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P.P. KUCZYNSKI

Annual Meeting Speech  
May 21 - June 19, 1973

The World Bank Group  
**Archives**



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Pedro-Pablo Kuczynski Subject Files: Annual Meetings Speech [McNamara] -  
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INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

INTERNATIONAL FINANCE  
CORPORATION

OFFICE OF THE PRESIDENT

June 19, 1973

*File speech*

Messrs. Baum  
Chenery  
Clark  
Haq ✓ *D 450*  
Stern  
Yudelman

I took the draft of sections 4 and 5 of the Nairobi speech which I received from Hollis Friday evening, redrafted them in part, and added to the revised material the remaining sections also redrafted from the May 21 version.

Can we meet Friday afternoon, June 22, at 2:00 for a general discussion of the structure and content of this draft? Is it generally acceptable? If so, I will now direct my attention to detailed questions of accuracy and style.

RMcN

ADDRESS TO THE BOARD OF GOVERNORS OF THE WORLD BANK

(Nairobi -- 9/24/73)

I. INTRODUCTION

Last year I began a discussion with you of the critical relationship of social equity to economic growth. I emphasized the need to formulate development strategies that would bring greater benefits to the poorest groups in the developing countries -- particularly to the approximately 40% of their populations who are neither contributing significantly to their economic growth nor sharing equitably in their economic progress.

In the twelve months since our last meeting, we have given high priority to an analysis of the problems of poverty in the developing countries and to evaluating the policies available for dealing with them. On the basis of these studies, I would like this morning to:

- . Discuss the nature of the poverty problem.
- . Suggest some of the essential elements of strategies for dealing with it.
- . Outline a plan for World Bank operations in support of these new strategies.

But before turning to these subjects, I will first report to you on the results of the Bank's five-year program for the fiscal years 1969-73 -- a program that concluded on June 30th of this year; and then suggest the scope of a second five-year plan for the years 1974-78.

II. THE BANK'S FIVE-YEAR PROGRAM FOR FISCAL YEARS 1969-73

It was in September of 1968 that I first met with you in this forum and outlined the goals of a five-year program for the World Bank Group. You will recall what our objectives were. We stated we were "formulating a 'development plan' for each developing country to see what the Bank Group could invest if



there were no shortage of funds, and the only limit on our activities was the capacity of our member countries to use our assistance effectively and to repay our loans on the terms on which they were lent."

Based on these analyses, we proposed to double the Bank's operations in the fiscal period 1969-73 as compared with the previous five-year period 1964-1968.

It was a formidable objective -- many believed it could not be met -- but I can report to you today that it has been surpassed. Total financial commitments of the IBRD, IDA, and IFC, in current prices, in the 1964-1968 period were \$5.6 billion; in the 1969-1973 period: \$13.4 billion. In real terms, the increase was 100%.

One can grasp the magnitude of that overall task by reflecting that (as indicated in the table below) in the five years we achieved a level of operations that exceeded the cumulative total of all the operations in the developing world that the Bank had previously undertaken in the 23 years from 1946 through 1968.

Bank Group Financial Commitments to Developing Countries by Region  
(dollars in Millions)

<u>Region</u>	<u>Numbers of Projects</u>		<u>Amount of Commitments</u> (current prices)	
	<u>1946-68</u>	<u>1969-73</u>	<u>1946-68</u>	<u>1969-73</u>
East Africa	69	99	\$808	\$1079
West Africa	28	106	494	1000
Europe, Middle East, N.Africa	97	141	1761	3007
Latin America and Caribbean	209	152	3424	3700
Asia	<u>174</u>	<u>188</u>	<u>3861</u>	<u>4080</u>
Total	577	686	\$10348	\$13400

But it was not mere quantity that we were seeking. We did not simply want to do more than had been done in the past, but to do more of what was most required by the evolving needs of the developing countries. That meant that

within our overall objective we had to shift our emphasis both geographically and sectorally.

While continuing to serve the regions where we had been particularly active, we decided to expand substantially in other areas.

In Africa, for example, we set out to triple our lending -- and we have done so.

We undertook operations, for the first time, in Indonesia -- and in the five years have committed \$450 million of IDA funds there.

For the poorest and least developed of our member countries -- those with average per capita incomes of \$120 or less -- we have quadrupled our lending. During the five-year program period we have initiated 215 separate projects in these countries. The comparable figure for the whole of the previous 23 years of the Bank's existence is 158.

Geographically, then, our planned shifts in emphasis have been implemented -- and implemented concomitantly with an increased level of lending in our more traditional regions.

But it was clear to us in 1968 that our five-year program must shift emphasis sectorally as well. Accordingly, we proposed to quadruple lending in agriculture over the previous five-year period -- and we have done so. We proposed to triple lending in education -- and we have done so.

Perhaps the most significant shift was into a sector in which the Bank had previously had no operations at all: the sensitive and difficult, but clearly critical sector of population.

We established a Population Projects Department, and from the very beginning received far more requests for technical and financial assistance from our member countries than we could immediately provide. We deliberately began our project work in a number of smaller countries in order to work



effectively within our growing staff resources. But by the end of the five-year program period agreements had been signed for projects in two of the largest and most heavily populated nations: India and Indonesia.

In addition to the Population Projects Department -- to which we have now added the responsibility for nutritional projects -- other initiatives were launched within the Bank. Among them are new departments for Industrial Projects, Urban Projects, and Tourism Projects; an Office of Environmental Affairs; an Operations Evaluation Unit; and a new program of comprehensive country economic reporting.

To achieve the doubled level of our operations, it was necessary, of course, to strengthen the Bank both organizationally and financially. Worldwide recruitment was increased and the staff was expanded by 125% during the period. We were determined in this effort that we should broaden the international character of our staff to the maximum degree feasible. In 1968 the staff represented 52 nationalities. It now represents 92. In 1968 the proportion of staff from our developing member countries was 19%. The proportion is now 29%, and continues to grow.

Lending more has of course meant borrowing more, and that in turn has depended on governments granting us access to their capital markets. This they have continued to do, despite unsettled conditions and monetary fluctuations. It is a mark of confidence in the Bank's financial structure that we have been able to borrow not only in our more traditional markets, but in altogether new ones, and to utilize new borrowing instruments and new channels of distribution. Net borrowing for the five-year period has been approximately three and three-quarters times that of the earlier period, and our liquid reserves have risen to \$3.7 billion, an increase of 165%.



Neither the increase in operations, nor the shift in emphasis toward more socially oriented sectors, has adversely affected net income. On the contrary, total net income for the five-year period was \$970 million, 30% more than in the previous period, and this despite a significant increase in the subsidy to the developing countries implicit in the Bank's lending rate.

We have completed the five-year program, then, by meeting the quantitative goals we had set for ourselves in 1968, and by making a sustained effort to improve the overall quality of our work.

But our task now is to move forward with a second five-year program. Like the first, its goals and shifts in emphasis must be shaped by the evolving development situation itself.

Let me give you my assessment of what that situation is.

### III. THE BANK'S SECOND FIVE-YEAR PROGRAM: FY1974-1978

Most of our developing member countries are faced with three inter-related difficulties. Each of these difficulties is serious in itself. But in the aggregate they threaten the outcome of the entire development effort.

These difficulties are:

- . An insufficiency of foreign exchange earnings through trade.
- . An inadequate flow of official development assistance (ODA).
- . And an increasingly severe burden of external debt.

#### The Trade Problem

The core of the trade problem for the bulk of the developing countries is that they cannot expand their exports rapidly enough to pay for their essential imports. These imports are themselves often the key to greater export capability -- and higher foreign exchange earnings -- and thus the dilemma of trade imbalances in these countries tends to become self-perpetuating.



The problem is compounded by the delay of the wealthy nations to dismantle discriminatory trade barriers against the poor countries. Our studies indicate that if the affluent nations were gradually to reduce their present protectionist trade restrictions against agricultural imports from the developing world, the poorer nations could, by 1980, increase their annual export earnings by at least \$4 billion. That should be their objective. } *hain?*

#### An Acute Shortage of Development Assistance

Secondly, the current flow of official development assistance -- financial aid on concessionary terms -- is acutely inadequate. Not only is it far below what the developing nations need and what the affluent nations can readily afford, but, as the attached table indicates, it is only half the modest target of .7% of gross national produce (GNP) prescribed by the internationally accepted U.N. Strategy for the Second Development Decade.

That target called for reaching ODA levels of .7% by 1975. In 1975, ODA will not exceed .35%. And yet achievement of the target neither requires the people of the developed nations to reduce their already high standards of living, nor to neglect their domestic priorities. It asks them only to dedicate a tiny fraction of the incremental wealth -- wealth over and above that which they already enjoy -- that will accrue to them in the decade of the 70s.

During the decade, the annual GNP of these affluent nations will grow -- in constant prices -- from \$2 trillion in 1970 to approximately \$3.5 trillion in 1980: an increase in wealth virtually beyond one's capacity to comprehend.

In order to double the ODA flows, and thereby raise them to the targetted .7%, the developed countries would need to devote to that end less than 2% of the amount by which they themselves will grow richer during the period. The remaining 98% of their incremental income would provide them with more than sufficient funds to meet their domestic priorities.



I have heard it said -- in the ~~United States and elsewhere~~ -- that the domestic problems of the developed countries are so pressing that they must have an exclusive claim on the incremental increases which will accrue to these societies in future years -- that not even the 2% of such revenues, which we suggest should be diverted to the developing countries, can be spared. Such critics of additional aid, when pointing to the needs of their own cities and countryside, fail to distinguish between two kinds of poverty: "relative" poverty and "absolute" poverty.

"Relative" poverty means simply that some countries are less affluent than other countries, or that some citizens of a given country have less personal abundance than their neighbors. That has always been the case, and granted the realities of inherent differences between regions and between individuals, will continue to be the case for decades to come. This is the poverty that exists in the developed countries.

But "absolute" poverty is a condition of life so degraded by disease, illiteracy, malnutrition, and squalor as to be by any rational standard virtually sub-human.

It is a condition of life suffered by relatively few in the developed nations but by hundreds of millions of the citizens of the developing countries represented in this room:

- . One-third to one-half of the two billion human beings in those countries suffer from hunger or malnutrition.
- . 25% to 30% of their children die before their fifth birthdays. And millions of those who do not die lead impeded lives because their brains have been damaged, their bodies stunted, and their vitality sapped by protein deficiency.



- . The life expectancy of the average person is 20 years less than in the developed countries. They are denied 30% of the lives we enjoy; condemned at birth to an early death.
- . 800 million are illiterate and, despite the continuing expansion of education in the years ahead, more of their children are likely to be so.

This is "absolute" poverty: a condition of life so limited as to prevent realization of the potential of the genes with which one is born; a condition of life so degrading as to be sub-human. But a condition of life so common as to be the life of some 40% of the peoples of the developing countries. And are we who tolerate it, when we have it within our power to reduce the number afflicted by it, not also sub-human?

[Insert a paragraph re 4th Replenishment of IDA, if necessary.]

Talleyrand said, "Above all else, not too much zeal." I don't wish you to interpret my remarks as those of a zealot. You have hired me to examine the problems of the developing world and to report to you the facts. These are the facts.

The citizens of the developed countries protest against increasing their assistance to the developing countries because of poverty in their own lands. They do so either because they are unacquainted with these facts; or because they fail to distinguish between "relative" and "absolute" poverty; or perhaps because they are obscuring the truth even from themselves, unwilling to admit that the pressures on the incremental incomes of their economies come not from the poor of their lands but from the endless spiral of their own demands for additional consumer goods.

There are many grounds for development assistance: among others, the expansion of trade, the strengthening of international stability, and the reduction of social tensions.

But in my view the fundamental case for development assistance is the moral one. The whole of human history has recognized the principle -- at least in the abstract -- that the rich and the powerful have a moral obligation to assist the poor and the weak. That is what the sense of community is all about -- any community: the community of the family, the community of the village, the community of the nation, the community of nations itself.

I, for one, cannot believe that once the facts of ODA are better understood; that once the degree of deprivation in the developing nations is more fully grasped; that once the true dimensions of poverty in the less privileged world are more realistically compared with the vast abundance in the developed world (that once the US people, for example, understand that they, with 6% of the world's population, consume some 35% of the world's total resources and yet rank fourteenth among the sixteen ODA-providing nations) -- I cannot believe that in the face of this the people and governments of the rich nations will turn away in cynicism and indifference.

Quite to the contrary, I believe they will meet their responsibilities.

#### The Growing Burden of Debt

Finally, there is the problem of growing external debt in the developing world. Publicly guaranteed debt currently stands at about \$80 billion, with annual debt service of approximately \$7 billion.

It is important to understand what the essence of the debt problem is. It is not the fact that there is debt, nor even the absolute size of the debt. It is, rather, the composition and dynamics of the debt; the fact that debt, and debt payments, are growing faster than the revenues required to service them. Restricted trading opportunities, exacerbated by inadequate flows of ODA, tend to drive developing countries to over-reliance on export credits and other short-maturity, hard-term finance. It is these factors that threaten to increase the debt burden beyond reasonable limits. Already since 1970 several



countries -- Ghana, Chile, Pakistan, India, Indonesia, and Sri Lanka among others -- have either defaulted on debt service or been forced to ask for debt rescheduling in order to avoid default.

The Bank's Program for FY74-78

Given the nature of this interrelated set of problems in our developing member countries -- an insufficiency in foreign exchange due to trade difficulties, the inadequate flow of ODA; and the growing debt burden -- the Bank, far from relaxing the momentum of our operations over the next five years, must increase it. And we intend to.

We plan to expand both our IBRD and IDA lending at a cumulative annual rate, in real terms, of 8%. <sup>a/</sup>

For the five-year period FY1974-78, our lending in September 1973 dollars -- should total \$22 billion for almost 1000 projects.

The total cost of these projects will approach \$50 billion.

Our \$22 billion in new commitments will constitute, in real terms, a 38% increase over the 1969-1973 period, and a 173% increase over the 1964-1968 period.

This, then, is the quantitative scope of our plans for the second five-year program. It will represent the largest program of technical and financial assistance to developing countries ever undertaken by a single agency.

But the qualitative changes in the program will be of even greater significance than the increase in its size. We plan to place far greater emphasis on policies and projects which will begin to attack the problems of "absolute" poverty to which I referred earlier -- far greater emphasis on assistance designed to increase the productivity of that approximately 40% of

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<sup>a/</sup> In last year's address, I stated our plan, in terms of current prices, was to increase financial commitments 11% per year -- the "real terms" equivalent was 8%. Today, the current price equivalent of a "real terms" growth of 8% in 74-78 vs. 69-73, because of exchange rate changes and accelerated price increases, would be perhaps 19%.



the population of our developing member countries who have neither been able to contribute significantly to national economic growth, nor to share equitably in economic progress.

In the remaining sections of this statement I will discuss the nature of this poverty problem, strategies to deal with it, and a plan for Bank operations in support of these strategies.

#### IV. POVERTY IN THE DEVELOPING WORLD

##### Poverty and Growth

The basic problem of poverty can be stated very simply. Despite a decade of unprecedented growth in the economies of our developing member countries, the poorest segments of their population have received relatively little benefit. Approximately 700 million people -- 40% out of a total of 1.8 billion -- survive on incomes estimated at 30 cents per day (in U.S. purchasing power), under conditions of malnutrition, illiteracy and squalor.

*Repeats  
p. 7.*

What is most disturbing is the fact that this condition persists despite the impressive increase in financial resources available for development purposes -- which in most countries have doubled on a per capita basis -- over the past 15 to 20 years. The great bulk of these resources has gone into the modern sectors of the developing economies -- into industry, cities and the infrastructure needed to support them. In very few countries have rural areas shared equitably in development resources, even though 60% of the population continues to live in these areas.

Although the collection of statistics on income distribution in the developing countries only started in the past few years, and is still quite incomplete, we can begin to measure the dimensions of the poverty problem and its relation to the growth of GNP under different conditions. Among the forty



developing countries for which some data are available, the upper quintile receives 55% of national income in the typical country, while the lowest quintile receives 5%. The extent of inequality is considerably greater than <sup>a/</sup> in most of the advanced countries. *different problem.*

On balance, the data suggest that a decade of rapid growth has worsened the distribution of income in many developing countries. and that the problem is most severe in the countryside. It has proved to be far easier to increase the output of industry, mining, large-scale farming, and government -- and the incomes of the people dependent on these sectors -- than to increase the productivity and income of the small farmer and the landless rural laborer.

Although the statistical evidence is still far from adequate, I think that the observations for the past decade support the following conclusions:

- . policies aimed primarily at accelerating economic growth in most developing countries benefitted mainly the upper 40% of income receivers;
- . the allocation of public services and investment funds has tended to strengthen rather than to offset this trend;

*final area well legged.*  
The Reorientation of Development Policy

The need to reorient development policy in order to provide a more equitable distribution of its benefits is beginning to be discussed widely; however, few countries have actually made serious efforts in this direction. Although I may be intruding in matters that are the proper concern of national governments, I would like to suggest several steps that should lead to a more rapid acceptance of the required policy changes. I would also stress that unless national governments redirect their policies toward better distribution, there is very little that international agencies such as the World Bank can do to accomplish this objective.

a/ In the U. S., the comparable figures are 41% and 7%.



An important first step is to redefine the objectives and measurement of development in more operational terms. While most countries have broadened the statements of their development objectives to include references to the reduction of unemployment and increased income for the poor in addition to growth in output, they still measure progress toward these complex objectives with a single measuring rod -- the growth of GNP.

We can no more describe the comforts of a home by its area than we can define the success of multiple development objectives by the GNP. The Gross National Product is an index of the total value of goods and services produced by an economy; it was never intended as a measure of their distribution.

The Gross National Product implicitly weights the growth of each income group according to its existing share in total income. Since the upper 40% of the population typically receive 75% of all income, the growth of GNP is essentially an index of the welfare of the upper income groups. It is quite insensitive to what happens to the lowest 40%, which have a weight of only 10-15% in the total.

Were we to give at least the same weight to increasing the incomes of the poorest groups in society as we give to increasing the incomes of the rich, we would get quite a different impression of the achievements of the past decade. The growth of total income in Brazil, Mexico, and India, for example, would be one to two percentage points lower than the growth as measured by the GNP. But, in several cases -- including Sri Lanka and Colombia -- the opposite is true. In these countries, giving equal weight to the growth of income of each citizen, regardless of his current wealth, gives a more favorable picture of economic performance than does GNP because it gives credit for some redistribution of the benefits of growth toward the lower income groups.



The adoption of a people-oriented measure of economic performance would constitute an important step in the redesign of development policies. It would force governments, and their planning and finance ministries, to look at the allocation of resources in a quite different way. They would have to consider not only the total output of an investment but also how the benefits would be divided. This would give practical, operational significance to the rhetorical statements of social objectives now embodied in most development plans. These distributional considerations could then be incorporated into the procedures for project evaluation used by the developing countries and by the lending agencies. This type of analysis is <sup>currently</sup> being introduced in the World Bank. [?]

*Would it?*

*No, it isn't*

#### Location of Poverty

Such a proposed reorientation of development strategy would require that we identify with far greater precision the main concentrations of poor people in the society and to examine much more intensively the policies and investments through which they can be reached.

All of our analysis indicates that the center of the problem today is in the rural areas and that this is likely to continue to be true during the next two or three decades:

- . At the present time, seventy per cent of the population of our developing member countries and eighty per cent of the poor are found in rural areas.
- . Although demographic projections indicate that sixty per cent of the population increase in these countries (an increase of 2 billion people by the end of the century) is expected to take place in urban areas, largely through migration, in the year 2000 more than half of the developing nations' peoples will still reside in the countryside.



- . Rapid urbanization is already creating very serious problems. Under present policies, public expenditures per head of urban population are typically three to four (?) times as great as they are in rural areas. Therefore, efforts to relieve rural poverty by still greater acceleration of urbanization will further skew the division of public expenditures and exacerbate the existing inequalities of income. Check
- . Within the rural areas the poverty problem centers primarily on low productivity of the small subsistence farms and the landless laborers -- there has been little if any increase in their productivity in the past decade.

Despite the overwhelming evidence of the magnitude of the problem in the countryside, emphasis on rural poverty raises a fundamental question: Is it a sound strategy to devote a large part of our efforts on increasing the productivity of small-scale subsistence agriculture; would it not be better to concentrate most of the development resources in the modern sector in the hope that its high rate of growth would filter down to the other sectors of the economy and, in due time, the modern sector would absorb the traditional sectors?

The answer, I believe, is that experience shows that there is only a limited spill-over of benefits from the modern to the traditional sector -- disparities will widen unless action is taken which will directly benefit the poor. Therefore, in my view, there is no viable alternative to increasing the productivity of small-scale agriculture if any significant advance is to be made on the problems of "absolute" poverty.

Not only is there no alternative to the accelerated development of small-scale agriculture but there need be no conflict between this objective and the growth of the rest of the economy. In fact, a strategy for increasing



the productivity of subsistence agriculture cannot be conceived, or implemented, in an environment of overall economic stagnation. The small farmers cannot prosper unless there is rapid growth in other sectors from which they will draw a part of their funds and on which they will depend for demand for their produce. But the reverse is also true -- and it is time that we recognize it. Without rapid progress in smallholder agriculture throughout the developing world, there can neither be hope for stable long-term economic growth nor the prospect of a significant reduction in the levels of "absolute" poverty.

We must face the fact that very little has been done over the past two decades specifically designed to increase the productivity of subsistence agriculture. Neither political programs, nor economic plans, nor international assistance -- bilateral or multilateral -- have given the problem serious and sustained attention. The World Bank is no exception. In our more than a quarter century of operations, out of our \$25 billion of lending, less than \$1 billion has been devoted directly to this problem.

It is time for all of us to confront this issue head-on.

## V. A STRATEGY FOR RURAL DEVELOPMENT

### Obstacles to More Rapid Growth

First, let us look at some of the obstacles to dealing more effectively with development:

- . A very large number of people is involved, well over 100 million families -- more than 700 million individuals.
- . The size of the average holding is small and often fragmented. Out of 140 million farms, more than 50 million are of less than 1 hectare. The 100 million farmers occupy only 20% of the arable land.

100 million families  
140 million farms?



submitted 1972

- ND
- Ownership of land, and hence power in the rural areas, is concentrated in the hands of a small minority. According to a recent FAO survey, <sup>1960</sup> in most developing countries, the upper 20 percent of the landowners own between 50 and 60 percent of the cropland. For instance, the upper 20% of landowners own 82% of the cropland in Venezuela, 56% in Colombia, 53% in Brazil and about 50% in the Philippines, India, and Pakistan.
  - But even the use of the little land the small farmer has is uncertain. Tenancy arrangements are often extortionist and generally insecure. In many countries tenants pay 50-60% of their gross product as rent and still constantly face the possibility of eviction. This provides little incentive for increasing productivity.
  - The rural credit institutions are inadequate, and they usually by-pass the small farmer. Institutional credit is essential if the farmers are to increase productivity per hectare. They must buy more fertilizer and pesticides; they must invest in pumps and implements. At present they generally spend less than 20% of what is needed on such inputs because they do not have the resources.
  - Development of water resources has lagged almost everywhere. The new agricultural technologies which have been developed depend on an assured supply of water. Even where investments in major irrigation facilities have been substantial, on-farm developments to utilize the water have trailed far behind, particularly for small holdings.
  - Technical advice and assistance is generally not available to the small farmer. There are too few extension agents. In developed countries 5% of the agricultural labor force consists of professional and technical workers; the FAO expressed the hope that an equivalent figure in the developing countries might be one-tenth of that level by 1985.
- At present...  
p. 26



- . Research, on which extension must be based, is underfinanced and frequently does not deal with the special production problems of the small farmer.

It has often been suggested that the problem of rural poverty is technological; that the productivity of small-scale holdings is inherently low. Not only do we have the evidence of Japan to disprove this, but a number of recent studies on developing countries also demonstrate the inaccuracy of that belief. For example, output per hectare in Guatemala on the smallest farm size groups was 92% higher than the largest size groups; in Taiwan, 67% higher, in India, 37% higher; and in Brazil, 33% higher. And it is output per hectare which is the relevant measure of agricultural productivity in land-scarce labor-surplus economies, rather than output per worker.

#### Focussing on Small-Holder Agriculture

There is ample evidence that modern agricultural technology is divisible and that the scale of operations is no barrier to raising agricultural yields. On a national basis, farmers in Japan and Taiwan, where average size of holdings is less than 2 hectares, have increased output between 3 and 5% a year in recent decades. Similarly, in those areas of Asia where the green revolution has occurred, small-scale farmers, often with holdings of 2 hectares or less, have raised output of rice and wheat by anything from 30 to 100% in less than five years.

The question then is what can the developing countries do to increase the productivity of the small farmer. How can they replicate the conditions which have led to very rapid agricultural growth in a few experimental areas so as to stimulate agricultural growth and combat rural poverty on a broad scale?

The first step is to set an objective so that we can understand better the amount of financial resources required and to provide a basis for

measuring progress. I suggest we aim at doubling the output on small farms by 1985 -- a goal which is consistent with that of the Second Development Decade.

This is an ambitious goal.

But I believe it is a necessary goal.

It may not be possible for all countries to achieve this -- perhaps no more than half can -- but even significant progress towards it will transform the lives of hundreds of millions of people.

What will it take to do this?

Neither we at the Bank nor anyone else has very clear answers about the best ways to bring improved technology and other inputs to over 100 million small farmers -- especially those in dry land areas. Nor can we be very precise about the costs. Yet we have enough of an understanding so that we can start now. We will have to take risks and we must experiment and improvise; but we cannot delay.

Although the strategy for increasing the productivity of small-holder agriculture is necessarily tentative, the following elements appear to be necessary parts of any comprehensive program:

- . Acceleration in the rate of land and tenancy reform
- . Broader access to credit
- . Assured availability of water
- . Expanded research to find technological solutions to the high-risk production situations which often face the rural poor
- . More widespread extension facilities
- . Greater access to public services
- . New forms of rural institutions and organizations that will give as much attention to promoting the inherent potential and productivity of the poor as is so frequently given to protecting the power of the privileged.



These thoughts are not new -- they have been known for a long time. They will continue to remain pious hopes, however, unless we develop a framework of implementation and agree to a commitment of resources commensurate with the size of the problem. It is that which I propose.

#### Organizational Change

The organizational structure for supporting smallholder agriculture is probably the most crucial and the most difficult problem. I turn now to this subject, after which I will discuss the other elements in sequence.

It is not possible, with present and foreseeable resources, to deal individually with over 100 million small farm families. There must be organization of farm groups and the development of delivery systems that will service millions of farmers at low cost. Farmers must develop new ways to pool their resources and to obtain public services. Governments and commercial institutions must find new channels through which to relate to millions of small farmers. New intermediate institutions will have to be developed to provide technical assistance and financial resources.

Such institutions and organizations can take any number of forms: smallholder associations, local farm organizations, village or district level cooperatives, voluntary or involuntary communes. There already are many indigenous experiments going on in various parts of the world. What is important is that whatever institutions are devised should be suited to the political and social environment of the country and to the formidable task at hand. Experience shows that there is a greater chance for the success of these institutions if they provide for popular participation, local leadership, decentralization of authority and proper accountability at the individual level. Ideally, they should aim at an optimum mix of self-reliance and government assistance.



The reorganization of government services and institutions is equally important. No program will help the rural poor if it is designed by those who have no knowledge of their problems and operated by those who have no interest in their future.

In most countries, the centralized administration of scarce resources -- money or skills -- has led the bulk to be allocated to a small number of rich claimants. This is not surprising since economic rationale, political pressure, social suasion and personal interest all point in the same direction. It will thus require strong political leadership and national resolve to change the incentives in the government structure. The ablest administrators must no longer be reserved to the modern sector; top engineering talent must be devoted to the problems of small farm irrigation; young graduates must be challenged by the problems of the rural poor and rewarded for dealing with them; educational institutions must change so that the transmission of knowledge becomes as important as its accumulation. In short, the managerial and intellectual resources of the country must be redirected to serve the many instead of the few -- to attack poverty directly by providing resources to the poor.

#### Acceleration of Land and Tenancy Reform

In addition to such institutional changes, other structural changes are necessary. Foremost among these is land and tenancy reform. Legislation dealing with land and tenancy reform has been passed -- or at least been promised -- in virtually every developing country. But rhetoric is far in advance of action. With few exceptions, land reform has resulted in little redistribution of land, little improvement in the security of the tenant, and little consolidation of small holdings. Such actions as have been taken have been accompanied by inadequate institutional support and therefore have had little impact on the bulk of the rural population.



No one can pretend that genuine land and tenancy reform is easy. It is hardly surprising that members of the political power structure, who own large holdings, should resist reform as they do. But the real issue is not whether land reform is politically easy. The real issue is whether indefinite procrastination is politically prudent. An increasingly inequitable situation is a constant threat to political stability.

In many countries it is urgent that equitable land and tenancy reform programs should be designed -- programs involving reasonable land ceilings, just compensation, sensible tenancy security, adequate incentives for land consolidation and institutional support -- and effectively implemented. In these countries increasing the income of the rural poor and raising the production of small-scale agriculture will depend on more secure and incentive-oriented tenancy laws, consolidation of fragmented small holdings, and a more equitable distribution of land resources.

There is no universal blueprint for land reforms, but the major successes in land reform movements have been where:

- . the objectives of the land reform have been clearly spelled out and uncertainty reduced,
- . the reform has been accompanied by public sector activities replacing the logistical support (mainly supplies and credit) formerly provided by the landlord,
- . the reform has changed the status of the tenant in addition to redistributing land, and
- . redistribution of unused land was involved rather than land already under intensive cultivation.

These basic changes are long-term objectives. New institutions evolve only gradually and land reform is not a universal panacea. If we are to achieve the objective of doubling yields per hectare on small farms by 1985, we must supplement these changes with steps which can be implemented now and which can yield quick results. We must therefore start with the existing institutional framework, even while we seek to change it.

#### Broader Access to Credit

One major impediment the small farmer faces is the lack of credit. Without such credit, he cannot buy improved seeds, apply the necessary fertilizer to pesticides, rent equipment or develop his water resources -- no matter how knowledgeable he is or how well motivated. For example, in Asia the cost of fertilizer and pesticides required to make optimum use of the new, high yielding varieties of wheat and rice ranges from \$20 to \$80 per hectare. The small farmer only spends about \$6, on average, and even most of that does not come from institutional sources of credit.

The present institutions in the rural areas are simply not geared to meeting the needs of smallholder agriculture. In countries as disparate as Bangladesh and Iran, less than 15% of institutional credit is available to rural areas, less than 20% in Mexico and 28% in India. Only a fraction of this is available to the small farmer. And even then it is accompanied by stringent tests of creditworthiness, complicated applications and long procedures.

Existing commercial institutions are reluctant to make credit available to the small farmers since the administrative and supervisory costs of small loans may run high and the subsistence farmer, operating so close to the margin of survival, is simply not as creditworthy as his more wealthy neighbors.



Neither do governmental credit policies help the small farmer although they may be thought to be designed for that purpose. Concern over the usurious rates the farmer pays the money lender when he has no access to institutional sources of credit has led to unrealistically low rates for institutional credit. This is generally accompanied by low ceilings on interest to be paid on deposits. The low rates of interest paid on deposits in turn mean that savings are discouraged since the real rate of return for the depositor is negative. Small savings means a restricted supply of capital which in turn is lent to the most creditworthy -- the larger farmer.

Interest rate reform in a number of countries amply demonstrates that realistic interest rates attract savings from all income groups. Increased savings in the rural areas are essential if the supply of capital to the small farmer is to be increased. The small farmer does not need six-month credit at an annual interest rate of 6% for projects which will yield 20% or more per year. He would be infinitely better off if he had to pay a realistic rate of interest but could get the money. If any subsidy is required, it is to meet the high costs of administering a credit program for small farmers. These costs can be offset within the banking system -- through reserve requirements and the like. Reducing the lending rate to the farmer only makes the program less attractive to the banks.

An urgent step for governments is, therefore, to review their financial policies as they affect agriculture to make sure that good intentions do not have pernicious consequences. In many of our member countries, interest rate reform is an overdue measure.

#### Assured Availability of Water

While credit is needed to purchase physical inputs like fertilizer and improved seeds, these inputs often cannot be very productive unless assured



irrigation water is available and used effectively. This will require continued research into the most effective uses of water, substantial investment in irrigation, and increased attention to on-farm irrigation systems.

It is estimated that the presently irrigated area in the developing world of 380 million acres can be expanded by another 260 million acres but the additional cost would be high -- over \$200 billion. But not only is expansion of irrigated land expensive, it is a slow process. No major irrigation dam not already in the active design stage is likely to yield significant on-farm benefits before the mid 1980s. Investments in major irrigation projects will continue to be an important part of national investment plans, and of Bank financing, but they must be supplemented by more quick yielding programs which can benefit the small farmer.

First, much greater emphasis must be placed on the on-farm development necessary to take advantage of existing irrigation developments. There are too many cases -- in our experience and in that of others -- where it has taken ten years or more after the dam was completed for the water to reach the farmers. The allocation of budgetary resources between major irrigation works and on-farm development is often heavily skewed toward the former. The excitement of harnessing a major stream is not matched by bringing a trickle of water to a parched acre. A redirection of budgetary resources is essential.

Secondly, budgetary resources for on-farm water development often assist only a small number of potential farmers because of the mistaken belief that the cost of on-farm development must be borne by the governments. As a result, the amount of funds invested in irrigation is severely restricted. But in many parts of the world water is the most valuable single input a farmer can have. With an assured water supply, he can use the new technologies and



his income can often more than double in a year. There are few farmers who would not be willing to pay the costs of this on-farm improvement. If this is done, any given governmental budget can be supplemented by private funds; many more farmers can be serviced, and the benefits of irrigation systems can be reaped more quickly. In the areas where this approach has been tried, it has been successful.

But development of present command irrigation areas, though necessary, is not enough. Too many small farmers would be unaffected. These programs must be supplemented by others which can bring water to farms outside major irrigation projects -- and do so cheaply. Tubewells, low-lift pumps and small dams can make major contributions to productivity. Moreover, these investments are within the reach of individual farmers or groups of farmers. The evidence from India, Bangladesh, Pakistan and other countries clearly demonstrates that farmers outside major irrigation projects will purchase pumps and dig tubewells. The experience also suggests that the most rapid development occurs if the government makes resources -- credit, pumps, drilling equipment -- available and creates a climate in which private initiative and local cooperative efforts can flourish.

#### Expansion of Extension Services and of Research

Greatly expanded extension services are another necessity for the small farmer. The projected annual output of trained personnel from existing agricultural extension institutions can at best satisfy less than half the total needs of the developing world. In the developed countries, the ratio of government agricultural agents to farm families is about 1 to 400. In developing countries, it is about 1 to 30,000. Only a small fraction of even these limited services is available to the small farmer.

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It is not primarily the deficiency of funds that is delaying the necessary expansion of extension services. It is the deficiency of resolve to do more for the small farmer who desperately requires these services. Funding for agricultural training should be increased rapidly, the links between research institutes and farm workers strengthened and educational priorities reoriented. There is hardly a developing country which does not produce too many lawyers, and there is no developing country which produces enough extension agents. Governments cannot control personal career objectives, but they do control the means by which these objectives are realized.

The annual cost of training the required personnel would be modest as a percentage of GNP or budgetary resources. The net cost -- after deducting savings from changed allocations -- would be even less. As long as the supply of extension workers is grossly inadequate, only the large farmers will benefit and the needs of the poor will be ignored.

The quality of the extension services depends on the underlying research. In a sample of five major developed countries, the governments are allocating annually from \$20 to \$50 per farm family for applied research; for five major developing countries the comparable figures are 50 cents to \$2 per farm family.

The international network of agricultural research has grown impressively. The Bank's chairmanship of, and participation in, the Consultative Group on Agricultural Research (and particularly its contribution to the financing of the new International Crops Research Institute for the Semi-Arid Tropics) is one of its important functions. But very much more needs to be done at the national level, to explore the special equipment needs of the small operator, to develop new technologies in the non-cereal crops and to help the



farmer in non-irrigated areas. General expenditures on research and development in the developing countries are notoriously low and must be increased substantially. In this expansion, very high priority must be given to strengthening the research which will benefit the low income farmer -- research to produce low risk, low cost technology that can be used by small farmers.

#### Greater Access to Public Services

In other areas too, public services are grossly inadequate. The income of the small farmer could be substantially increased if he were supported by better physical infrastructure. It is not within the power of the developing countries to provide such infrastructure quickly to the many who need it because of its costs, but much of this infrastructure can be provided by organizing rural works programs to construct small feeder roads to the market, small-scale irrigation drainage facilities, storage facilities and markets, community schools and health centers, and other facilities which make extensive use of local labor and relatively simple skills.

There is no mystery about designing these programs. They have worked successfully at various times in experimental projects in Bangladesh, Tunisia, Indonesia and other countries. With fairly small investments, considerable infrastructure has been built in some cases at low cost and with substantial increase in the number of jobs.

The major handicap of these programs has been their limited scale and the inadequate management and technical skills devoted to them. The challenge to governments is to extend these programs gradually to a national scale. This requires funds, of course, but it requires more than that. It requires national resolve and leadership to divert the financial, technical and

intellectual resources from other areas and dedicate them to the efforts of the rural poor to improve their lives.

Basic change is also necessary in the distribution of other public services. In last year's address I stressed the potential for helping the poor through a redirection of public services. In the rural areas public services are not only lamentably deficient, they are often not geared to the needs of the people they are to serve. Educational systems must stress relevant knowledge about agriculture, nutrition, family planning both for those within and outside of the formal school program; health systems must be developed which can assist in the eradication of basic, and enervating diseases, afflicting the rural poor. Electricity in rural areas is no luxury and does not aim merely to place a lightbulb in every shack. One of the largest consumers of rural electricity are production appliances, such as pumps for water. Urban lighting and air conditioning can no longer have priority on electric distribution systems.

Every country must examine why it can afford to invest in higher education, but fails to provide incentives to attract teachers to rural areas; why it can staff urban medical centers and export its doctors abroad, but fails to send its doctors to the countryside; why it can build urban roads for the private automobile, but cannot build feeder roads to bring produce to the market.

Resources are scarce in the developing countries -- and their redistribution will not provide enough for everyone's needs -- but a major redistribution of public services is needed if the small farmer is to be provided with even a minimum of economic and social infrastructure.



The programs I have discussed above can all be initiated quickly by governments. They will make a major contribution to the objective of doubling the yields of small-scale agriculture by 1985. All of these programs deserve, and will have, the full support of the Bank Group.

However, the measures I have discussed are primarily an indigenous responsibility of the developing countries. Indeed, it will be a great disservice on the part of the donors if they were to convince the developing world, or themselves, that policies for rural poverty can be fashioned and delivered from abroad. The problem must be perceived and dealt with in the developing countries.

But the international community can, and must, help. The resources required to double the yields on small farms by 1985 are very large. One estimate would place the annual cost of on-farm investment, land and water resource development, additional training facilities, and minimum working capital requirements for smallholder agriculture at \$40-50 billion. This is more than 7 percent of the combined GNP of the developing countries.

Part of these resources must come from additional savings generated by the farmers themselves, and part must come from redirecting resources from other sectors in the developing countries.

But part of these resources must come from the international community -- in the form of services and financing that the small farmer needs.

#### An Action Program for the Bank

What can the Bank do to help in this effort?

First of all, we expect to lend \$4.4 billion in agriculture during our next five year program (1974-78) - as compared to \$2.2 billion in the first five year program (1969-73), and \$620 million in the 1964-68 period.

This is a formidable target, but more importantly, we intend to direct an increasing share of our lending to programs which directly assist the small farmer. In the next five years we expect that about 70% of our agricultural loans will contain a component for the small farmer. These programs are now being prepared in consultation with governments.

Nonetheless, our lending will only finance a small portion of the total credit and investment needs of smallholder agriculture. We must therefore pay particular attention in our economic advice to governments to the sectoral policies and financial policies which affect the rural poor so that our resources and those of the governments will have a maximum impact.

While experimentation and innovation will continue to be essential, the broad policies governing the Bank's program are clear:

- .. We are prepared to do much more to assist governments in the reforms of their agricultural financial structure; to support intermediate institutions to bring credit to the small farmer; and to make credit available to enable farmers to purchase necessary inputs.
- . We intend to continue to invest in irrigation command area development and in the recovery of saline lands; but we will emphasize on-farm development with a maximum of self-financing to assure that the benefits of irrigation reach the farmers more quickly.
- . We will support non-irrigated agriculture, including the financing of livestock production, especially small-scale dairy farming in milk-deficient areas.
- . We are prepared to finance programs for expansion of training facilities for extension workers when it can be demonstrated that these workers will help raise the productivity of the rural poor.



- . We are prepared to finance rural works programs as well as multi-purpose rural development projects.
- . We stand ready to help support land and tenancy reform programs by providing the follow-up logistical support required by the small farmer and to assist in the technical and financial aspects of land purchase and consolidation.
- . We will, in our lending for infrastructure, insist that account be taken of the urgent requirements of the rural areas.
- . We have financed agricultural research institutions in the past and are fully prepared to do more in the future, especially in regard to the development of an appropriate technology for semi-arid agriculture. We propose to support investigation into the most effective uses of water at the farm level, especially in water-deficient areas. We are already supporting one such investigation in Mexico.

W I recognize that the Bank's efforts will only make a modest contribution to a massive undertaking. The goal of doubling yields on small farms by 1985 is ambitious. It is also necessary. It can be done if governments and the international community dedicate themselves to it. If it is accomplished, it will transform the lives of 700 million people -- now poor and neglected.

#### VII. SUMMARY AND CONCLUSIONS

Let me now summarize and conclude the central points I have made this morning.

If we look objectively at the world today, we must agree that it is characterized by a massive degree of inequality.

The difference in living standards between the rich nations and the poor nations is a gap of gigantic proportions.

The industrial base of the wealthy nations is so great, their technological capacity so advanced, and their consequent advantages so immense that it is unrealistic to expect that the gap will narrow by the end of the century. Every indication is that it will continue to grow.

Nothing we can do is likely to prevent this. But what we can do is to reduce the rate at which that gap is increasing. We can do this by acting to expand the wholly inadequate flow of official development assistance.

The flow of ODA can be increased, by 1980, to the target of .7% of GNP -- a target originally accepted within the United Nations for completion by 1975.

This is feasible, but it will require renewed efforts by many nations, particularly the United States.

Further, we must recognize that a high degree of inequality exists not only between developed and developing nations but within the developing nations themselves. Studies in the Bank during this past year reinforce the preliminary conclusions I indicated to you last year: income distribution patterns are severely skewed within developing countries -- more so than within developed countries -- and the problem requires accelerated action by the governments of virtually all developing nations.

A minimum objective should be that the distortion in income distribution within these nations should at least stop increasing by 1975, and begin to narrow within the last half of the decade.

A major part of the program to accomplish this objective must be designed to attack the "absolute poverty" which exists in totally unacceptable degree



in almost all of our developing member countries -- poverty so extreme that it degrades the lives of individuals below minimal limits of human decency. The "absolute" poor are not merely a tiny minority of unfortunates -- a miscellaneous collection of the losers in life -- a regrettable but insignificant exception to the rule. On the contrary, they constitute roughly 40% of the nearly two billion individuals living in the developing nations.

Some of the "absolute" poor are in urban slums, but the vast bulk of them are in the rural areas. And it is there -- in the countryside -- that their poverty must be confronted.

We should strive to eradicate "absolute" poverty by the end of this century. That means in practice the elimination of malnutrition and illiteracy; the reduction of infant mortality; and the raising of life expectancy standards to those of the developed nations.

A major requirement for the accomplishment of this objective is an increase in the productivity of small-scale, subsistence agriculture.

Is it a realistic goal?

The answer is yes, if governments in the developing countries are prepared to exercise the requisite political will to make it realistic.

It is they who must decide.

As for the Bank, increased productivity of the small, subsistent farmer will be a major goal of our program of expanded activity in the FY1974-78 period.

But no amount of outside assistance can substitute for the developing member governments' resolve to take on the task,

It will call for immense courage, for political risk is involved. The politically privileged among the landed elite are rarely enthusiastic over the steps necessary to advance rural development. This is shortsighted, of course, for in the long term, they, as well as the poor, can benefit.

But if the governments of the developing world -- who must measure the risks of reform against the risks of revolution -- are prepared to exercise the required political will to assault the problem of poverty in the countryside, then the governments of the wealthy nations must display equal courage. They must be prepared to help them by removing discriminatory trade barriers and by substantially expanding official development assistance.

What is at stake in these decisions is the fundamental decency of the lives of 40% of the people in the 100 developing nations which are members of this institution.

We must hope that the decisions will be the courageous ones.

If they are not, the outlook is dark.

But if the courageous decisions are made, then the pace of development can accelerate.

I believe it will. I believe it will because I believe that during the remainder of this century our peoples will become increasingly intolerant of the inhuman inequalities which exist today.

Each of the great religions teaches the value of each human life. In a way that was never true in the past, we now have the power to create a decent life for all men. Should we not make the moral precept our guide to action? The traditional extremes of privilege and deprivation are becoming increasingly intolerable.

It is development's task to deal with them.

You and I -- and all of us in the international community -- share that responsibility.



PROJECTED FLOW OF OFFICIAL DEVELOPMENT ASSISTANCE  
MEASURED AS A PERCENT OF GROSS NATIONAL PRODUCT a/

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Australia	.59	.52	.56	.56	.59	.60	.60
Austria	.13	.06	.17	.19	.22	.25	.26
Belgium	.48	.49	.54	.58	.65	.70	.70
Canada	.42	.37	.42	.44	.45	.47	.49
Denmark	.38	.43	.48	.53	.58	.64	.70
France	.68	.68	.65	.65	.65	.65	.65
Germany	.32	.34	.30	.36	.36	.38	.40
Italy	.16	.17	.16	.16	.16	.16	.17
Japan	.23	.23	.22	.28	.34	.40	.42
Netherlands	.63	.60	.62	.63	.66	.70	.72
Norway	.32	.33	.47	.56	.67	.75	.82
Portugal	.64	1.43	.45	.45	.45	.45	.45
Sweden	.36	.45	.50	.56	.65	.71	.75
Switzerland	.15	.12	.22	.26	.30	.32	.34
United Kingdom	.37	.41	.41	.44	.38	.39	.42
United States	.31	.32	.30	.25	.22	.22	.21
<u>b/</u>							
TOTAL	.34	.35	.34	.34	.34	.35	.36

a/ Countries included are members of OECD Development Assistance Committee, accounting for more than 95% of total Official Development Assistance. Figures for 1970 and 1971 are actual data. The projections for later years are based on World Bank estimates of growth of GNP, on information on budget appropriations for aid, and on aid policy statements made by governments. Because of the relatively long period of time required to translate legislative authorizations first into commitments and later into disbursements, it is possible to project today, with reasonable accuracy, ODA flows (which by definition represent disbursements) for 1976.

b/ As recently as 1963 U.S. Official Development Assistance amounted to .59% of GNP and in 1949 at the beginning of the Marshall Plan it amounted to 2.79%.

Re Speech

A STRATEGY FOR RURAL DEVELOPMENT

Since the bulk of the poor live in rural areas, if we are to deal with poverty, we must deal with the rural poor. This is particularly difficult because:

- Rural incomes are lower than urban incomes. Average urban per capita incomes were five times rural incomes in Honduras, four times in Brazil, two and a half times in India.
- Rural income grows more slowly than the rest of the economy because of the slow growth of agriculture. In the period 1960-1970 non-agricultural production in a sample of \_\_\_ countries grew \_\_\_% per year; agriculture grew \_\_\_%. Most of the agricultural growth was not in small-holder agriculture.
- Population growth rates are higher in rural areas.
- The bulk of public investments go to the modern, urban sector. For instance, in Peru, Lima with 25% of the population absorbs about 50% of the outlays of the Ministries of Education and Health; in Zaire the Kinshasha metropolitan area has 7% of the population but over half of the primary school teachers.

Even though not all of the rural poor farm land, the principal cause of stagnation of income of the rural poor is the



low productivity of the small, subsistence farm which is the dominant production unit in the developing world. Even with massive migration to the cities, reducing rural poverty must mean increasing the productivity per hectare on these farms.

Technologically this is feasible but neither current policies nor current institutions support this objective.

Let us look at some of the obstacles to a more rapid rural development:

- The size of the average holding is small and often fragmented. In Asia (excluding the People's Republic of China) 78% of all farms are less than 5 hectares, in Africa 72%, in Latin America 36%. In Asia, where the ratio of population to land is highest, the average farm size is only 2.3 hectares. Often such holdings are divided into a dozen plots, miles apart.
- Ownership of land, and hence power in the rural areas, is concentrated in the hands of a small minority. In Latin America less than 5% of the farms occupy more than 75% of the farmland. In Asia, the concentration of ownership leaves the vast majority of the rural population either landless or with very small farms. About 46 million rural households in India - over 200 million people - are landless, while 40% of the cropland is held by 8% of the landowning farmers.

- But even the use of the little land the small farmer has is uncertain. Tenancy arrangements are often extortionist and generally insecure. In many countries tenants pay 50-60% of their gross product as rent and still constantly face the possibility of eviction. This provides little incentive for increasing productivity.
- Funds are not available for improvements. Institutional credit is essential if the farmers are to increase productivity per hectare. They must buy more fertilizer and pesticides; they must invest in pumps and implements. At present they generally spend less than 10% of what is needed on such inputs because they do not have the resources. But the rural credit institutions are inadequate, and they by-pass the small farmer.
- Development of water resources has lagged almost everywhere. The new technologies which have been developed depend on an assured supply of water. Even where investments in major irrigation facilities have been substantial, on-farm developments to utilize the water have trailed far behind, particularly for small holdings.



- Technical advice and assistance is generally not available to the small farmer. There are too few extension agents. In developed countries 5% of the agricultural labor force consists of professional and technical workers; the FAO World Indicative Plan expressed the hope that an equivalent figure in the developing countries might be 0.4% - by 1985. Research, on which extension must be based, is underfinanced and does not deal with the special production problems of the small farmer.
- The provision of public utilities favors the urban areas. Utilities - water, sewerage, electricity and roads - are more plentiful in the cities. The consumption requirements of the urban areas have a higher priority than the production requirements of the rural areas.

It has often been suggested that the problem of rural poverty is technological; that the productivity of the small-scale farmer is inherently low. Not only do we have the evidence of Japan to disprove this, but a number of recent studies on developing countries also demonstrate the inaccuracy of that belief. For example, output per hectare in Guatemala on the smallest farm size groups was 92% higher than the largest size groups; in Taiwan, 67% higher; in India, 37% higher; and in Brazil, 33% higher. And it is output per hectare which is the relevant measure of agricultural productivity in land-scarce labor-surplus economies, rather than output per worker.



There is ample evidence that modern agricultural technology is divisible and that the scale of operations is no barrier to raising agricultural yields. On a national basis, farmers in Japan and Taiwan, where average size of holdings is less than 2 hectares, have increased output between 3 to 5% a year in recent decades. Similarly, in those areas of Asia where the green revolution has occurred, small-scale farmers, often with holdings of 2 hectares or less, have raised output of rice and wheat by anything from 30 to 100% in less than five years.

The question then is what can the developing countries do to increase the productivity of the small farmer more generally. How can they duplicate the conditions which have led to very rapid agricultural growth in a few areas. And how can the World Bank help in this effort.

The first step is to define a target so that we can understand better the amount of resources necessary and to provide a basis for measuring progress. I suggest we aim at doubling the yields per hectare on small farms by 1985.

This is an ambitious goal.

It is a necessary goal.

If it can be achieved, it will transform the lives of hundreds of millions of people - individuals who thus far have benefited little from development.



What will it take to do this.

Neither we at the Bank nor anyone else has very clear answers about the best ways to bring improved technology and other inputs to over 100 million small farmers; nor can we be very precise about the costs. Yet we have enough of an understanding so that we can start now. We will have to take risks and we must experiment and improvise; but we cannot delay.

Although the strategy for increasing the productivity of smallholder agriculture is necessarily tentative, it must include:

- land and tenancy reform
- access to credit
- assured availability of water
- expanded research into the production problems of the rural poor
- more widespread extension facilities
- greater access to public services.

These aspects are not new - they have been known for a long time. They will again remain pious wishes unless there is a carefully developed framework of implementation and a commitment of resources commensurate with the size of the problem.

Effective implementation requires:

- solution to organizational problems in the long term
- realistic planning of successive steps which can be implemented quickly



- a shift in the present allocation of resources.

The organizational means for supporting smallholder agriculture is probably the most crucial and the most difficult problem. It is not possible, with present and foreseeable resources, to deal individually with over 100 million small farm families. There must be organization of farm groups and the development of delivery systems that will service millions of farmers at low cost. Farmers must develop new ways to pool their resources and to obtain public services. Governments and commercial institutions must find new ways to relate to millions of small farmers. New intermediate institutions will have to be developed to provide assistance and channel resources.

Such institutions and organizations can take any number of forms: smallholder associations, local farm organizations, village or district level cooperatives, voluntary or involuntary communes. There already are many indigenous experiments going on in various parts of the world. What is important is that whatever institutions are devised should be suited to the political and social environment of the country and to the formidable task at hand. Experience shows that there is a greater chance for the success of these institutions if they provide for popular participation, local leadership, decentralization of authority and proper accountability at the individual



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In most countries, the centralized administration of scarce resources - money or skills - has led the bulk to be allocated to a small number of rich claimants. This is not surprising since economic rationale, political pressure, social suasion and personal interest all point in the same direction. It will thus require substantial political leadership and national resolve to change the incentives in the government structure. The ablest administrators must no longer be reserved to the modern sector, top engineering talent must be devoted to the problems of small farm irrigation, young graduates must be challenged by the problems of the rural poor and rewarded for dealing with them, educational institutions must change so that the transmission of knowledge becomes as important as its accumulation. In short, the managerial and intellectual resources of the country must be redirected to serve the many instead of the few - to attack poverty directly by providing resources to the poor.

In addition to such institutional changes, other structural changes are necessary. Foremost among these is land and tenancy reform. Legislation dealing with land and tenancy reform has been passed - or at least been promised - in virtually every developing country. But rhetoric is far in advance of action. With few exceptions, land reform has resulted in little redis-



tribution of land, little improvement in the security of the tenant, and little consolidation of small holdings. Such actions as have been taken have been accompanied by inadequate institutional support and therefore have had little impact on the bulk of the rural population.

No one can pretend that genuine land and tenancy reform is easy. It is hardly surprising that members of the political power structure, who own large holdings, should resist reform as they do. But the real issue is not whether land reform is politically easy. The real issue is whether indefinite procrastination is politically prudent. An increasingly inequitable situation is a constant threat to political stability.

In many countries it is urgent that equitable land and tenancy reform programs should be designed - programs involving reasonable land ceilings, just compensation, sensible tenancy security, adequate incentives for land consolidation and institutional support - and effectively implemented. In these countries increasing the income of the rural poor and raising the production of small-scale agriculture will depend on more secure and incentive-oriented tenancy laws, consolidation of fragmented small holdings and a more equitable distribution of land resources.



There is no universal blueprint for land reforms, but the major successes in land reform movements have been where:

- the objectives of the land reform have been clearly spelled out and uncertainty reduced,
- the reform has been accompanied by public sector activities replacing the logistical support (mainly supplies and credit) formerly provided by the landlord,
- the reform has changed the status of the tenant in addition to redistributing land, and
- redistribution of unused land was involved rather than land already under intensive cultivation.

These basic changes are long-term objectives. New institutions evolve only gradually and land reform is not a universal panacea. If we are to achieve the objective of doubling yields per hectare on small farms by 1985, we must supplement these changes with steps which can be implemented now and which can yield quick results. We must therefore start with the existing institutional framework, even while we seek to change it.

One major impediment the small farmer faces is the lack of credit. Without such credit, he cannot buy improved seeds, apply the necessary fertilizer or pesticides, rent equipment or develop his water resources - no matter how knowledgeable he is or how well motivated. For example, in Asia the cost of



fertilizer and pesticides required to make optimum use of the new, high yielding varieties of wheat and rice ranges from \$20 to \$80 per hectare. The small farmer only spends \$6, on average, and even that does not come from institutional sources of credit.

The small farmer needs these modest amounts of credits with a minimum amount of bureaucratic red tape and without having to mortgage his land - which may be his only possession.

The present institutions in the rural areas are simply not geared to meeting the needs of smallholder agriculture. In countries as disparate as Bangladesh and Iran, less than 15% of institutional credit is available to rural areas, less than 20% in Mexico and 28% in India. Only a fraction of this is available to the small farmer. Moreover, they require stringent tests of creditworthiness, complicated applications and long procedures.

Existing commercial institutions are reluctant to make credit available to the small farmers since the administrative and supervisory costs of small loans may run high and the subsistence farmer, operating so close to the margin of survival, is simply not as creditworthy as his more wealthy neighbors.



Neither do governmental credit policies help the small farmer although they are often designed for that purpose. Concern over the usurious rates the farmer pays the money lender when he has no access to institutional sources of credit has led to unrealistically low rates for institutional credit. This is generally accompanied by low ceilings on interest to be paid on deposits. The low rates of interest paid on deposit in turn mean that savings are discouraged since the real rate of return for the depositor is negative. Small savings means a restricted supply of capital which in turn is lent to the most creditworthy - the larger farmer.

Interest rate reform in a number of countries amply demonstrates that realistic interest rates attract savings from all income groups. Increased savings in the rural areas are essential if the supply of capital to the small farmer is to be increased. The small farmer does not need six month credit at an annual interest rate of 6% for projects which will yield 20% or more per year. He would be infinitely better off if he had to pay a realistic rate of interest but could get the money. If any subsidy is required, it is to meet the high costs of administering a credit program for small farmers. These costs can easily be offset within the banking system - through reserve requirements and the like. Reducing the lending rate to the farmer only makes the program less attractive to the banks.



An urgent step for governments is, therefore, to review their financial policies as they affect agriculture to make sure that good intentions do not have pernicious consequences. In many of our member countries, interest rate reform is an overdue measure.

While credit is needed to purchase physical inputs like fertilizer and improved seeds, these inputs often cannot be very productive unless assured water is available and used effectively. This will require continued research into the most effective uses of water, substantial investment in irrigation, and increased attention to on-farm irrigation systems.

It is estimated that the presently irrigated area of 380 million acres can be expanded by another 260 million acres but the additional cost would be high - over \$100 billion. But not only is expansion of irrigated land expensive, it is a slow process. No major irrigation dam not already in the active design stage is likely to yield significant on farm benefits before 1982. Investments in major irrigation projects will continue to be an important part of national investment plans, and of Bank financing, but they must be supplemented by more quick yielding programs which can benefit the small farmer.

First, much greater emphasis must be placed on the on-farm development necessary to take advantage of existing irrigation developments. There are too many cases - in our experience and in that of others - where it has taken ten years or more after the dam was completed for the water to reach the farmers.



The allocation of budgetary resources between major irrigation works and on-farm development is often heavily skewed toward the former. The excitement of harnessing a major stream is not matched by bringing a trickle of water to a parched acre. A redirection of budgetary resources is essential, and this will rechannel the application of the nation's talents.

Secondly, budgetary resources for on-farm water development often assist only a small number of potential farmers because of the mistaken belief that the cost of on-farm development must be borne by the governments. As a result, as in the case of restricted credit, the large farmers receive the limited resources. But water is the most valuable single input a farmer can have. With an assured water supply, he can use the new technologies and his income can often more than double in a year. There are few farmers who would not be willing to pay for the costs of this on-farm improvement. If this is done, any given budget can service many more farmers and the benefits of irrigation systems can be reaped more quickly. In the areas where this approach has been tried, it has been successful and, in addition, the capital intensity seems to be less, the use of domestic technology greater and the benefits are more equitably distributed.

But development of present command areas, though necessary, is not enough. Too many small farmers would be unaffected. These programs must be supplemented by others which can bring water to farms outside major irrigation projects - and do so



cheaply. Tubewells, low lift pumps and small dams can make major contributions to productivity. Moreover, these investments are within the reach of individual farmers or groups of farmers. The evidence from India, Bangladesh, Pakistan and other countries clearly demonstrates that farmers outside major irrigation projects will purchase pumps and dig tubewells. The experience also suggests that the most rapid development occurs if the government makes resources - credit, pumps, drilling equipment - available and creates a climate in which private initiative and local cooperative efforts can flourish but does not seek to operate the programs directly.

Greatly expanded extension services are another necessity for the small farmer. The projected annual output of trained personnel from existing agricultural extension institutions can at best satisfy less than half the total needs of the developing world. In the developed countries, the ratio of government agricultural agents to farm families is about 1 to 400. In developing countries, it is about 1 to 30,000. Only a small fraction of even these limited services is available to the small farmer.

It is not primarily the deficiency of funds that is delaying the necessary expansion of extension services. It is the deficiency of resolve to do more for the small farmer who desperately requires these services. Funding for agricultural training should be increased rapidly, the links between research



institutes and farm workers strengthened and educational priorities reoriented. There is hardly a developing country which does not produce too many lawyers, and there is no developing country which produces enough extension agents. Governments cannot control personal career objectives, but they do control the means by which these objectives are realized.

The annual cost of training the required personnel would be modest as a percentage of GNP or budgetary resources. The net cost - after deducting savings from changed allocations - would be even less. As long as the supply of extension workers is grossly inadequate, only the large farmers will benefit and the needs of the poor will be ignored.

The quality of the extension services depends on the underlying research. In a sample of five major developed countries, the governments are allocating annually from \$20 to \$50 per farm family for applied research; for five major developing countries the comparable figures are 50 cents to \$2 per farm family. Almost none of this research deals with the special production problems of the small farm.

The international network of agricultural research has grown impressively. The Bank's chairmanship of, and participation in, the Consultative Group on Agricultural Research is one of our most important functions. But very much more needs to be done at the national level to adapt the new technologies to small



farm operations, to explore the special equipment needs of the small operator, to develop new technologies in the non-cereal crops and to help the farmer in non-irrigated areas. General expenditures on research and development in the developing countries are notoriously low and must be increased substantially. In this expansion, very high priority must be given to strengthening the research which will benefit the small farmer.

In other areas too public services are grossly inadequate. The income of the small farmer could be substantially increased if he were supported by better physical infrastructure. It is not within the power of the developing countries to provide such infrastructure quickly to the many who need it because of its costs, but much of this infrastructure can be provided by organizing rural works programs to construct small feeder roads to the market, small-scale irrigation drainage facilities, storage facilities and markets, community schools and health centers, and other facilities which make extensive use of labor and relatively simple skills.

There is no mystery about designing these programs. They have worked successfully at various times in Bangladesh, Tunisia, Indonesia and other countries. With fairly small investments, considerable infrastructure has been built in some cases at low cost and with substantial increase in the number of jobs.



The major handicap of these programs has been their limited scale and the inadequate management and technical skills devoted to them. The challenge to governments is to extend these programs gradually to a national scale. This requires funds, of course, but it requires more than that. It requires national resolve and leadership to divert the financial, technical and intellectual resources from other areas and dedicate them to the efforts of the rural poor to improve their lives.



Basic change is also necessary in the distribution of other public services. In last year's address I stressed the potential for helping the poor through a redirection of public services. In the rural areas public services are not only lamentably deficient, they are often not geared to the needs of the people they are to serve. Educational systems must stress relevant knowledge about agriculture, nutrition, family planning to increase relevant knowledge for even those who do not stay in school for a decade; health systems must be developed which can assist in the eradication of basic, and enervating diseases, afflicting the rural poor. Electricity in rural areas is no luxury and does not aim merely to place a lightbulb in every shack. One of the largest consumers of rural electricity are production appliances, such as pumps for water. Urban lighting and air conditioning can no longer have priority on electric distribution systems.

Every country must examine why it can afford to invest in higher education but fail to provide incentives to attract teachers to rural areas; why it can staff urban medical centers and export its doctors abroad but fail to send its doctors to the countryside; why it can build urban roads for the private automobile but not feeder roads to bring produce to the market.



Resources are scarce in the developing countries - and their redistribution will not provide enough for everyone's needs - but a major redistribution of public services is needed if the small farmer is to be provided with even a minimum of economic and social infrastructure.

The programs I have discussed above can all be initiated quickly by governments. They will make a major contribution to the objective of doubling the yields of small-scale agriculture by 1985. All of these programs deserve, and will have, the full support of the Bank Group.

However, the measures I have discussed are primarily an indigenous responsibility of the developing countries. Indeed, it will be a great disservice on the part of the donors if they were to convince the developing world, or themselves, that policies for rural poverty can be fashioned and delivered from abroad. The problem must be perceived and dealt with in the developing countries.

But the international community can, and must, help. The resources required to double the yields on small farms by 1985 are very large. One estimate would place the annual cost of on-farm investment, land and water resource development, additional training facilities and minimum working capital requirements for smallholder agriculture at \$30 billion. This is 6% of the combined GNP of the developing countries.



Part of these resources must come from additional savings generated by the farmers themselves and part must come from redirecting resources from other sectors in the developing countries.

But part of these resources must come from the international community - in the form of services and financing that the small farmer needs.

What can the Bank do to help?

We expect to lend \$4.4 billion in agriculture during our next Five Year Program (1974-78) - as compared to \$2.2 billion



in the first Five Year Program (1969-73), and \$620 million in the 1964-68 period.

This is a formidable target, but more importantly, we intend to direct an increasing share of our lending to programs which directly assist the small farmer. In the next five years we expect that about 70% of our agricultural loans will contain a component for the small farmer. These programs are now being prepared in consultation with governments.

Nonetheless, our lending will only finance a small portion of the total credit and investment needs of smallholder agriculture. We must therefore pay particular attention in our lending to the sectoral and other policies which affect the rural poor so that our resources and those of the governments will have a maximum impact.

While experimentation and innovation will continue to be essential, the broad policies governing our supportive efforts are clear:

- We are prepared to assist governments in the reforms of their agricultural financial structure; to support intermediate institutions to bring credit to the small farmer; and to make credit available to enable farmers to purchase necessary inputs. Some of this is already being done, but we intend to do more of it.



- We intend to continue to invest in irrigation command area development and in the recovery of saline lands; but we will emphasize on-farm development with maximum of self-financing, to assure that benefits of irrigation reach the farmers more quickly.
- We are prepared to finance programs for expansion of training facilities for extension workers, including the current costs of such training.
- We are prepared to finance rural works programs as well as multi-purpose rural development projects.
- We stand ready to help support land and tenancy reform programs by providing the follow-up logistical support required by the small farmer and to assist in the technical and financial aspects of land consolidation.
- We will, in our lending for infrastructure, insist that account be taken of the urgent requirements of the rural areas.
- We have financed agricultural research institutions in the past and are fully prepared to do more in the future. We propose to support investigation into the most effective uses of water at the farm level, especially in water deficient areas. We are already supporting one such investigation in Mexico.



I recognize that the Bank's efforts will only make a modest contribution to a massive undertaking. The goal of doubling yields on small farms by 1985 is ambitious. It is also necessary. It can be done if governments and the international community dedicate themselves to it. If it is accomplished, it will transform the lives of over 600 million people - now poor and neglected.



*Mr. Kuczyński*

*File*

Mr. Robert S. McNamara

June 15, 1973

Hollis B. Chenery Signed Hollis B. Chenery

Annual Meeting Speech

I attach a redraft of the poverty sections of the speech. As agreed at our last discussion, Section IV summarizes the relations between poverty and growth and the need to reorient development policy, which are spelled out more fully in my memorandum "A Conceptual Framework for the Analysis of Poverty". The distinction between relative and absolute poverty is not stressed because it does not affect the focus on small farmers that follows. Section V has been reworked by Stern and Haq and is endorsed by Yudelman.

Please let me know when you would like to have further discussion of this material.

Attachment

cc: Mr. Stern

HBC:di



#### IV. POVERTY IN THE DEVELOPING WORLD

Last year I discussed with you the need to formulate new development strategies that would bring greater benefits to the poorest groups in society. Over the past year the Bank staff has given high priority to the analysis of problems of poverty in many of our member countries and to evaluating the policies available for dealing with them. On the basis of these studies, I would like to give a more specific diagnosis of the problem of poverty and to suggest some of the essential elements of strategies for dealing with it.

##### Poverty and Growth

The basic problem of poverty can be stated very simply. Despite a decade of unprecedented growth in the national product of developing countries, the poorest segments of their population have received relatively little benefit. Perhaps as many as 700 million people--out of a total of 1.8 billion--survive on incomes estimated at 30 cents per day (in U.S. purchasing power), under conditions of malnutrition, illiteracy and squalor.

There is, of course, nothing new in this finding. What is most disturbing is the fact that this condition persists despite the impressive increase in resources available for development purposes--which in most countries have doubled on a per capita basis--over the past 15 to 20 years. The great bulk of these resources has gone into the modern sectors of the developing economies - into industry, cities and the infrastructure needed to support them. In very few countries have rural areas shared equitably in development resources, even though much of the increase in population continues to take place in these areas.



Although the collection of statistics on income distribution only started in the past few years, and is still quite incomplete, we can begin to measure the dimensions of the poverty problem and its relation to the growth of GNP under different conditions. Among the forty developing countries for which some data are available, the upper quintile receives 55% of national income in the typical developing country, while the lowest quintile receives 5%. The extent of inequality is thus considerably greater than in most of the advanced countries.

On balance, the data suggest that a decade of rapid growth has worsened the distribution of income in many countries. It has proved to be easier to increase the output of industry, mining, large-scale farming, and government - and the incomes of the people dependent on these sectors - than to increase the productivity and income of the small farmer and the landless rural laborer. This problem is exacerbated by the accelerated growth of the labor force over the past decade. With the prevalent focus of government policy on the modern sectors, it has required very high rates of GNP growth - generally in excess of 7% per year - to absorb this increase and prevent underemployment from rising.

Although the statistical evidence is still far from adequate, I think that the observations for the past decade support the following conclusions:

- policies aimed primarily at accelerated growth in most developing countries benefit mainly the upper 40% of income receivers;
- the allocation of public services and investment funds has tended to strengthen rather than to offset this trend;
- while high growth rates are needed to employ a rapidly growing labor force, they are by no means sufficient for this purpose.



The Reorientation of Development Policy

Although the need to reorient development policy in order to provide a more equitable distribution of its benefits has been discussed widely, few countries have actually made serious efforts in this direction. Although I may be intruding in matters that are the proper concern of national governments, I would like to suggest several steps to you that should lead to the more rapid adoption of the types of policy that most observers agree are needed. I would also stress that unless national governments redirect their policies toward better distribution, there is very little that international agencies such as the World Bank can do to accomplish this objective.

An important first step is to redefine the objectives and measurement of development in more operational terms. While most countries have broadened their development objectives to include the reduction of unemployment and increased income for the poor in addition to growth in output, they still measure progress toward these complex objectives with a single measuring rod--the growth of GNP.

We can no more describe the comforts of a home by its area than we can define the success of multiple development objectives by the GNP. The Gross National Product is an index of the total value of goods and services produced by an economy; it was never intended as a measure of social welfare.

The Gross National Product implicitly weights the growth of each income group according to its existing share in total income. Since the upper 40% of the population typically receive 75% of all income, the growth of GNP is essentially an index of the welfare of the upper income groups. It is quite insensitive to what happens to the lowest 40%, which have a weight of only 10-15% in the total.



To remedy this obvious defect in our most commonly used measure of economic performance, I suggest that we should give at least the same weight to increasing the incomes of the poorest groups in society as we give to increasing the incomes of the rich. Instead of measuring development by growth of the total value of production we should measure it by the average increase in income, with the poor getting at least equal weight.

The weights to be used in this calculation are a question of social philosophy rather than economics and some countries will doubtless want to go further and lay primary emphasis on raising the consumption standards of the poor.

If we measure the performance of an economy by the average growth of income of all its citizens, we get rather a different impression of the achievements of the past decade. To test the usefulness of this index, we have applied it to the dozen or so countries for which we can estimate the growth of income received by different income groups over the past decade. On the basis of these estimates in half of the cases--including Brazil, India and Mexico--the income growth of the lowest 40% was significantly lower than that of the upper 20%. If we give equal weight to the growth of income of each citizen in these countries, the growth of total income would be one to two percentage points lower than the growth as measured by the GNP. However, in several cases - including Sri Lanka and Colombia - the opposite is true. In these countries, giving equal weight to the growth of income of each citizen, regardless of his current wealth, gives a more favorable picture of economic performance than does GNP because it gives credit for some redistribution of the benefits of growth toward the lower income groups.



The adoption of a welfare-oriented measure of economic performance constitutes an important step in the redesign of development policies. It forces governments, and their planning and finance ministries, to look at the allocation of resources in a quite different way. They would have to consider not only the total output of an investment but also how the benefits will be divided. This will give practical, operational significance to the social objectives embodied in most development plans. These distributional considerations should then be incorporated into the procedures for project evaluation used by the developing countries and by the lending agencies. This type of analysis is being introduced in the World Bank.

#### Location of Poverty

The proposed reorientation of development strategy also requires us to identify better the main concentrations of poor people in the society and to examine the policies through which they can be reached.

Today, I want to address myself to measures and programs which can alleviate rural poverty, because

- the majority of the poor will continue to live in the countryside and most of them will work on small farms.

At the present time, seventy per cent of the population of our developing member countries and eighty per cent of the poor are found in rural areas. However, demographic projections indicate a drastic change in these proportions. The population in our developing member countries is expected to increase by nearly two billion people by the end of the century. More than sixty per cent of this increase is expected to take place



in urban areas, largely through migration. Even though the urban areas of the Third World will triple by the year 2000, the hard core of the poverty problem will remain in the countryside, where more than half their population will still reside.

- Within the rural areas the poverty problem involves the low productivity of the small subsistence farms and the landless laborers. The possibilities of enlarging the existing small farms through large-scale colonization of additional land are both limited and costly.
- The present rapid urbanization already creates very serious problems. Under present policies, public expenditures per head of urban population are typically three to four (?) times as great as they are in rural areas. Rapid urbanization, with its massive requirements for public expenditures will further skew the division of public expenditures and exacerbate the existing inequalities of income.



Even with an optimal distribution of public expenditures between urban and rural areas, the rate of migration would probably not be much less than it is at present, since the bulk of job creation will of necessity take place outside of agriculture. However, a more equitable balance in the provision of schools, transportation, electric power and other services could help to reduce the present tendency for migration to exceed the possibilities for job creation in cities.

Emphasis on rural poverty raises a fundamental question. Is it a sound strategy to devote a large part of our efforts on increasing the productivity of small-scale subsistence agriculture?

Would it be better instead to concentrate most of the resources in the modern sector in the hope that its high rate of growth would filter down to the other sectors of the economy and, in due time, the modern sector would absorb the traditional sectors?

Experience shows that there is only a limited spill-over of benefits from the modern to the traditional sector and that disparities will widen unless action is taken which will directly benefit the poor. Therefore, in my view, there is no viable alternative to increasing the productivity of small-scale agriculture if any impression is to be made at all on the problems of absolute poverty.

Not only is there no alternative to the accelerated development of small-scale agriculture but there need be no conflict between this objective and the growth of the rest of the economy. In fact, a strategy



for increasing the productivity of subsistence agriculture cannot be conceived, or implemented, in an environment of overall economic stagnation. The small farmers cannot prosper unless there is rapid growth in other sectors from which they draw some of their funds and demand for their produce. But the reverse is also true--and it is time that we recognize it. Without rapid progress in smallholder agriculture all over the developing world, there can neither be any hope for viable growth nor any prospect for a significant reduction in absolute poverty.

We must face the fact that very little has been done over the past two decades throughout the developing world specifically designed to increase the productivity of subsistence agriculture. Neither political programs, nor economic plans, nor international assistance - bilateral or multilateral - have given the problem serious and sustained attention. The World Bank is no exception. In our more than a quarter century of operations, out of our \$25 billion of lending, less than \$1 billion has been devoted directly to this problem.

It seems to be that it is time for all of us in the development community to confront this issue head-on.

## V. A STRATEGY FOR RURAL DEVELOPMENT

Programs to deal effectively with rural poverty are difficult to design because:

- A very large number of people are involved, upwards of 100 million families or more than 700 million people.
- The bulk of public investments go to the modern, urban sector. For instance, in Peru, Lima with 25% of the population absorbs about 50% of the outlays of the Ministries of Education and Health; in Zaire the Kinshasha metropolitan area has 7% of the population but over half of the primary school teachers.
- Rural incomes are lower than urban incomes. Average urban per capita incomes were five times rural incomes in Honduras, four times in Brazil, two and a half times in India.
- Rural income grows more slowly than the rest of the economy because of the slow growth of agriculture. In the period 1960-1970 non-agricultural production in a sample of \_\_\_\_\_ countries grew \_\_\_\_\_% per year; agriculture grew 2%.
- Population fertility rates are higher in rural areas.

Even though not all of the rural poor farm land, the principal cause of stagnation of income of the rural poor is the low productivity of the small farm which is the dominant production unit in the developing world. Even with continued massive migration to the cities, there will be an increase in the number of small farmers so that reducing rural poverty must start by increasing the productivity per hectare on these farms.

Technologically this is feasible, but neither current policies nor current institutions support this objective.



Obstacles to more rapid growth

Let us look at some of the obstacles to a more rapid rural development:

- The size of the average holding is small and often fragmented. Out of 140 million holdings more than 100 million holdings are less than 5 hectares and more than 50 million holdings are of less than 1 hectare. The 100 million farmers occupy 20% of the arable land.
- Ownership of land, and hence power in the rural areas, is concentrated in the hands of a small minority. According to a recent FAO survey, the upper 20 percent of the landowners often own between 50 to 60 percent of the cropland. In Asia, the concentration of ownership leaves the vast majority of the rural population either landless or with very small farms. For instance, in Venezuela the upper 20% of landowners own 82% of the cropland, 56% in Colombia, 53% in Brazil and about 50% in the Philippines, India and Pakistan.
- But even the use of the little land the small farmer has is uncertain. Tenancy arrangements are often extortionist and generally insecure. In many countries tenants pay 50-60% of their gross product as rent and still constantly face the possibility of eviction. This provides little incentive for increasing productivity.
- The rural credit institutions are inadequate, and they usually by-pass the small farmer. Institutional credit is essential if the farmers are to increase productivity per hectare. They

must buy more fertilizer and pesticides; they must invest in pumps and implements. At present they generally spend less than 20% of what is needed on such inputs because they do not have the resources.

- Development of water resources has lagged almost everywhere. The new technologies which have been developed depend on an assured supply of water. Even where investments in major irrigation facilities have been substantial, on-farm developments to utilize the water have trailed far behind, particularly for small holdings.
- Technical advice and assistance is generally not available to the small farmer. There are too few extension agents. In developed countries 5% of the agricultural labor force consists of professional and technical workers; the FAO World Indicative Plan expressed the hope that an equivalent figure in the developing countries might be 0.4% - by 1985. Research, on which extension must be based, is underfinanced and does not necessarily deal with the special production problems of the small farmer.

It has often been suggested that the problem of rural poverty is technological; that the productivity of small-scale holdings is inherently low. Not only do we have the evidence of Japan to disprove this, but a



number of recent studies on developing countries also demonstrate the inaccuracy of that belief. For example, output per hectare in Guatemala on the smallest farm size groups was 92% higher than the largest size groups; in Taiwan, 67% higher; in India, 37% higher; and in Brazil, 33% higher. And it is output per hectare which is the relevant measure of agricultural productivity in land-scarce labor-surplus economies, rather than output per worker.

#### Focussing on Small-Holder Agriculture

There is ample evidence that modern agricultural technology is divisible and that the scale of operations is no barrier to raising agricultural yields. On a national basis, farmers in Japan and Taiwan, where average size of holdings is less than 2 hectares, have increased output between 3 to 5% a year in recent decades. Similarly, in those areas of Asia where the green revolution has occurred, small-scale farmers, often with holdings of 2 hectares or less, have raised output of rice and wheat by anything from 30 to 100% in less than five years.

The question then is what can the developing countries do to increase the productivity of the small farmer more generally. How can they replicate the conditions which have led to very rapid agricultural growth in a few areas so as to combat rural poverty, and to stimulate agricultural growth, in general.

The first step is to set an objective so that we can understand better the amount of resources necessary and to provide a basis for measuring progress. I suggest we aim at doubling the output on small farms by 1985 - a goal which is consistent with that of the Second Development Decade.

This is an ambitious goal.

It is a necessary goal.

It may not be possible for all countries to achieve this - perhaps no more than half can - but even significant progress towards it will transform the lives of hundreds of millions of people - individuals who thus far have benefited little from development.

What will it take to do this.

Neither we at the Bank nor anyone else has very clear answers about the best ways to bring improved technology and other inputs to over 100 million small farmers - especially those in dry land areas. Nor can we be very precise about the costs. Yet we have enough of an understanding so that we can start now. We will have to take risks and we must experiment and improvise; but we cannot delay.

Although the strategy for increasing the productivity of smallholder agriculture is necessarily tentative, the following components are parts of any comprehensive program:

- land and tenancy reform
- access to credit
- assured availability of water
- expanded research to find technological solutions to the high risk production situations which often face the rural poor
- more widespread extension facilities
- greater access to public services.

These aspects are not new - they have been known for a long time. They will again remain pious wishes unless there is a carefully developed framework of implementation and a commitment of resources commensurate with the size of the problem.



Effective implementation requires:

- solution to organizational problems in the long term
- realistic planning of successive steps which can be implemented quickly
- a shift in the present allocation of resources.

#### Organizational Change

The organizational means for supporting smallholder agriculture is probably the most crucial and the most difficult problem. It is not possible, with present and foreseeable resources, to deal individually with over 100 million small farm families. There must be organization of farm groups and the development of delivery systems that will service millions of farmers at low cost. Farmers must develop new ways to pool their resources and to obtain public services. Governments and commercial institutions must find new ways to relate to millions of small farmers. New intermediate institutions will have to be developed to provide assistance and channel resources.

Such institutions and organizations can take any number of forms: smallholder associations, local farm organizations, village or district level cooperatives, voluntary or involuntary communes. There already are many indigenous experiments going on in various parts of the world. What is important is that whatever institutions are devised should be suited to the political and social environment of the country and to the formidable task at hand. Experience shows that there is a greater chance for the success of these institutions if they provide for popular participation, local leadership, decentralization of authority and proper accountability at the individual level. Ideally, they should aim at an optimum mix of self-reliance and government assistance.

The reorganization of government services and institutions is equally important. No program will help the rural poor if it is designed by those who have no knowledge of their problems and operated by those who have no interest in their future.

In most countries, the centralized administration of scarce resources - money or skills - has led the bulk to be allocated to a small number of rich claimants. This is not surprising since economic rationale, political pressure, social suasion and personal interest all point in the same direction. It will thus require substantial political leadership and national resolve to change the incentives in the government structure. The ablest administrators must no longer be reserved to the modern sector, top engineering talent must be devoted to the problems of small farm irrigation, young graduates must be challenged by the problems of the rural poor and rewarded for dealing with them, educational institutions must change so that the transmission of knowledge becomes as important as its accumulation. In short, the managerial and intellectual resources of the country must be redirected to serve the many instead of the few - to attack poverty directly by providing resources to the poor.

#### Land and Tenancy Reform

In addition to such institutional changes, other structural changes are necessary. Foremost among these is land and tenancy reform. Legislation dealing with land and tenancy reform has been passed - or at least been promised - in virtually every developing country. But rhetoric is far in advance of action. With few exceptions, land reform has resulted in little redistribution of land, little improvement in the security of the tenant, and little consolidation of small holdings. Such actions as have



been taken have been accompanied by inadequate institutional support and therefore have had little impact on the bulk of the rural population.

No one can pretend that genuine land and tenancy reform is easy. It is hardly surprising that members of the political power structure, who own large holdings, should resist reform as they do. But the real issue is not whether land reform is politically easy. The real issue is whether indefinite procrastination is politically prudent. An increasingly inequitable situation is a constant threat to political stability.

In many countries it is urgent that equitable land and tenancy reform programs should be designed - programs involving reasonable land ceilings, just compensation, sensible tenancy security, adequate incentives for land consolidation and institutional support - and effectively implemented. In these countries increasing the income of the rural poor and raising the production of small-scale agriculture will depend on more secure and incentive-oriented tenancy laws, consolidation of fragmented small holdings and a more equitable distribution of land resources.

There is no universal blueprint for land reforms, but the major successes in land reform movements have been where:

- the objectives of the land reform have been clearly spelled out and uncertainty reduced,
- the reform has been accompanied by public sector activities replacing the logistical support (mainly supplies and credit) formerly provided by the landlord,
- the reform has changed the status of the tenant in addition to redistributing land, and
- redistribution of unused land was involved rather than land already under intensive cultivation.



These basic changes are long-term objectives. New institutions evolve only gradually and land reform is not a universal panacea. If we are to achieve the objective of doubling yields per hectare on small farms by 1985, we must supplement these changes with steps which can be implemented now and which can yield quick results. We must therefore start with the existing institutional framework, even while we seek to change it.

#### Credit

One major impediment the small farmer faces is the lack of credit. Without such credit, he cannot buy improved seeds, apply the necessary fertilizer to pesticides, rent equipment or develop his water resources - no matter how knowledgeable he is or how well motivated. For example, in Asia the cost of fertilizer and pesticides required to make optimum use of the new, high yielding varieties of wheat and rice ranges from \$20 to \$80 per hectare. The small farmer only spends about \$6, on average, and even most of that does not come from institutional sources of credit.

The present institutions in the rural areas are simply not geared to meeting the needs of smallholder agriculture. In countries as disparate as Bangladesh and Iran, less than 15% of institutional credit is available to rural areas, less than 20% in Mexico and 28% in India. Only a fraction of this is available to the small farmer. Moreover, they require stringent tests of creditworthiness, complicated applications and long procedures.

Existing commercial institutions are reluctant to make credit available to the small farmers since the administrative and supervisory costs of small loans may run high and the subsistence farmer, operating so close to the margin of survival, is simply not as creditworthy as his more wealthy neighbors.



Existing commercial institutions are reluctant to make credit available to the small farmers since the administrative and supervisory costs of small loans may run high and the subsistence farmer, operating so close to the margin of survival, is simply not as creditworthy as his more wealthy neighbors.

Neither do governmental credit policies help the small farmer although they are often designed for that purpose. Concern over the usurious rates the farmer pays the money lender when he has no access to institutional sources of credit has led to unrealistically low rates for institutional credit. This is generally accompanied by low ceilings on interest to be paid on deposits. The low rates of interest paid on deposit in turn mean that savings are discouraged since the real rate of return for the depositor is negative. Small savings means a restricted supply of capital which in turn is lent to the most creditworthy - the larger farmer.

Interest rate reform in a number of countries amply demonstrates that realistic interest rates attract savings from all income groups. Increased savings in the rural areas are essential if the supply of capital to the small farmer is to be increased. The small farmer does not need six month credit at an annual interest rate of 6% for projects which will yield 20% or more per year. He would be infinitely better off if he had to pay a realistic rate of interest but could get the money. If any subsidy is required, it is to meet the high costs of administering a credit program for small farmers. These costs can be offset within the banking system - through reserve requirements and the like. Reducing the lending rate to the farmer only makes the program less attractive to the banks.

An urgent step for governments is, therefore, to review their financial policies as they affect agriculture to make sure that good



intentions do not have pernicious consequences. In many of our member countries, interest rate reform is an overdue measure.

#### Water Supply

While credit is needed to purchase physical inputs like fertilizer and improved seeds, these inputs often cannot be very productive unless assured irrigation water is available and used effectively. This will require continued research into the most effective uses of water, substantial investment in irrigation, and increased attention to on-farm irrigation systems.

It is estimated that the presently irrigated area of 380 million acres can be expanded by another 260 million acres but the additional cost would be high - over \$200 billion. But not only is expansion of irrigated land expensive, it is a slow process. No major irrigation dam not already in the active design stage is likely to yield significant on-farm benefits before 1982. Investments in major irrigation projects will continue to be an important part of national investment plans, and of Bank financing, but they must be supplemented by more quick yielding programs which can benefit the small farmer.

First, much greater emphasis must be placed on the on-farm development necessary to take advantage of existing irrigation developments. There are too many cases - in our experience and in that of others - where it has taken ten years or more after the dam was completed for the water to reach the farmers. The allocation of budgetary resources between major irrigation works and on-farm development is often heavily skewed toward the former. The excitement of harnessing a major stream is not matched by bringing a trickle of water to a parched acre. A redirection of budgetary resources is essential.



Secondly, budgetary resources for on-farm water development often assist only a small number of potential farmers because of the mistaken belief that the cost of on-farm development must be borne by the governments. As a result, the large farmers tend to receive the limited resources. But in many parts of the world water is the most valuable single input a farmer can have. With an assured water supply, he can use the new technologies and his income can often more than double in a year. There are few farmers who would not be willing to pay the costs of this on-farm improvement. If this is done, any given budget can service many more farmers and the benefits of irrigation systems can be reaped more quickly. In the areas where this approach has been tried, it has been successful.

But development of present command areas, though necessary, is not enough. Too many small farmers would be unaffected. These programs must be supplemented by others which can bring water to farms outside major irrigation projects - and do so cheaply. Tubewells, low lift pumps and small dams can make major contributions to productivity. Moreover, these investments are within the reach of individual farmers or groups of farmers. The evidence from India, Bangladesh, Pakistan and other countries clearly demonstrates that farmers outside major irrigation projects will purchase pumps and dig tubewells. The experience also suggests that the most rapid development occurs if the government makes resources - credit, pumps, drilling equipment - available and creates a climate in which private initiative and local cooperative efforts can flourish but does not seek to operate the programs directly.



### Extension and Research

Greatly expanded extension services are another necessity for the small farmer. The projected annual output of trained personnel from existing agricultural extension institutions can at best satisfy less than half the total needs of the developing world. In the developed countries, the ratio of government agricultural agents to farm families is about 1 to 400. In developing countries, it is about 1 to 30,000. Only a small fraction of even these limited services is available to the small farmer.

It is not primarily the deficiency of funds that is delaying the necessary expansion of extension services. It is the deficiency of resolve to do more for the small farmer who desperately requires these services. Funding for agricultural training should be increased rapidly, the links between research institutes and farm workers strengthened and educational priorities reoriented. There is hardly a developing country which does not produce too many lawyers, and there is no developing country which produces enough extension agents. Governments cannot control personal career objectives, but they do control the means by which these objectives are realized.

The annual cost of training the required personnel would be modest as a percentage of GNP or budgetary resources. The net cost - after deducting savings from changed allocations - would be even less. As long as the supply of extension workers is grossly inadequate, only the large farmers will benefit and the needs of the poor will be ignored.

The quality of the extension services depends on the underlying research. In a sample of five major developed countries, the governments are allocating annually from \$20 to \$50 per farm family for applied



research; for five major developing countries the comparable figures are 50 cents to \$2 per farm family.

The international network of agricultural research has grown impressively. The Bank's chairmanship of, and participation in, the Consultative Group on Agricultural Research is one of our important functions. But very much more needs to be done at the national level, to explore the special equipment needs of the small operator, to develop new technologies in the non-cereal crops and to help the farmer in non-irrigated areas. General expenditures on research and development in the developing countries are notoriously low and must be increased substantially. In this expansion, very high priority must be given to strengthening the research which will benefit the low income farmer - research to produce low risk, low cost technology that can be used by small farmers.

#### Infrastructure and Public Services

In other areas too public services are grossly inadequate. The income of the small farmer could be substantially increased if he were supported by better physical infrastructure. It is not within the power of the developing countries to provide such infrastructure quickly to the many who need it because of its costs, but much of this infrastructure can be provided by organizing rural works programs to construct small feeder roads to the market, small-scale irrigation drainage facilities, storage facilities and markets, community schools and health centers, and other facilities which make extensive use of labor and relatively simple skills.

There is no mystery about designing these programs. They have worked successfully at various times in Bangladesh, Tunisia, Indonesia and other countries. With fairly small investments, considerable infrastructure has been built in some cases at low cost and with substantial increase in the number of jobs.



The major handicap of these programs has been their limited scale and the inadequate management and technical skills devoted to them. The challenge to governments is to extend these programs gradually to a national scale. This requires funds, of course, but it requires more than that. It requires national resolve and leadership to divert the financial, technical and intellectual resources from other areas and dedicate them to the efforts of the rural poor to improve their lives.

Basic change is also necessary in the distribution of other public services. In last year's address I stressed the potential for helping the poor through a redirection of public services. In the rural areas public services are not only lamentably deficient, they are often not geared to the needs of the people they are to serve. Educational systems must stress relevant knowledge about agriculture, nutrition, family planning to increase relevant knowledge for even those who do not stay in school for a decade; health systems must be developed which can assist in the eradication of basic, and enervating diseases, afflicting the rural poor. Electricity in rural areas is no luxury and does not aim merely to place a lightbulb in every shack. One of the largest consumers of rural electricity are production appliances, such as pumps for water. Urban lighting and air conditioning can no longer have priority on electric distribution systems.

Every country must examine why it can afford to invest in higher education but fail to provide incentives to attract teachers to rural areas; why it can staff urban medical centers and export its doctors abroad but fail to send its doctors to the countryside; why it can build urban roads for the private automobile but not feeder roads to bring produce to the market.



Resources are scarce in the developing countries - and their redistribution will not provide enough for everyone's needs - but a major redistribution of public services is needed if the small farmer is to be provided with even a minimum of economic and social infrastructure.

The programs I have discussed above can all be initiated quickly by governments. They will make a major contribution to the objective of doubling the yields of small-scale agriculture by 1985. All of these programs deserve, and will have, the full support of the Bank Group.

However, the measures I have discussed are primarily an indigenous responsibility of the developing countries. Indeed, it will be a great disservice on the part of the donors if they were to convince the developing world, or themselves, that policies for rural poverty can be fashioned and delivered from abroad. The problem must be perceived and dealt with in the developing countries.

But the international community can, and must, help. The resources required to double the yields on small farms by 1985 are very large. One estimate would place the annual cost of on-farm investment, land and water resource development, additional training facilities and minimum working capital requirements for smallholder agriculture at \$40-50 billion. This is more than 7 percent of the combined GNP of the developing countries.

Part of these resources must come from additional savings generated by the farmers themselves and part must come from redirecting resources from other sectors in the developing countries.

But part of these resources must come from the international community - in the form of services and financing that the small farmer needs.



An Action Program for the Bank

What can the Bank do to help in this effort?

First of all, we expect to lend \$4.4 billion in agriculture during our next Five Year Program (1974-78) - as compared to \$2.2 billion in the first Five Year Program (1969-73), and \$620 million in the 1964-68 period.

This is a formidable target, but more importantly, we intend to direct an increasing share of our lending to programs which directly assist the small farmer. In the next five years we expect that about 70% of our agricultural loans will contain a component for the small farmer. These programs are now being prepared in consultation with governments.

Nonetheless, our lending will only finance a small portion of the total credit and investment needs of smallholder agriculture. We must therefore pay particular attention in our lending to the sectoral and other policies which affect the rural poor so that our resources and those of the governments will have a maximum impact.

While experimentation and innovation will continue to be essential, the broad policies governing our supportive efforts are clear:

- We are prepared to assist governments in the reforms of their agricultural financial structure; to support intermediate institutions to bring credit to the small farmer; and to make credit available to enable farmers to purchase necessary inputs. Some of this is already being done, but we intend to do more of it.
- We intend to continue to invest in irrigation command area development and in the recovery of saline lands; but we will emphasize on-farm development with maximum of self-financing,



to assure that benefits of irrigation reach the farmers more quickly.

- We will support non-irrigated agriculture, as in the past, including the financing of livestock production, especially small scale dairy farming in milk deficit areas.
- We are prepared to finance programs for expansion of training facilities for extension workers, including the current costs of such training when it can be demonstrated that these workers will help raise the productivity of the rural poor.
- We are prepared to finance rural works programs as well as multi-purpose rural development projects.
- We stand ready to help support land and tenancy reform programs by providing the follow-up logistical support required by the small farmer and to assist in the technical and financial aspects of land consolidation.
- We will, in our lending for infrastructure, insist that account be taken of the urgent requirements of the rural areas.
- We have financed agricultural research institutions in the past and are fully prepared to do more in the future, especially in regard to the development of an appropriate technology for semi-arid agriculture. We propose to support investigation into the most effective uses of water at the farm level, especially in water deficient areas. We are already supporting one such investigation in Mexico.



I recognize that the Bank's efforts will only make a modest contribution to a massive undertaking. The goal of doubling yields on small farms by 1985 is ambitious. It is also necessary. It can be done if governments and the international community dedicate themselves to it. If it is accomplished, it will transform the lives of over 600 million people - now poor and neglected.



#### IV. POVERTY IN THE DEVELOPING WORLD

Last year I discussed with you the need to formulate new development strategies that would bring greater benefits to the poorest groups in society. Over the past year the Bank staff has given high priority to the analysis of problems of poverty in many of our member countries and to evaluating the policies available for dealing with them. On the basis of these studies, I would like to give a more specific diagnosis of the problem of poverty and to suggest some of the essential elements of strategies for dealing with it.

##### Poverty and Growth

The basic problem of poverty can be stated very simply. Despite a decade of unprecedented growth in the national product of developing countries, the poorest segments of their population have received relatively little benefit. Thirty-five or forty percent of the population of our developing member countries--perhaps 700 million people--survive on incomes estimated at 30 or 40 cents



per day (in U.S. purchasing power), under conditions of malnutrition, illiteracy and squalor.

There is, of course, nothing new in this finding. What is most disturbing is the fact that this condition persists despite the impressive increase in resources available for development purposes--which in most countries have doubled even on a per capita basis over the past 15 to 20 years. The great bulk of these resources has gone into the modern sectors of <sup>the</sup> developing economies--into industry, cities and the infrastructure needed to support them. In very few countries have rural areas shared equitably in development resources, even though much of the increase in population continues to take place in these areas.

Although the collection of statistics on income distribution only started in the past few years and is still quite incomplete, we can begin to measure the dimensions of the poverty problem and its relation to the growth of GNP under different conditions. Among the forty developing countries for which some data are available, the upper quintile receives 55% of national income in the typical



case, while the lowest quintile receives 5%.\*

*Talk about  
multiples rather  
than quintiles.*

Per capita consumption in rural areas is also considerably lower than in urban areas in most countries--despite high rates of migration and an allowance for on-farm consumption.

On balance, it appears that a decade of rapid growth has worsened the distribution of income in many countries. It has proved to be easier to increase the output of industry, mining, large-scale farming, and government--and the incomes of the people dependent on these sectors--than to increase the productivity and income of the small farmer and the landless laborer. This problem is exacerbated by the accelerated growth of the labor force over the past decade. With the prevalent focus of government policy on the modern sectors, it has required very high rates of GNP growth--generally in excess of 7% per year--to absorb this increase and prevent underemployment from rising.

Although the statistical evidence is still far from adequate, I think that the observations for the past decade support the following conclusions:

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\* Comparable figures for developed countries are 45% and 8%.

- policies aimed at accelerated growth in developing countries are likely to benefit primarily the upper 40% of income receivers;
- the allocation of public funds has tended to strengthen rather than to offset this trend;
- while high growth rates are needed to employ a rapidly growing labor force, they are by no means sufficient for this purpose.

#### The Reorientation of Development Policy

Although the need to reorient development policy to provide a more equitable distribution of its benefits has been widely discussed, few countries have actually made serious efforts in this direction. Without presuming to intrude in matters that are the proper concern of national governments, I would like to suggest several steps that should lead to the more rapid adoption of the types of policy that most observers agree are needed. I would also stress that unless national governments redirect their policies toward better distribution, there is very little that international agencies such as the World Bank can do to accomplish this objective.



An important first step is to redefine the objectives and measurement of development in more operational terms. While most development plans state as objectives the reduction of unemployment and increased income for the poor, they still measure progress toward their objectives with an obsolete measuring rod--the growth of GNP. The gross national product is a useful index of the total value of goods and services produced by an economy, but it was never intended as a measure of social welfare. When used to measure "progress," it implicitly weights the growth of each income group according to its existing share in total income. Since the upper 40% typically receive 75% of all income, the growth of GNP is essentially an index of the welfare of the upper income groups. It is quite insensitive to what happens to the lowest 40%, which have a weight of only 10-15% in the total.

*Part in same lines as p. 2.*

*5% on p. 3.*

To remedy this obvious defect in our most commonly used measure of economic performance, I suggest that we should give at least the same weight to increasing the incomes of the poorest groups in society that we give to increasing the incomes of the rest. Instead of measuring development by growth of the total value

of production, we should measure the average increase in the incomes of all / groups, with the poor getting at least equal weight. Since the weights to be used in this calculation are a question of social philosophy rather than economics, some countries will doubtless want to go further and lay primary emphasis on raising the consumption standards of the poor.

If we measure the performance of an economy by the average the growth of/income of all its citizens, we get rather a different impression of the achievements of the past decade. To test the usefulness of this index, we have applied it to the dozen or so countries for which we can estimate the growth of income received by different income groups over the past decade. In half of the --including Brazil, Mexico and India-- cases/the income growth of the lowest 40% was significantly lower than that of the upper 20% ; as a result the average income growth was one to two percentage points lower than the growth of GNP. --including Ceylon and Colombia-- However, in several cases/the opposite was true; here, the average income growth gives a more favorable picture of economic performance than does GNP because it gives credit for some redistribution of the benefits of growth toward the lower income groups.



The adoption of a welfare-oriented measure of economic performance constitutes an important step in the redesign of development policies. It forces us to look not only at the total output of a given project but at how the benefits will be divided.

These distributional considerations should then be incorporated into the procedures for project evaluation used by lending agencies, which we are now doing in the World Bank.

The proposed reorientation of development strategy also requires us to identify the main concentrations of poor people in the society and to examine the policies through which they can be reached. At the present time, seventy percent of the population of our developing member countries and eighty percent of the poor are found in rural areas. However, demographic projections to the end of this century indicate a drastic change in these proportions. Of the increase of nearly two billion people that is projected for our developing member countries, more than sixty percent is expected to take place in urban areas, largely through migration.

Even though the urban areas of the Third World will triple by the year 2000, the hard core of the poverty problem will remain in the countryside, where more than half their population will still reside. Under present policies, public expenditures per head of urban population are typically three or four (?) times as great as they are in rural areas. Overly rapid urbanization therefore tends to exacerbate the existing inequalities of income distribution because the division of public expenditures is likely to become even more skewed.

Although rural poverty cannot be solved by a wholesale transfer of population to cities, the preceding discussion should not be taken as an argument for the control of migration. Even with an optimal distribution of public expenditures between urban and rural areas, the rate of migration would probably not be much less than it is at present, since the bulk of job creation will of necessity take place outside of agriculture. However, a more equitable balance in the provision of schools, transportation, electric power and other services would reduce the present tendency for migration to exceed the possibilities for job creation in cities.



DRAFT  
HBChenery  
May 24, 1973

To:

From:

Subject: Scope of the Annual Speech

The General Theme

In the past several speeches you have been successful in bringing some new thinking into the international discussion of development by focusing on one or two major issues in each speech. To do this effectively the relationship between the particular topic and the overall problems and development policies has to be established.

Although I think the focus on rural poverty in this year's speech <sup>is</sup> ~~is~~ desirable, it is particularly difficult to be interesting and persuasive on this subject because almost all the elements are very familiar and many of the ideas have become hackneyed through repetition. We are also trying to sell a policy conclusion that will be unpalatable to many countries: that they should reduce or *eliminate* their concentration on the modern sector and shift resources to primitive parts of agriculture. Without

better evidence than we now have, I think it is impossible to persuade people that this can be done without a reduction in the growth of GNP.

<sup>best</sup>  
The ~~only~~ way that I see of making this an interesting and important speech is to put the poverty problem in a broader context and to give a more balanced treatment of the resource allocation choices. The first aspect was treated in my memorandum of May 8 on "A Conceptual Framework for Analysis of Poverty." A broader context for the discussion of resource allocation to the rural poor is outlined below:

The locus of poverty. The use of worldwide figures which identify poverty very largely with rural areas is somewhat misleading. Latin America is already half-urbanized and the bulk of the population increase there will be in cities. For the LDC's as a whole, since cities are growing two and a half times as fast as rural population, the balance is shifting rapidly and in many countries the poor are also being shifted from rural to urban areas.

Some of this problem is essential in order to persuade that governments ~~xxx~~ the focus on rural areas is still necessary.



The balance between agriculture and overall economic growth. In the present draft our prescriptions for rural poverty

are entirely oriented toward production. It is implicitly

assumed that there is a market for whatever is produced

Here again, the use of global figures <sup>can be quite</sup> ~~is~~/misleading. The

assumptions are accurate for <sup>a</sup> relatively small number of countries --

India, Bangladesh, Indonesia and parts of Africa -- <sup>but for</sup> ~~for~~ most of

the world, however, the argument has to be put in terms of the

relative growth of agriculture and other sectors and the market

for the commodities produced by small farmers. Without such a framework

the suggested target for increased output from small farms

is <sup>not</sup> ~~quite~~ ~~un~~persuasive.

Resource allocation. The present action program

for smallholders is almost devoid of the elements of cost effectiveness

This is valid only if countries are well within the margin of

efficiency and the limiting factors are absorptive capacity.

To go beyond this it is necessary to introduce the concept of

giving greater weight to income increases for poverty groups

that was discussed in my first memorandum.

Although the section purports to discuss rural development it is in fact almost entirely concerned with increasing agricultural output. In terms of resource requirements the rural infrastructure or roads, storage, communication, etc is probably of equal importance. It is also the area in which action by the government ~~is easiest~~ is easiest.

Even if we choose not to talk about urban problems there are a few characteristics of government action for both rural and urban poor that are similar. One is the redistribution of public expenditure toward the poverty groups of both types. This is an area in which the Bank's influence is likely to be much greater than it is in ~~xxxxxx~~ agricultural production by small farmers in the near future. I think it would be worth making this into a major theme.



INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

INTERNATIONAL FINANCE  
CORPORATION

Poverty : abs. v. relative poverty p. 11  
designing a strategy won't solve problem  
p. 13

Rural poor: figures of how many employed p. 14 v. p. 26

Program : 5% by 1980 ? p. 18.

Nothing on Bank program p. 27  
or implications (eg. interest rate policy,  
cost of credit).

~~2119~~

Strengths of small farmer - productivity  
- saves - organization (combs).

7,260,000,000  
19 000 000

(signed) Pedro-Pablo Kuczynski

Oral comments by May 30  
Written comments by June 6.  
3:30 May 23.

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First Draft - 5/21

[All figures subject  
to correction]

ADDRESS TO THE BOARD OF GOVERNORS OF THE WORLD BANK

(Nairobi -- 9/24/73)

*File Speech*

I. INTRODUCTION

It was in September of 1968 that I first met with you in this forum and outlined the goals of a Five-Year Program for the World Bank Group. That Program concluded on June 30th of this year, and I want to report to you on its results.

They are encouraging and they are also instructive. They have provided the basis on which to construct a new Program for the next five years, 1974-78, with new goals and new shifts in emphasis.

I want to suggest the scope of that Second Five-Year Program to you this morning.

The Program should of course continue to support traditional economic growth. But concurrently, it must address itself more directly to the approximately 40% of the populations of our developing member countries who are neither contributing significantly to their nation's economic growth nor sharing equitably in its economic progress. It must seek to move more rapidly against a poverty that in its most virulent form degrades the lives of hundreds of millions of individuals to levels of deprivation that can only be described as sub-human.

The manifestations of that poverty are ubiquitous, but its roots lie ultimately in rural stagnation. And it is there -- in the countryside -- that it must be directly confronted. I hope to suggest the broad outline of a strategy designed to do precisely that.



But let me turn first to a brief report on the completion of our first Five-Year Program.

## II. THE BANK'S FIVE-YEAR PROGRAM FOR FISCAL YEARS 1969-73

You will recall what our objectives were when we launched the program in 1968. We stated we were "formulating a 'development plan' for each developing country to see what the Bank Group could invest if there were no shortage of funds, and the only limit on our activities was the capacity of our member countries to use our assistance effectively and to repay our loans on the terms on which they were lent."

Based on these analyses, we proposed to double the Bank's operations in the fiscal period 1969-1973 as compared with the previous five-year period 1964-1968.

It was a formidable objective -- many believed it could not be met -- but I can report to you today that it has been surpassed. Total financial commitments of the IBRD, IDA, and IFC in the 1964-1968 period were \$5.6 billion. Total commitments in the 1969-1973 period were \$12.5 billion.

One can grasp the magnitude of that overall task by reflecting that (as indicated in the table below) in the five years we achieved a level of operations that exceeded the cumulative total of all the operations in the developing world that the Bank had previously undertaken in the 23 years from 1946 through 1968.

*Disbursements ?*



Bank Group Financial Commitments to Developing Countries by Region  
(dollars in millions)

<u>Region</u>	<u>Numbers of Projects</u>		<u>Amount of Commitments</u>	
	<u>1946-68</u>	<u>1969-73</u>	<u>1946-68</u>	<u>1969-73</u>
East Africa	69	99	\$808	\$1079
West Africa	28	106	494	1000
Europe, Middle East, N.Africa	97	141	1761	3007
Latin America and Caribbean	209	152	3424	3700
Asia	174	188	3861	4080
Total	577	686	\$10348	\$12866

But it was not mere quantity that we were seeking. We did not simply want to do more than had been done in the past, but to do more of what was most required by the evolving needs of the developing countries. That meant that within our overall objective we had to shift our emphasis both geographically and sectorally.

While continuing to serve the regions where we had been particularly active, we decided to expand substantially in other areas.

In Africa, for example, we set out to triple our lending -- and we have done so.

We undertook operations, for the first time, in Indonesia -- and in the five years have committed \$450 million of IDA funds there.

For the poorest and least developed of our member countries -- those with average per capita incomes of \$120 or less -- we have quadrupled our lending.

Operationally, during the Five-Year Program period we have initiated 215 separate projects in these countries. The comparable figure for the whole of the previous 23 years of the Bank's existence is 158.

Geographically, then, our planned shifts in emphasis have been implemented --

India?



and implemented concomitantly with an increased level of lending in our more traditional regions.

But it was clear to us in 1968 that our Five-Year Program must shift emphasis sectorally as well. Accordingly, we announced that we would quadruple our lending in agriculture over the previous five-year period -- and we have done so. We announced that we would triple our lending in education -- and we have done so.

Perhaps our most significant shift was into a sector in which the Bank had previously had no operations at all: the sensitive and difficult, but clearly critical sector of population.

We established a Population Projects Department, and from the very beginning received far more requests for technical and financial assistance from our member countries than we could immediately provide. We deliberately began our project work in a number of smaller countries in order to work effectively within our growing staff resources. But by the end of the Five-Year Program period we had signed agreements for projects in two of the largest and most heavily populated nations: India and Indonesia.

In addition to the Population Projects Department -- to which we have now added the responsibility for nutritional projects -- we have launched other initiatives within the Bank. Among them are new departments for Industrial Projects, Urban Projects, and Tourism Projects; an Office of Environmental Affairs; an Operations Evaluation Unit; and a new program of comprehensive country economic reporting.

To achieve the doubled level of our operations, we of course had to strengthen the Bank both organizationally and financially. We increased



worldwide recruitment and expanded the staff by 125% during the period. We were determined in this effort that we should broaden the international character of our staff to the maximum degree feasible. In 1968 the staff represented 52 nationalities. It now represents 92. In 1968 the proportion of staff from our developing member countries was 19%. The proportion is now 29%, and continues to grow.

Lending more has of course meant borrowing more, and that in turn has depended on governments granting us access to their capital markets. This they have continued to do, despite unsettled conditions and monetary fluctuations. It is a mark of confidence in the Bank's financial structure that we have been able to borrow not only in our more traditional markets, but in altogether new ones, and to utilize new borrowing instruments and new channels of distribution. Net borrowing for the five-year period has been approximately three and three-quarters times that of the earlier period, and our liquid reserves have risen to \$3.7 billion, an increase of 165%.

*Good or bad?*

Neither the increase in our operations, nor our shift in emphasis towards more socially oriented sectors, has adversely affected net income. On the contrary, total net income for the five-year period was \$970 million, 30% more than in the previous period, and this despite a significant increase in the subsidy to the developing countries implicit in the Bank's lending rate.

We have completed the Five-Year Program, then, by meeting the quantitative goals we had set for ourselves in 1968, and by making a sustained effort to improve the overall quality of our work.

But our task now is to move forward with a Second Five-Year Program. Like the first, its goals and shifts in emphasis must be shaped by the evolving development situation itself.

Let me give you my assessment of what that situation is.



### III. THE BANK'S SECOND FIVE-YEAR PROGRAM: FY1974-1978

Most of our developing member countries are faced with three inter-related difficulties. Each of these difficulties is serious in itself. But in the aggregate they threaten the outcome of the entire development effort.

These difficulties are:

- . An insufficiency of foreign exchange earnings through trade.
- . An inadequate flow of official development assistance (ODA).
- . And an increasingly severe burden of external debt.

The core of the trade problem for the bulk of the developing countries is that they cannot expand their exports rapidly enough to pay for their essential imports. These imports are themselves often the key to greater export capability -- and higher foreign exchange earnings -- and thus the dilemma of trade imbalances in these countries tends to become self-perpetuating.

The problem is compounded by the delay of the wealthy nations to dismantle discriminatory trade barriers against the poor countries. Our studies indicate that if the affluent nations were gradually to reduce their present protectionist trade restrictions against agricultural imports from the developing world, the poorer nations could by 1980 increase their annual export earnings by at least \$4 billion. That should be their objective.

Secondly, the current flow of official development assistance -- and on concessionary terms -- is acutely inadequate. Not only is it far below what the developing nations need and what the affluent nations can readily afford, but, as the attached table indicates, it is only half the modest target of .7% of gross national product (GNP) prescribed by the internationally accepted U.N. Strategy for the Second Development Decade.



That target called for reaching ODA levels of .7% by 1975. In 1975, ODA will not exceed .37%. And yet achievement of the target neither requires the people of the developed nations to reduce their already high standards of living, nor to neglect their domestic priorities. It only asks them to dedicate a tiny fraction of the incremental wealth -- wealth over and above that they already enjoy -- that will accrue to them in the decade of the 70s.

During the decade, the annual GNP of these affluent nations will grow -- in constant prices -- from \$2 trillion in 1970 to approximately \$3.5 trillion in 1980: an increase in wealth virtually beyond one's capacity to comprehend.

In order to double the ODA flows, and thereby raise them to the targetted .7%, the developed countries would need to devote to that end less than 2% of the amount by which they themselves will grow richer during the period. The remaining 98% of their incremental income would provide them with more than sufficient funds to meet their domestic priorities.

There are in fact many grounds for development assistance: among others, the expansion of trade, the strengthening of international stability, and the reduction of social tensions.

But in my view the fundamental case for development assistance is the moral one. The whole of human history has recognized the principle -- at least in the abstract -- that the rich and the powerful have a moral obligation to assist the poor and the weak. That is what the sense of community is all about -- any community: the community of the family, the community of the village, the community of the nation, the community of nations itself.

But moral principles -- if they are really sound, and this one clearly is -- are also practical ways to proceed. Social justice is not simply an ideal:



it is a sensible way of making life more livable for everyone.

I, for one, cannot believe that once the facts of ODA are better understood; that once the degree of deprivation in the developing nations is more fully grasped; that once the true dimensions of poverty in the less privileged world are more realistically compared with the vast abundance in the developed world (that once the US people, for example, understand that they, with 6% of the world's population, consume some 35% of the world's total resources and yet rank thirteenth among the sixteen ODA-providing nations) -- I cannot believe that in the face of this the people and governments of the rich nations will turn away in cynicism and indifference.

Quite to the contrary, I believe they will meet their responsibilities.

Finally, there is the problem of growing external debt in the developing world. Publicly guaranteed debt currently stands at about \$80 billion, with annual debt service of approximately \$7 billion.

It is important to understand what the essence of the debt problem is. It is not the fact that there is debt, nor even the absolute size of the debt. It is, rather, the composition and dynamics of the debt; the fact that debt, and debt payments, are growing faster than the revenues required to service them. Restricted trading opportunities, exacerbated by inadequate flows of ODA, tend to drive developing countries to over-reliance on export credits and other short-maturity, hard-term finance. It is these factors that threaten to increase the debt burden beyond reasonable limits. Already since 1970 several countries -- Ghana, Chile, Pakistan, India, Indonesia, and Sri Lanka among others -- have either defaulted on debt service or been forced to ask for debt rescheduling in order to avoid default.



Given the nature of this interrelated set of problems in our developing member countries -- an insufficiency in foreign exchange due to trade difficulties; the inadequate flow of ODA; and the growing debt burden -- the Bank, far from relaxing the momentum of our operations over the next five years, must increase it. And we intend to do just that.

We plan to expand both our IBRD and IDA lending at a cumulative annual rate, in real terms, of 8%.

For the five-year period FY1974-1978, our lending -- in 1973 dollars -- should total \$22 billion for almost 1000 projects.

The total cost of these projects will approach \$50 billion.

Our \$22 billion in new commitments will constitute a 70% increase over the 1969-1973 period, and a 280% increase over the 1964-1968 period.

This, then, is the quantitative scope of our plans for the Second Five-Year Program. Qualitatively, we intend to shift the emphasis of our policies and our projects towards increasing the productivity in our developing member countries of that approximately 40% of the population who have neither been able to contribute significantly to national economic growth, nor to share equitably in economic progress.

This shift in our emphasis does not mean we will not continue to support economic growth in itself. What it does mean is that we will intensify our attention on policies and projects which will give greater assurance that that growth is contributed to and participated in by the hundreds of millions who have been virtually by-passed by the economic development process.

Let me, for a moment, elaborate on this point.



#### IV. POVERTY IN THE DEVELOPING WORLD

Last year I reported to you on our initial review of income distribution data. As preliminary as the data were, they indicated general orders of magnitude that demonstrated wide disparities in income both between the developed nations and the developing nations, and within the developing nations.

Within the past year we have gathered and analyzed additional data. It continues to be sketchy, but the inferences are clear: The distortions in income distribution are not less than we thought. They are greater.

Average per capita income in our developed member countries is approximately \$2790. The comparable figure for our developing member countries is \$250: more than a tenfold difference. But the gap at the extremes is far worse than that. The average person in the United States, for example, receives \$4760. His counterpart in the Upper Volta receives \$60: a differences of nearly 8000%.

But yawning gaps in income exist not merely between nations, but within nations. The average per capita income figure of \$250 for our developing member countries -- as low as it is -- obscures a much worse situation.

The truth is that of the 2 billion individuals living in our developing member countries, 500 million of them live on an average per capita income of only \$65, and at least 250 million more on a per capita income of less than \$110.

Consider what that means.

It means that nearly 800 million people -- 40% of our entire developing member country population -- are trying to survive on a daily income of less than (and in many cases, far less than) 30¢ per day.



We are dealing here with a situation which strains the power of the imagination to grasp. Statistics -- as shocking as they are -- simply cannot convey the reality. We use the word "poverty." But in this context the word itself has become hopelessly inadequate.

*Sander 100 months*  
Much of our semantic confusion stems from a failure to distinguish between what might be termed two kinds of poverty: relative poverty and absolute poverty.

Relative poverty means simply that some countries are less affluent than other countries, or that some citizens of a given country have less personal abundance than their neighbors. That has always been the case, and granted the realities of inherent differences between regions and between individuals, will continue to be the case for decades to come. It becomes a problem only when the distribution of income is so severely skewed -- as it is today both between the rich and poor nations and within the poor nations -- that it offends our sense of equity and is the source of social and political disorder.

But if excessive relative poverty is corrosive of the social structure -- and it is -- absolute poverty is a situation destructive of human decency.

What I mean by absolute poverty is a condition of life -- if it can be called "life" at all -- which is so degraded by disease, illiteracy, malnutrition, and squalor as to be by any rational standard virtually sub-human.

It is a condition of life suffered by hundreds of millions of the citizens of the developing countries.                      represented in this room:

- . One-third to one-half of the two billion human beings in those countries suffer from hunger or malnutrition.



- . 25% to 30% of their children die before their fifth birthday. And millions of those who do not die lead impeded lives because their brains have been damaged, their bodies stunted, and their vitality sapped by protein deficiency.
- . The life expectancy of the average person is 20 years less than in the developed countries. They are denied 30% of the lives we enjoy: condemned at birth to an early death.
- . 800 million are illiterate and, despite the continuing expansion of education in the years ahead, more of their children are likely to be so.

This is "absolute poverty": a condition of life so limited as to prevent realization of the potential of the genes with which one is born; a condition of life so degrading as to be sub-human. But a condition of life so common as to be the life of some 40% of the peoples of the developing countries. And are we who tolerate it, when we have it within our power to reduce the number afflicted by it, not also sub-human?

Talleyrand said, "Above all else, not too much zeal." I don't wish you to interpret my remarks as those of a zealot. You have hired me to examine the problems of the developing world and to report to you the facts. These are the facts.

The citizens of the developed countries protest against increasing their assistance to the developing countries because of poverty in their own lands. They do so either because they are unacquainted with these facts, or because they fail to distinguish between relative and absolute poverty.

} 70% this  
the  
problem?

Now where are these victims of absolute poverty? Millions are in the cities of the developing world -- squatting in slums, shacks, and on the sidewalk itself, requiring for their economic advance the accelerated rate of industrialization that I have spoken of before and will refer to again -- but the vast proportion of them still live in the countryside.



Their degradation has continued despite the advances of the past two decades of development effort. It has continued because in most developing countries those advances have been concentrated in the modern sector. In one of the largest Latin American countries, for example, the poorest 40% during the decade of the sixties received less than 5% of the nation's increase in income. In five other major developing countries -- with an aggregate population of over 800 million -- over 70% of the increase in national income went to the top 20%, and less than 10% went to the poorest 40%. In Thailand, during the sixties, while total national income grew at an annual rate of 8%, the income of the poorest 50% of rural families increased by less than 1%. Even this low rate obscures further inequity. Those rural families living in the Northeast and Southern regions of Thailand actually suffered a considerable decline in income. Their growth rate was negative.

Sixty percent of the population in the developing countries still live in the countryside. Even by the end of the century it is not likely to be less than 55%.

The single most important step that can be taken to address the problem of the absolute (and relative) poverty suffered by the majority of the one billion two hundred million individuals who live in the rural areas -- and concomitantly, the single step that will most enhance their ability to contribute significantly to their nations' overall economic growth -- is to design a strategy that will increase the productivity of small-scale subsistence agriculture.

It is to that prospect that I would like to devote the remainder of my remarks today.



## V. INCREASING THE PRODUCTIVITY OF SMALL-SCALE AGRICULTURE

Let me begin with an analysis of some of the parameters of the problem.

Poverty -- both absolute and relative -- exists throughout the rural areas of all developing countries. Its greatest concentration is in Asia and Africa, but there are very extensive pockets of it in most of the countries, large and small, in Latin America as well. In Guatemala, for example, the overall average per capita income is about \$400, but fully half the population has an average income of only \$75 -- and all these individuals are in the countryside.

An index of the extent of the problem is the sharp differentiation in income between rural and urban populations. Studies indicate that during the last decade average urban per capita income, compared to that in the rural areas, was five times higher in Honduras, four times higher in Brazil, two and a half times higher in India, and twice as high in Malaysia and Tunisia.

Population growth rates are universally higher in the rural areas and thus, in spite of accelerating urban migration, absolute increases in the population in the countryside continue and increases in the number of rural poor continue.

7  
Source? A survey of 19 countries in Latin America estimated that in 1960 these countries contained approximately 72 million rural poor. By 1970 the figure had increased to 86 million -- out of a total rural population in these countries of 114 million individuals, some 86 million were surviving at subsistence levels. By the end of the decade, the 86 million poor are likely to grow to 103 million.

data. But if population growth in the rural areas of the developing world has been rapid in the last decade, the rise in agricultural productivity has been slow. On average, net agricultural growth has only been about 2% a year. The result has been that growth of per capita incomes for the rural poor, in absolute terms, has barely been perceptible if it has grown at all.



In India, for instance, surveys disclose that the per capita consumption in the rural areas of the poorest 40% did not increase at all in the period 1960-1968: It remained constant, in 1960 prices, at about \$28 (8¢ per day). Even the average for the poorest 80% moved only minimally: from \$40 to \$41 (11¢ per day). And Mexico, though its average per capita income is some six times greater than India, demonstrated the same phenomenon. The income of the poorest 40%, measured in the same 1960 prices, rose from \$94 in 1950 to \$112 in 1968: an increase of only one dollar a year. *Check*

The root of this income stagnation among the rural poor is their low productivity. That in turn is a function of the quality and size of their land holdings, the insecurity of their tenancy system, and their drastically limited access to agricultural services; credit, water, fertilizer, pesticides, and extension advisory assistance.

Let us consider these factors for a moment.

The rural poor throughout the developing world either own no land at all, or only very small holdings of land. If one accepts 5 hectares or less as an index of small holdings, 78% of all farms in Asia (excluding mainland China), 75% of all farms in Africa, and 36% of all farms in Latin America are less than 5 ha. in size. In Asia, where the ratio of population to cultivated land is the heaviest, the average farm is only 2.3 ha. By contrast, the average size of a farm in North America is 60 ha.

What these figures mean is that the incomes of approximately 1 billion individuals in the developing world are directly linked to the output of holdings of less than 5 ha. in size.

*too big*



But the mere fact that land holdings are small does not mean that they must be unproductive.

On the contrary, studies demonstrate that output per hectare in Guatemala on the smallest farm size groups was 92% higher than the largest size groups; in Taiwan, 67% higher; in India, 37% higher; and in Brazil, 33% higher.

In land-scarce, labor-surplus economies, the relevant measure of agricultural productivity is clearly output per hectare, rather than output per worker.

But to make small holdings highly productive demands access to adequate credit, water, fertilizer, pesticides and extension services. The vast majority of small landholders today simply do not enjoy that access.

Consider the problem of rural credit. Most small landholders in the developing nations cannot get the credit they require to purchase the fertilizer, pesticides and other inputs which can increase the productivity of their holdings.

In Asia, for example, the cost of the fertilizer and pesticides required to make optimum use of the new high-yield wheat and rice strains ranges from \$20 to \$80 a hectare. But the average small-scale farmer is spending only about \$6 a hectare, because that is all that he can finance. And that \$6 does not generally come from government or institutional sources, but from local landlords or village money lenders -- at usurious rates of interest.

Commercial institutions are reluctant to make credit available to the small farmers since the administrative and supervisory costs of small loans may run as high as 50 to 60% of the amount lent. Further, the subsistence farmer is operating so close to the margin of survival that he is simply not considered as creditworthy as his more wealthy neighbors.



*difficult too little*

Without credit, the small farmer obviously cannot afford the agricultural inputs he needs. Take the case of fertilizer. Though the developing countries in Asia, Africa, and Latin America currently farm 46% of the world's total cultivated land, they use only 15% of the world's total production of commercial fertilizer. In 1970, farmers in the wealthy nations used an average of 70 kgm. whereas, those in the developing countries used an average of only 14 kgm. per hectare, per hectare, / This, in part, explains why agriculture production in the developing regions during the 1960s rose by only 1 to 2% last year, whereas it went up by 5% in Western Europe and 9% in North America.

But even if the small farmer in the developing countries were guaranteed more secure tenure on his land, and had access to sufficient low-cost credit to purchase the necessary fertilizer and other inputs, he would still need the technical advice and detailed information which only a reasonably adequate extension service can supply. In view of the prevailing low literacy rates, this clearly is even more important than in affluent nations where farmers already benefit from higher levels of education. But extension services in the developing world are least available to those who need them the most -- the very poor, and the very small farmers.

*Data*

What we must face is that over the past two decades very little has been done throughout the developing world specifically designed to increase the productivity of the smallholder. Neither political programs, economic plans, nor international assistance -- bilateral or multilateral -- has given the problem serious and sustained attention. The Bank is no exception. In our more than a quarter of a century of operations, out of our \$25 billion of lending, at most \$1 billion has been devoted directly to the problem.

It seems to me that it is time for all of us in the development community to confront this issue head-on.



## VI. AN ACTION PROGRAM TO ACCELERATE THE INCREASE IN PRODUCTIVITY OF SMALLHOLDER AGRICULTURE

What can the development community do?

It can begin with an overall objective. I suggest that the objective be that smallholder agriculture by 1980, achieve an annual 5% cumulative rate of growth in productivity.

How can this be done? Can it be done at all?

I believe it can, but the task is going to be immense.

We must start with the fact that we not only do not have any easy answers, but that we probably do not even fully grasp the question.

We are talking about a hundred million small farmers or landless farm workers -- farmers who work so little land, or who reap so small a yield, that they often cannot produce enough to support themselves and their families at minimum levels of nutrition.

For the purposes of analysis, let us break the overall question down into some of its more obvious components.

Can, for example, the total area of arable land in the developing world be substantially expanded? The answer is theoretically yes -- particularly in the case of Africa and parts of Latin America.

A vast region of Africa as large as the continental United States could be opened up for grazing land -- an area which might support as many as 125 million head of cattle -- if the menace of the tsetse fly could be eradicated. Similarly, huge areas in the Amazon basin might be cleared and cultivated.

But from a practical point of view, these are possibilities for a longer-range future and not for the immediate present. We must begin with the arable



land already at hand, currently cultivated, now in use. We must help make that land -- and the small farmers who till it -- more productive.

We are all aware of both the benefits, and the potential social complications, of the green revolution. There can be no question about its proven capacity to increase yields, but it is a technology highly dependent on irrigation. It is clear that we need a comparable technology for rain-fed and semi-arid cultivation.

The new International Crops Research Institute for the Semi-Arid Tropics, established last year by the Consultative Group on International Research -- of which the World Bank is a member -- is dedicated to developing precisely such a technology. But a breakthrough of the magnitude required is at least a decade away. And again, we cannot afford to wait for it. We must begin now with what can be done now. Too many millions of individuals are trapped in absolute poverty today for us to delay action until some miraculous technological tomorrow.

What, then, can we begin to do now?

We can begin to implement a strategy based on five key elements.

- . Acceleration in the rate of land and tenancy reform. • *Public expenditure*
- . Broader credit facilities.
- . Expanded extension services.
- . Sounder pricing policies.
- . And perhaps most critical of all: new forms of rural institutions and organizations that will give as much attention to promoting the inherent potential and productivity of the poor as is generally given to protecting the disproportionate power of the privileged.

Let us examine these five elements in more detail.



Legislation dealing with land and tenancy reform has been passed -- or at least been promised -- in virtually every developing country there is. But all of us are aware that it is largely legislation in which the rhetoric far outweighs the reform. That is extremely regrettable. No one can pretend that genuine land and tenancy reform is easy. It is hardly surprising that members of the political power structure, who own large holdings, should resist reform as they do (in one large developing country, where the government's land reform proposal recently failed to gain the support of the Parliament, more than 50% of the members of Parliament owned land in excess of the average limit proposed).

But the real issue isn't whether land reform is politically easy. The real issue is whether indefinite procrastination is politically prudent. An increasingly inequitable situation can reach the point where it threatens political stability itself.

And equitable land and tenancy reform programs -- programs involving reasonable land ceilings, just compensation, and sensible tenancy security -- are possible. They must begin with sound



policies. Those policies, in turn, must be translated into strong, straightforward laws -- laws neither enervated by exceptions, nor riddled by loopholes. And most important of all, the laws must incorporate effective sanctions, and be rigorously and impartially enforced.

What we must recognize is that land reform is not exclusively about land. It is about the uses -- or abuses -- of power, and the social structure through which it is exercised. Governments would be well advised to take the political steps necessary to assure equity in that structure.

But realistic land and tenancy reform -- as essential as it is -- is not enough. It is one thing to own land. It is another to make it productive. For the small landowner, operating with virtually no capital, access to credit is crucial.

As I mentioned a moment ago, the traditional suppliers of credit to the smallholder have been the village money lenders, or other non-institutional private sources. Their rates of interest are usurious and exploitative, three to five times that of government institutions. But government institutions are generally unavailable or, if available, so bureaucratic as to be unusable.

If a peasant's only bullock dies, the money lender can supply him with the capital to purchase another one on the following day -- an economic necessity at critical times of the crop cycle. The peasant need only make his mark on a piece of paper, and the money lender will hand him the cash. It may be true that the peasant is hopelessly mortgaging himself and his land for an indefinite future; but his immediate crisis is solved: His field can be plowed, and his crop planted.



If, instead, the peasant applies for credit at some distant government agricultural bank -- even supposing there is one -- he is likely not only to have difficulties with application forms he can neither read nor understand, but when and if his loan is considered by an impersonal committee and finally approved, the bureaucratic delay may well mean that his field will not get plowed, nor his meager crop properly planted. The money for a new bullock may ultimately arrive -- but weeks too late.

A survey reveals, for example, that over 30 separate procedures are necessary to approve a loan in Turkey, and that the process requires 21 days. In Jordan, it takes 26 days. At the Lebanese Bank for Agricultural and Industrial Development, to obtain a small loan takes a minimum of 36 days.

The fact is that in most developing countries institutional credit -- while preferable in theory -- is in actual practice a small proportion of the rural credit available. Of the total funds borrowed for rural purposes, institutional funds represent only 10% in Iran and Tunisia; 15% in Ceylon, Bangladesh and Thailand; 28% in India; and less than 40% in Pakistan and Korea.

But even in countries where institutional sources of rural credit are more highly developed, it is not the smallholders, but the larger landowners who get most of the service. In Mexico only 15% of the small farmers receive institutional credit provided to agriculture.

In the decade of the sixties, the real value of institutional agricultural credit in Brazil increased more than fourfold. But during the same period the percentage of loans, and the total value lent, to small farmers in fact declined from 68% to 31%.

It is clear that institutional credit facilities for the smallholder are



inadequate throughout the developing world. But even if they are improved -- and they must be -- they will have to be accompanied by a massive increase in agricultural extension services.

The small farmer needs credit, but he needs technical information as well. And he is not getting nearly enough of it.

In the developed countries the ratio of government agricultural agents to farm families is about 1 to 400. In Latin America the current ratio ranges from 1 to 900 to 1 to 8700 families. In Africa the ratio runs as high as 1 to 20,000 families.

Behind extension services, of course, lies applied research. In a sample of five major developed countries, the governments are allocating annually from \$20 to \$50 per farm family for such research. The comparable figures for five major developing countries are only 50¢ to \$2.00 per farm family.

Throughout the developing world the projected annual output of trained personnel from existing agricultural extension institutions can at best satisfy less than half the total needs. Estimates are that Latin America will require at least 60% more trained staff at the field level; <sup>Asia,</sup> 10% more senior-level staff and 66% more field-level staff; and Africa, 75% more at senior levels and 70% more at field levels.

And yet despite this serious shortfall in extension services, the annual cost of training the required senior and field-level personnel would be modest in relation to the GNP of the developing countries: on average less than one-fifth of one percent.

It is not primarily the deficiency of funds that is delaying the necessary expansion of extension services. It is the deficiency of resolve to do more for the small farmer who desperately requires them.



The same can be said for changes in pricing policy that would benefit the smallholder. What is required is that prices should more realistically reflect the relative scarcities of land, labor, and capital.

In areas where the opportunities for jobs outside agriculture itself are few, it is economically self-defeating to tolerate a price structure which stimulates greater output per <sup>employed</sup> worker through the use of mechanization on large holdings. Such a policy is in effect a formula for high unemployment, and the serious social costs that flow from rural displacement. And yet that is precisely the policy prevailing in many such regions today. The trend must be reversed -- both for the sake of social equity, and overall productivity.

But the most important element in any comprehensive rural development strategy is the effort by governments to devise appropriate institutional and organizational frameworks in which all the other elements can in fact work.

Land and tenancy reform, credit, extension, pricing policy -- none of these other factors can take hold unless there are the institutions, the organizational structure, and the managerial competence to make them effective.

What this means in practice is that the governments must find new ways to relate with millions of small farmers. They obviously cannot do so on an individual basis. They have to do so through intermediate institutions, and local farm organizations -- institutions which do not exist in the requisite numbers in most developing countries.

Such institutions and organizations can take any number of forms, but what is important is that they provide for an optimum mix of self-reliance and government assistance.



Smallholder associations, for example, in the developing countries have been the most successful when they have combined local initiative with a hierarchical structure. The basic unit needs a certain critical mass to be effective, and hence the village level -- with perhaps only 50 to 100 members -- is often too small to enjoy the minimum economies of scale. Township or county units are generally preferable as the basic organizational unit, and these in turn can federate at district and regional levels, and coalesce at the top on the national level.

What is imperative is that at each organizational level financial discipline be rigorously required, and that the entire structure be oriented towards efficiency and productivity, rather than passivity and dependence.

Subsistence farmers may be illiterate and deprived, but their very battle with survival has made them both cautious and shrewd. Experience proves that if an intermediate government institution assists the local association with credit, but allows too many of the members to waste funds on unnecessary consumption, or to default on loans irresponsibly, the association will fail. The small farmer will begin to feel that the government does not expect to be repaid, and that the whole exercise is simply a form of paternalistic welfare. If, on the other hand, financial discipline is maintained, the members can grow increasingly self-confident and productive.

In the case of the smallholder associations of Comilla County, Bangladesh, the first principle was that every member should make a regular deposit, no matter how small, in order to learn the value of saving and to increase the association's financial capability. Despite this being one of the poorest areas of the world -- and in the face of the skepticism of outside observers



who asserted that savings in such a depressed region were impossible -- the average total deposits in a Comilla smallholder association by the late sixties was \$195,000.

It is, of course, not enough to simply organize local smallholder associations. The quality of the management is crucial. The central government cannot simply impose solutions on all local problems. For one thing, it cannot possibly understand the problems in detail as well as those who have them. Manifestly, a great measure of autonomy must remain with the local leadership.

What the government can and must do is assure that the control of the smallholder associations does not fall exclusively into the hands of the traditional elite who are likely to use the organization simply to preserve their own already disproportionate power. This has happened in a number of developing countries, and with all the depressing results one would expect.

Without a viable and hierarchical framework of smallholder organizations -- designed to meet the psychological, financial, and technical needs of a given culture -- rural poverty will only grow worse. Current population trends mean that the approximately 100 million small farmers and their families (six hundred million people) today in the developing world -- despite increasing immigration to urban slums -- are likely to double by the end of the century.

Without assistance, without progress, without hope, this desperate mass of the rural poor will only sink lower into the morass of sub-human conditions-- conditions that are not only an affront to any norms of human decency, but which will inevitably fester into contagious and explosive social tensions.

In view of this, for the international community to redouble its efforts in rural development is not a counsel of perfection. It is a counsel of necessity.



If we are serious about eradicating "absolute poverty" in the rural areas by the end of this century, and that should be our objective, smallholder agriculture must achieve an annual 5% rate of cumulative growth in productivity.

I believe that is possible by the end of this decade.

For the Bank's part, we are determined to give increasing emphasis to agriculture and rural development operations in our new Five-Year Program. We expect to lend \$4.4 billion in agriculture during that Program -- as compared to \$2.2 billion in the first Five-Year Program, and \$620 million in the 1964-1968 period.

We have recently approved, or are prepared to launch, multi-purpose Rural Development Projects in Mauritius, Indonesia, India, Mexico, East Africa and Northeast Brazil. We have established for this purpose a special Rural Development Projects Division. Our project work and technical assistance and our policy advice will emphasize acceleration in the rate of land and tenancy reform, the expansion of credit facilities, the expansion of extension services, the introduction of sounder pricing policies, and the establishment of new forms of rural institutions -- all of which are required if the objective is to be achieved.

## VII. SUMMARY AND CONCLUSIONS

Let me now summarize and conclude the central points I have made this morning.

If we look objectively at the world today, we must agree that it is characterized by a massive degree of inequality.

The difference in living standards between the rich nations and the poor nations is a gap of gigantic proportions.

The industrial base of the wealthy nations is so great, their technological capacity so advanced, and their consequent advantages so immense that it



is unrealistic to expect that the gap will narrow by the end of the century. Every indication is that it will continue to grow.

Nothing we can do is likely to prevent this. But what we can do is to reduce the rate at which that gap is increasing. We can do this by acting to expand the wholly inadequate flow of official development assistance.

The flow of ODA can be increased, by 1980, to the target of .7% of GNP -- a target originally accepted within the United Nations for completion by 1975.

This is feasible, but it will require renewed efforts by many nations, particularly the United States.

Further, we must recognize that a high degree of inequality exists not only between developed and developing nations, but within the developing nations themselves. Studies in the Bank during this past year reinforce the preliminary conclusions I indicated to you last year: income distribution patterns are severely skewed within developing countries -- more so than within developed countries -- and the problem requires accelerated action by the governments of virtually all developing nations.

A minimum objective should be that the distortion in income distribution within these nations should at least stop increasing by 1975, and begin to narrow within the last half of the decade.

A major part of the program to accomplish this objective must be designed to attack the "absolute poverty" which exists in totally unacceptable degree in almost all of our developing member countries -- poverty so extreme that it degrades the lives of individuals below minimal limits of human decency.



The "absolute" poor are not merely a tiny minority of unfortunates -- a miscellaneous collection of the losers in life -- a regrettable but insignificant exception to the rule. On the contrary, they constitute roughly 40% of the two billion individuals living in the developing nations.

Some of the "absolute" poor are in urban slums, but the vast bulk of them are in the rural areas. And it is there -- in the countryside -- that their poverty must be confronted.

We should strive to eradicate "absolute" poverty by the end of this century. That means in practice the elimination of malnutrition and illiteracy; the reduction of infant mortality; and the raising of life expectancy standards to those of the developed nations.

A major requirement for the accomplishment of this objective is an increase in the productivity of small-scale, subsistence agriculture.

Is it a realistic goal?

The answer is yes, if governments in the developing countries are prepared to exercise the requisite political will to make it realistic.

It is they who must decide.

As for the Bank, increased productivity of the small, subsistent farmer will be a major goal of our program of expanded activity in the FY1974-1978 period.

But no amount of outside assistance can substitute for the developing member governments' resolve to take on the task.

It will call for immense courage, for political risk is involved. The politically privileged among the landed elite are rarely enthusiastic over the steps necessary to advance rural development. That is shortsighted, of course, for in the long term, they, as well as the poor, can benefit.



But if the governments of the developing world -- who must measure the risks of reform against the risks of revolution -- are prepared to exercise the required political will to assault the problem of poverty in the countryside, then the governments of the wealthy nations must display equal courage. They must be prepared to help them by removing discriminatory trade barriers and by substantially expanding official development assistance.

What is at stake in these decisions is the fundamental decency of the lives of 40% of the people in 100 developing nations which are members of this institution.

We must hope that the decisions will be the courageous ones.

If they are not, the outlook is dark.

But if the courageous decisions are made, then the pace of development can accelerate.

I believe it will. I believe it will because I believe that during the remainder of this century our peoples will become increasingly intolerant of the inhuman inequalities which exist today.

Each of the great religions teaches the value of each human life. In a way that was never true in the past, we now have the power to create a decent life for all men. Should we not make the moral precept our guide to action? The traditional extremes of privilege and deprivation are becoming increasingly intolerable.

It is development's task to deal with them.

You and I - and all of us in the international community - share that responsibility.

*Ernie's point*

*Not enough on what we do.*



PROJECTED FLOW OF OFFICIAL DEVELOPMENT ASSISTANCE  
MEASURED AS A PERCENT OF GROSS NATIONAL PRODUCT<sup>a/</sup>

	1970	1971	1972	1973	1974	1975	1976
Australia	.59	.52	<del>.56</del> .59	<del>.56</del> .59	.59	.60	.60
Austria	.13	.06	.17	.19	.22	.25	.26
Belgium	.48	.49	.54	.58	<del>.65</del> .62	<del>.70</del> .66	.70
Canada	.42	.37	<del>.42</del> .48	<del>.44</del> .51	<del>.45</del> .55	<del>.47</del> .59	.49
Denmark	.38	.43	.48	.53	.58	.64	.70
France	.68	.68	.65	.65	.65	.65	.65
Germany	.32	.34	<del>.30</del> .38	.36	.36	.38	.40
Italy	.16	.17	.16	.16	.16	.16	.17
Japan	.23	.23	<del>.22</del> .28	<del>.28</del> .32	<del>.34</del> .36	.40	.42
Netherlands	.63	.60	<del>.62</del> .70	<del>.63</del> .74	<del>.66</del> .76	<del>.70</del> .78	.72
Norway	.32	.33	.47	.56	.67	.75	.82
Portugal	<del>.64</del> .61	<del>1.43</del> .75	.45	.45	.45	.45	.45
Sweden	.36	.45	.50	.56	.65	.71	.75
Switzerland	.15	.12	.22	.26	.30	.32	.34
United Kingdom	.37	.41	.41	<del>.44</del> .41	<del>.38</del> .45	<del>.39</del> .46	.42
United States <sup>b/</sup>	.31	.32	.30	<del>.25</del> .28	<del>.22</del> .26	<del>.22</del> .24	.21
TOTAL	.34	.35	<del>.34</del> .26	<del>.34</del> .26	<del>.34</del> .26	<del>.35</del> .27	.36

a Countries included are members of OECD Development Assistance Committee, accounting for more than 95% of total Official Development Assistance. Figures for 1970 and 1971 are actual data. The projections for later years are based on World Bank estimates of growth of GNP, on information on budget appropriations for aid, and on aid policy statements made by governments. Because of the relatively long period of time required to translate legislative authorizations first into commitments and later into disbursements, it is possible to project today, with reasonable accuracy, ODA flows (which by definition represent disbursements) for 1975<sup>6</sup>.

b As recently as 1963 U.S. Official Development Assistance amounted to .59% of GNP and in 1949 at the beginning of the Marshall Plan it amounted to 2.79%.

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