdened by designs which did not factor in weather and price risks, and which did not take suitable account of the social and cultural milieu. Centralized, public management of projects proved to be a larger failure in agriculture, which is market-based and incentive-driven, than for other types of projects, which often depend only indirectly on world prices and commodity demand.

The combined impact of these factors was particularly detrimental to Sub-Saharan Africa, where economies are most heavily dependent on a few commodity export crops, and where, during the period reviewed, economic policies were weakest and public production approaches most pervasive. By excluding Africa and area development projects from agricultural performance ratings over 1970-85, most of the 14 percentage point discrepancy between agricultural and other lending disappears. The satisfactory rating for the remaining 504 agricultural projects is 76 percent compared to 82 percent for all other lending.

Subsector experience

Four subsectors accounted for three quarters of Bank/IDA lending in agriculture: irrigation (29 percent), farm credit (21 percent), area development (17 percent), and plantation crops (7 percent).

Irrigation projects performed slightly better than the sector average (67 percent compared to 65 percent satisfactory), and made significant contributions to economic growth and equity. However, institutional problems, above all weak operation and maintenance (O&M) of irrigation commands by highly centralized government authorities, have caused very large losses in output because of land made unproductive by waterlogging and salinization. Based on studies suggesting that autonomy leads to better quality O&M and cost effectiveness, the Bank today promotes autonomous irrigation commands run by the water-users themselves.

Agricultural credit and rural finance projects performed the best (81 percent satisfactory). Nevertheless, project shortcomings were attributed to the Bank's inadequate dealings with nonviable intermediaries, negative interest rates, and tolerance of lax loan repayments.

Area development projects achieved a satisfactory rating of only 49 percent, the lowest rating for all agriculture subsectors. The reasons for failure are clear: inadequate farmer incentives, low beneficiary participation, faulty production technology, weak institutional capacity, and a lack of government commitment. Yet, African countries are adopting more favorable economic policies, projects are underway to strengthen agricultural services (and thus implementation capacity), and the Bank is emphasizing beneficiary participation and work with nongovernmental organizations through new approaches. This may presage a more favorable enabling environment for a second generation of area development projects.

Plantation crop projects were rated 65 percent satisfactory, the same for agriculture as a whole. Because of the inelastic demand for tropical beverages (tea, cocoa, coffee) since the early 1970s, the Bank restricted lending to expand their production. Replacement of Bank lending by other financiers, however, led to investment in the more creditworthy countries at the expense of the poorest countries, especially those in Africa. OED's recent report on lending for plantation crops recommends that the Bank abandon categoric lending restrictions on plantation crops (see Précis No. 58).

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