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Integrated rural development projects: the Bank's experience

With the growing emphasis that the World Bank is placing on the rural sector, especially on efforts to raise the productivity and income levels of the rural poor, it has become involved in a number of integrated rural development projects. This article analyzes the Bank's experience with this multisectoral approach, and presents some lessons of experience.

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During the last decade, the World Bank has made a substantial adjustment in the scale and direction of its assistance for agricultural and rural activities. The Bank is at present the largest single source of external funds for investment in the rural sector. Since 1946, when its lending operations began, the Bank has lent nearly \$8 billion for agricultural and rural development. Inasmuch as each dollar invested

by the Bank is generally matched by an equivalent investment from domestic resources, the Bank has in the past 30 years contributed to and participated in the financing of some \$16 billion in project-oriented programs in agricultural and rural development. Although this is a substantial sum, it represents only a marginal contribution to the total investment in agriculture in developing countries that

was made during those years. The annual contribution of the Bank has increased substantially in recent years, however, rising from an average of \$120 million a year in the mid-1960s to more than \$1.6 billion a year in the mid-1970s.

Through the years the Bank's approach to the rural sector has changed, as have the nature and design of Bank-financed projects, reflecting the significant changes which have taken place in thinking about and attitudes toward agricultural and rural development in particular and economic development in general. The emphasis has shifted from efforts aimed at promoting simple growth to attempts to improve the output of the small farmer, principally by increasing those investments that would benefit lower-income

groups in the rural areas. (Many loans are still made for larger, more capital-intensive, agricultural undertakings when they can be justified on the basis of other criteria of development.)

The Bank's present approach to rural development has a sound economic basis, in recognition of the fact that the mechanism implied by the traditional labor surplus, "two sector" model is incapable of solving the problems of the rural sector in the short to medium term. (This mechanism assumes that the subsistence sector can be modernized by the migration of labor out of agriculture into the modern sector rather than by trying to raise the productivity of subsistence producers.) The problems of poverty in rural areas cannot, of course, be solved in the rural areas alone; a dynamic, expanding, non-agricultural sector is essential for providing employment opportunities for an increasing population. So long as the small farmers and low-income groups in the rural areas are unproductive, however, they can contribute little toward the solution of problems such as malnutrition or inadequate food production in either rural areas or the towns. This is why increasing the on-farm productivity of smallholders remains a central—though not the exclusive—element in the Bank's lending program in the rural sector.

Integrated rural development

Most of those who live in rural areas are still, to varying degrees, dependent on agriculture for their livelihood. Consequently, any approach to development in the rural areas has to be concerned largely with agriculture. Rural development, on the other hand, means more than just agricultural development; exactly what it does mean, though, has been the subject of much international debate and little agreement.

The World Bank has devoted a great deal of thought to the concept and meaning of rural development. The policy paper on rural development prepared in 1974 stressed that the major problem of the rural areas is poverty, and rural development should focus on rural poverty (*Rural Development*, World Bank, 1974). The paper also included another concept which has gained broad acceptance, namely that the rural poor represent a reservoir of untapped talent which has been left out of the mainstream of development. In order for this group to contribute to the development process, they have to become more productive than they have been in the past; increased

productivity and higher incomes for this target group are implicit in the rural development program. By the same token, rural development also implies giving this group the opportunity to enjoy the benefits of multisectoral development: improved education, health, and nutrition, among other things.

The Bank's approach to rural development extends beyond agriculture, and it has the purpose of bringing the benefits of development to the rural areas, with emphasis, once more, on aiding the low-income groups or those who have been passed by in the growth process. While the Bank supports multisectoral projects, some uncertainty remains about justifying such an approach solely on the grounds that a mix of components will lead to better results because of the effects of integration on the use of resources. In the Bank's view, a well-designed rural development project should reach large numbers of low-income producers; should be financially viable and able to raise the incomes of this group; and should be replicable, especially with regard to the costs involved. It should be comprehensive in scope where it is clear that the nonagricultural components are consistent with national, regional, and sectoral guidelines.

The general environment

The Bank is a relative newcomer to the field of rural development. Its experience so far indicates that projects seldom bring the desired results if the local environment is not conducive to success. The environment is conditioned by a host of

social, economic, physical, and cultural factors. Two of these factors should be emphasized.

The first and most significant factor is political, and hence national, commitment to a policy of making the rural sector more productive and, especially, of involving small farmers in development. One indication of the degree of such commitment is the amount of budgetary allocations for rural development—though it is difficult to isolate these allocations when looking at budget documents. Perhaps half the governments of member countries are increasing their investments in rural development.

Another aspect of the political commitment that affects the environment of a project is the attitude of the local bureaucracy. This is vital in most rural development projects, since they usually involve local action through community participation. Consequently, a great deal of agricultural and operational responsibility tends to devolve upon local bureaucrats. There is ample experience to indicate how significant the attitudes of local officials are in influencing the course of rural development projects. One indicator of the commitment of governments to rural development is, of course, the extent to which they assign capable officials to work on rural development and give them adequate support in the form of attractive terms of service. This is something that only a few governments do, notably those of Mexico, Korea, and India. Thailand, to give another example, gives special allowances to field-level personnel of its Institute for Rubber Replanting.

Our experience indicates clearly that economic incentives, determined by the terms of trade for agricultural exports and related price and fiscal policies, constitute another factor in the outcome of all agricultural projects, including rural development projects. The best organized projects have encountered difficulties when the structure of costs and prices has not provided adequate incentive to producers, both large and small, to increase their output. This is true in both centrally planned and free market economies.

The project approach

Much of the effort in rural development projects of the Bank has been directed toward increasing the output and incomes of low-income producers, often by means of the introduction and expansion of technological change at the farm level. The assumption underlying this effort is that three basic conditions must be met



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Illustration by John Jones for E&J

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if changes are to be brought about: producers must know how to increase their output; they must have access to the means of increasing their output; and they must have the incentive to make the effort and accept the risk associated with increasing their output. Agriculture is atomistic in the sense that there are many producers, each with little influence over the prices he receives (though improved marketing techniques can often raise prices at the farm gate). Consequently, most projects tend to be focused on cost-effective ways and means of delivering to farmers the goods and services that they need. These include all inputs and those that investment in infrastructure, such as irrigation and transport, will provide.

sibly as many as 15 to 20 million hectares of irrigated lands are producing at only half their potential of perhaps 2 tons per hectare.

Programs and projects intended to help low-income producers must be designed and implemented with that end in view. A first requirement for any such program is that there be a clear understanding and identification of the target group. It is relatively easy to establish an objective measure of a poverty datum line; those measures that have been used range from refined estimates based on the critical level of consumption and minimum nutritional requirements of a family to crude estimates, such as half the national average family income. Once a poverty datum

land; unless there are adequate safeguards built into the project, the weakest landholders are invariably at a disadvantage. A project which is in an area of smallholders who own and operate their own land, or who have secure rights to land, tends to benefit the producers. In areas of absentee ownership, however, where the land is operated by sharecroppers or by tenants who do not have security, the benefits from increased investments and higher output are not necessarily realized by the producer. Experience has shown that, when projects have provided profitable opportunities, tenants without secure leases have been evicted and replaced by day labor or machines. Some projects in Ethiopia provide examples of the phenomenon. Also, the introduction of new technologies under standard crop-sharing arrangements, which are based on profit-sharing or fixed proportional crop shares, has often—though not always—led to a disproportionate increase in returns to the landowners.

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Most programs and projects designed to help farmers depend to a large extent on support services provided by institutions away from the farm—institutions that provide information, credit, technical inputs, and marketing and transport services, for example. In most countries these institutions are organized in such a way that they serve primarily large-scale producers. Frequently this is a matter of policy; also the larger farmers and the suppliers of agricultural inputs often have common interests. Sometimes an institutional bias toward larger producers exists, simply because management finds it easier, safer, less costly, and less troublesome to have a clientele of larger producers. The poorer producers with small holdings are seldom the primary beneficiaries of programs designed to aid farmers in becoming more productive. Thus, the heart of any program aimed at helping small farmers to be more productive must be the creation of institutions that will undertake those tasks which are of assistance to small producers.

The Bank expects to increase substantially the volume of funds committed to projects designed to strengthen critical rural support services, thereby breaking the constraints on production and, in many circumstances, permitting more effective use of physical infrastructure already in place. The attention given by the Bank to area development in already irrigated areas is part of this effort. Gains in production from such programs could be substantial. In India, for example, pos-

has been determined, it can be translated into some appropriate yardstick—for instance the size of a holding. Whatever criterion is used will provide the upper limit of income of the target group and permit a complete enumeration of the group in the project area.

Structural change

In some situations structural change of the society may be a necessary precondition for rural development. The most important kind of structural change in the rural sector is the redistribution of land. It may be necessary to change the land-based power structure in a society before much can be done about political commitment to rural development and the scope for local participation in it. From a more limited perspective, there are also situations in which the redistribution of land can bring idle land into production by making it available to underemployed rural laborers. While the Bank's experience indicates that substantial rural development projects can be undertaken to the benefit of large numbers in the target group even in situations in which the distribution of land is skewed, the Bank encourages and supports the efforts of borrowers to improve tenurial arrangements.

Experience confirms the fact that tenurial arrangements in the project area have an important bearing on the success of projects. The reason is that all projects alter the distribution of gains from the

If there is support for the objectives of rural development, however, it is possible to design projects that will benefit smallholders (substantially, if not exclusively) without the necessity of substantial structural change. This is especially true in situations in which land is being newly developed and resettled. Examples of such projects include the following:

- *Irrigation projects.* In recent years, increasing attention has been given to designing irrigation projects in such a way that large numbers of smallholders can benefit.

- *Smallholder schemes.* The Bank has participated in the design and implementation of projects for the production by smallholders of crops which were formerly grown almost exclusively under the plantation systems; these include rubber, tea, sugar, and oil palm. The focal point of many of these projects is the processing plant.

- *Land settlement projects.* The Bank has financed a fairly large number of settlement projects, principally in Malaysia and South America. Settlers from low-income groups have benefited from these projects, many of which provide all the infrastructure—such as housing, roads, and social facilities—that the settlers need.

As a general rule, though, these projects do not reach large numbers of rural people. Functional projects and area developments are the most widely used general projects, with the cost ranging from \$1,000 to \$33,000 per family, averaging

around \$1,300. A *functional project* is one which provides an input or technical package to the target group. A program to provide credit, either in kind or in cash, to producers is an example of a functional project. In this instance, the target group is usually defined by the size of its holdings or fixed assets and income (often expressed in multiples of the minimum wage). In the case of *area development projects*, the target group as such is not specified. Instead, these projects are for the purpose of developing large areas, which are chosen because per capita incomes are below average and the rating by social indicators is low. The underlying assumption of the area approach, which is typified by the introduction of infrastructure and rural services, is that most of the benefits (though not all) will go to the target group. In the main, people who live in areas in which average incomes are low, and which are generally deprived of social infrastructure, tend to be poor themselves.

Lessons from experience

The experience of the Bank with the range of projects in which it has participated has led to several conclusions. A major conclusion is that it is possible to design projects that will assist large numbers of the rural poor to expand production and increase their incomes; there are significant qualifications however.

Farmers and producers of all kinds will use new technology only when it is profitable for them to do so. The new high-yielding varieties of rice, maize, and wheat give high returns when they are used with fertilizer and water; many small producers have, therefore, adopted this technology with gratifying results. We have become very much aware, however, that no such technology is available in many ecological zones of the world, especially in the rain-fed areas which contain most of the world's farmers and where less common cereals and root crops are important. Furthermore, technologies developed for a specific location require adaptation before they can be employed elsewhere, even when environmental differences may not appear significant.

It is extremely difficult to develop and sustain low-cost delivery systems for agricultural support services. Some progress is being made, however, in the organization of extension services, for example. One promising approach embodied in some 15 Bank-assisted projects involves close links between research and extension, careful selection of high-yielding

agricultural practices, concentration of efforts in favorably situated agricultural areas, precise work programming of local staff, and regular meetings with selected farmers. Much more thought and effort is needed in order to find cost-effective ways of delivering goods and services to large numbers of low-income producers.

Low-cost, effective credit programs are urgently needed. Lending to large-scale producers is, in general, less costly than lending to small-scale producers; the unit cost of the loans may be the same but the return is much higher on a large loan than on a smaller one. It is estimated that the administrative costs of loans to large producers are often in the neighborhood of 3 or 4 per cent of outstanding loans; administrative costs of loans that pass from the government through such groups as cooperatives to small producers tend to range between 10 and 20 per cent. These costs do not include any charge for the use of capital, so an interest rate for small farmers that would cover both capital and administrative costs could be as high as 30 per cent.

Despite all efforts, including the shifting of the administrative burden at the local level to cooperatives, there seems little prospect that costs can be reduced to levels comparable to those of handling loans to larger farmers. Thus, governments (and bankers) interested in helping small farmers through credit schemes will have to reconcile themselves to subsidizing the administrative costs of these schemes especially if they continue to lend through systems designed to help large-scale producers.

Many innovations have been made in the effort to reduce administrative costs by taking account of the fact that the major clients will be small-scale producers. Some banks have eased their requirements for small borrowers, basing creditworthiness on reputation rather than requiring collateral, which involves the associated costs of recording titles. Other lending institutions are providing credit to villages as units; the villages then take responsibility collectively for the repayment of loans. The Bank's experience is that costs can be reduced when there are procedures especially tailored to facilitate lending to small producers.

Another issue is that of local participation. In practice, villagers are rarely consulted at either the initial stage of a rural development project or during its implementation. In the Bank's view, local participation is desirable if a project is to have the support of the community, and if the benefits of the project are to be

realized by those for whom they are intended.

A further point is that rural development projects are designed to provide increased opportunities for the target group to become productive and steadily increase their incomes. The difference in response to the opportunities that have been provided is one of the more interesting and puzzling aspects of the implementation of rural development projects. In some situations, the opportunities are seized by 20 per cent of the producers in the first year and by 10 per cent more in each of the next four or five years. In other situations, the pattern is the familiar one of a slow beginning, followed by a rapid acceleration of adoption of new technology. In still other situations, there is a slow but steady increase, with roughly the same number of additional producers taking up the new technology each year.

The rate of acceptance of the new technology and the associated issue of risk and uncertainty in decision making are interesting in themselves. Clearly, the element of risk in varying situations in rural development projects needs to be analyzed and understood better than it now is. The rate of acceptance, moreover, has a bearing on the rate of increase in output and incomes. This, in turn, influences the rate of return on a project. Thus, in many respects, this aspect of rural development is the crucial one. It is also the aspect about which the least seems to be known.

Finally, the fiscal impact of projects must be considered. Few governments embarking on large-scale rural development programs are aware of the long-term budgetary effects of their programs. In many cases, major portions of the initial investment are from external sources. But detailed forecasts for financing and administering the operation and maintenance of such investments are rarely made, and no resources are allocated for maintenance. Thus, canal systems silt up, rural roads wash out, water pumps stop working, health clinics are not staffed, the extension service's vehicles break down, and deliveries of fertilizer are not sustained. The Bank's experience indicates that if fiscal and administrative problems are to be overcome, rural development programs must, from the outset, be designed to maximize local financing and maintenance of rural development investments.

Perhaps the Bank's most significant observation on this subject has been that rural development "does not come easy"; nonetheless, there is reason to feel encouraged by the progress made thus far. **ED**