Module 12: Scaling Up Agricultural Investments in the Bank's Changing Internal Environment

The World Bank, through its new rural development strategy, *Reaching the Rural Poor*, is committed to increasing lending for agricultural and rural development and to enhancing the impacts of that lending on poverty reduction. However, future investments must conform to new realities in the Bank's lending environment, new processes in country dialogue (such as PRSPs), and a renewed commitment to quality. This module explores some of the *process* options for investing in agriculture, in ways that are more sustainable than in the past and that have greater impact on poverty reduction.

Expanding Support to Agriculture—Scaling Up Successes

A key thrust in the implementation of the Bank's rural development strategy is identifying and "scaling up good practice investments and innovations in rural development" to broaden coverage and deepen developmental impact. Scaling up good practices, especially those shown to be effective in reducing poverty, must become an integral part of strategies to support agriculture.

The term "scaling up" is used with reference to the replication, spread, or adaptation of techniques, ideas, approaches, and concepts, to increase the scale of impact. An investment with potential to be scaled up typically moves through various stages: an *innovation* (minimal objective evidence); a *good practice* (clear evidence from several settings/evaluations); or a *policy principle* (proven in multiple settings; considered to be a widely applicable "truism" essential for success) (World Bank 2003). The lines between these categories are seldom clear, however, and they depend on whether sufficient resources are allocated to evaluate promising innovations at each stage. Scaling up often requires a long process of phased stages (up to 10-15 years) for development and refinement of technologies and institutional processes, often with donor support (box 12.1).

Box 12.1 India: success in scaling up watershed programs

The watershed development work by the Social Center and the Indo-German Watershed Development Programme (IGWDP) addressed the complex livelihoods and natural resource issues of water and watershed management. By 1994, the IGWDP had shown a wide range of local economic gains (doubling crop production, creating employment opportunities, restoring groundwater resources) and social gains (setting up a village watershed committee, involving marginal groups, and reducing out-migration). Through these successes, the IGWDP has been extended to 146 watersheds involving over 200,000 villagers.

The *state of practice evolved* from early "innovative success stories" prior to the 1990s, which focused on technical arrangements with little regard for social complexities, to a "good practice" stage in the 1990s, in which watershed management was viewed as a social problem but approaches were not consistently replicable. The *process of scaling up* involved generating a set of "local-level ingredients" of success from pilot experiments. These provided specific mechanisms for building ownership, control, and motivation in communities, linking government communities and nongovernmental organizations (NGOs), defining exit strategies, and developing mechanisms for continued local funding. This process took approximately 4 years and built on 25 years of experience in the area. Successes included marshalling of political support, developing guidelines for government staff, coordinating government agencies, adopting a long-term "cluster" approach, and developing NGO capacity.

These experiences were further scaled up in other states, with the support of other donors. The World Bank became an active supporter of watershed management projects in India, building on the experience of the IGWDP. The first of these projects, the Northern Hills Watershed Project (1991-97), was highly rated for the impact it achieved, and a second project is underway to extend the scaling up.

Source: World Bank 2003; World Bank internal documents

A particular problem with World Bank experience in scaling up has been the tendency to replicate successful models without sufficient attention to either the difficulties of using a specific intervention on a wider scale, its replicability or sustainability, or to the varying contexts in which that intervention is to be used. The training and visit extension system and integrated rural development programs are examples of models that were rapidly scaled up without sufficient attention to costs, sustainability, or characteristics of local farmers and farming systems. Many interventions, such as community-driven development, have special issues of scaling up, which are related to local capacity building and to developing links between communities, local government, and higher levels of government. All interventions require adaptation to the local physical, socioeconomic, and institutional settings—replication across environments usually does not work well for agricultural investments. Much greater attention has to be given to developing institutional capacity to adapt and learn at the local level, based on established principles and processes, rather than replicating standard models.

There are no shortcuts to scaling up, and evaluation, learning, experimentation, and a long-term commitment (often over decades) are needed. Adaptable program lending (APL) introduced by the Bank in 1997 is especially appropriate for long-term sequencing of investments to allow learning and adaptation (box 12.2).

Box 12.2 Adaptable program lending

Adaptable program lending (APL) is suited to development efforts that require the longer-term phased planning and implementation common to agricultural sector activities and that involve institutional development, technical change, and activities with long production lead times (tree crops, livestock). This type of lending has been extensively used in the agricultural portfolio, especially in Africa. A typical APL is phased in over three stages—piloting and capacity building, scaling up, and institutionalization/consolidation. The key to successful APLs is to have a clear long-term vision for the sector or subsector, and to set well-defined "triggers" (indicators) for moving to the next phase. It is good practice to carry out an independent external evaluation before the end of each phase to evaluate progress and review strategy for the next phase. APLs also provide a transparent and flexible exit strategy for nonperforming loans.

Source: Authors

Within countries, scaling up generally involves a number of steps (World Bank 2003):

- Identify promising innovations or pilots.
- Assess country demand for scaling up.
- Review information on impacts and factors that have enabled or hindered success.
- Assess the current state of good practice.
- Review strategy options for scaling up in terms of processes, learning, and adaptation.
- Review institutional capacity and effective linkages and logistics among different types of participants—farmers, ministry, local government, NGOs, and the private sector—to permit and manage successful scaling up.
- Develop appropriate tool kits, manuals, and training programs to ensure effective implementation on a wider scale.
- Consult widely with key stakeholders about options and plans and their role (managerial, financial) in sustaining the changes.

Scaling across countries and regions requires strong programs of knowledge sharing through communities of practice that draw on the Bank's comparative advantage in accumulating experience from its activities throughout the world. Bank Thematic Groups—formal or informal—and mechanisms such as this Sourcebook and the Bank Web site, promote this sharing of experience within the Bank and with partners (box 12.3).

Box 12.3 Improving knowledge management

Future World Bank investments in agricultural development require substantial attention to the development, testing, and sharing of good practice in certain key areas. Thematic groups (TGs) have a crucial role in knowledge management, especially in sharing experience across regional operations. However, the Bank and its TGs have generally not invested sufficiently in hard evaluation to identify and verify good practice prior to wider scaling up. Special efforts are required to deepen the ongoing evaluation of programs, and a proactive stance is being taken by the Bank to address key issues relating to knowledge management:

- Taking a strategic approach to prioritizing clients and their specific learning and information needs.
- Capitalizing on the comparative advantage of sector anchors in capturing and assessing cross-regional and multisectoral experience (including lessons learned from quality enhancement reviews) and disseminating the results to development practitioners.
- Ensuring the quality, timeliness, and accessibility of Web-based knowledge and information and developing appropriate norms and standards for content management of Web sites.
- Systematically capturing knowledge and designing effective courses and learning activities to assist practitioners—the strategic focus of learning programs must accurately reflect both corporate priorities and the needs of operational staff.
- Ensuring that knowledge management activities are efficient, cost effective, and coordinated with minimal duplication of effort.

Source: Authors

Getting Agricultural Lending into the Pipeline

Evaluation studies have consistently shown that success in lending is more likely when it is underpinned by thorough upstream analytical work. Economic and Sector Work (ESW) must support future investments in terms of both building and updating the stock of knowledge and in supporting investments and policy dialogue in client countries. By providing in-depth analysis and diagnosis of the agricultural sector's strengths and weaknesses, resource base, and prospects as a source of growth and poverty reduction, good ESW can help prioritize critical constraints and opportunities for agricultural and rural development. It provides the analytical basis for identifying what needs to be done to improve the sector's performance.

There is an increased push in lending programs for improved partnerships, a longer-term perspective, and an approach that is country-driven and results-oriented. ESW has to be done in a participatory manner, and requires building consensus and ownership of the vision of agricultural development by policy makers, their constituencies at all levels, and the development community. ESW should involve mobilization of institutions and development of partnerships across different sectors; broad local participation in the decentralized design and implementation of agricultural development programs, including coordinated timetables for the work, budgets, and responsibilities; and regular monitoring and evaluation (M&E).

The treatment of agricultural issues in the Country Assistance Strategy (CAS) and related agriculture lending pipeline depends on the robustness of the stock of knowledge generated by ESW products. ESW also provides the stock of knowledge and relevant data that enrich the agricultural and rural content and diagnostics of PRSP preparation. For low-income countries, the PRSP process is now the major country strategic framework for shaping investment lending and aligning donor support around national strategies. To mainstream agricultural and rural development issues into the development dialogue and priorities of PRSPs requires a number of key actions by governments and donors:

1. *Support the preparation of national agricultural and rural development strategies* and related economic sector work and analysis as necessary inputs into the PRSP process and its implementation.
2. As part of preparation of strategies, e*mphasize the preparation of public expenditure reviews* that feed into the development of medium-term expenditure frameworks for agriculture.
3. *Deepen rural poverty diagnosis and analysis,* and support regular socioeconomic surveys of rural poverty, including reporting incidence of rural poverty by gender, farm size, ethnicity, agroecological zone, sources of income (commodities produced), rural nonfarm income, participation in markets, as well as access to services. Seek to understand the mechanisms for linking different groups of the poor to agricultural and rural growth and to different types of public interventions.
4. *Identify and evaluate new approaches* to agricultural development to develop and support programs for rural-focused PRSPs. This effort will need to be based on solid evaluations that identify why various approaches or innovations have or have not worked or been adopted in the past, including an assessment of distributional impacts.

5. *Strengthen participatory processes and structures* that build the voice of farmers (and those key public and private agencies that represent them) in the articulation of priority public actions. This might involve identifying new partners (often farmers themselves) rather than the public agencies with which donors have traditionally worked.
6. *Identify priority public actions for the agricultural and rural sector* from sound analysis of public policy and expenditures, with special reference to their impacts on the agricultural and rural poor.
7. *Develop appropriate targets and indicators* to support the development of guidelines for a consistent set(s) of outcomes, and develop impact indicators that address differentiated groups of farmers and the rural poor.

Lending Instruments: From Projects to Programs

The Bank has a number of instruments that are well suited to institutional and program development and to preparing for scaling up successful activities. The Bank along with other donors is shifting emphasis from discrete project lending to programmatic lending that provides direct budgetary support. Programmatic lending is a more efficient means of transferring resources, requiring relatively less Bank attention to detailed design and implementation supervision, and less borrower resources to comply with Bank fiduciary oversight requirements. By streamlining a program within core operations and activities, an implementing agency can ensure long-term commitment and sustainability of new initiatives. However, triggers for programmatic lending should be well defined, and monitorable performance indicators to assess intermediate and eventual outcomes (and the basis for continued support) should be agreed on and clearly defined. Where possible, the triggers should draw on existing government commitments for action, especially as identified in PRSPs.

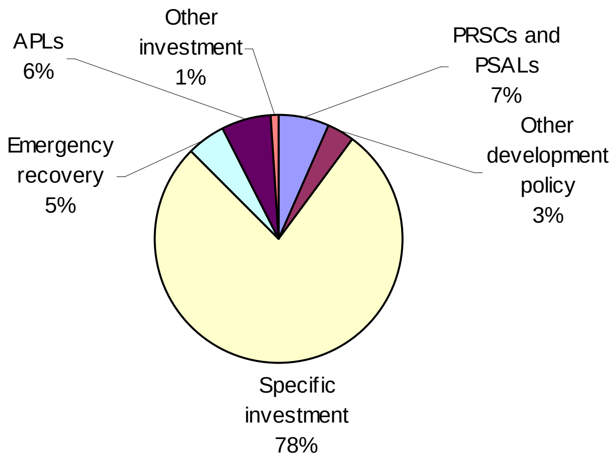
Program lending. The agricultural sector program (ASP) is one form of a sectorwide approach promoted by donors to provide support over the medium to long term. In principle it eliminates the fragmentation, duplication, and lack of country ownership that were common under the conventional project investment approach.[1] Program approaches are most appropriate where there is a coherent policy framework for the sector, including an agricultural strategy, an adequate public expenditure review process in the sector, strong government commitment, and potential for donor collaboration. Poverty Reduction Support Credits (PRSCs) have extended this principle to multisectoral operations within the framework of the country-driven PRSP.

Despite the attractiveness of programmatic lending, project lending remains important in the agricultural sector, especially for long-term institutional development. Projects allow for greater input of technical support to program design and implementation, thus enhancing the potential for innovation, reform, and shared learning. The higher profile (more so within sectoral ministries and departments than in central agencies like Finance and Planning) associated with a discrete project activity attracts greater attention from sectoral policymakers and enhances potential for institutional and policy reform in the

[1] See the AIN, "Agriculture Sector Program Lending."

sector. Project lending can also help to correct past misallocation of resources by directing investment to specific activities that are typically underfunded (for example, agricultural research with long-term payoffs). However, project lending should aim to improve existing programs and should avoid the creation of separate programs and administrative structures. This helps to increase government ownership and allows for the eventual inclusion of the activity into a broader sectoral or multisectoral program operation. Where appropriate, small projects may pilot new initiatives linked to improving ongoing programs, prior to wider scaling up. Some hybrid operations are also being implemented to combine objectives of short-term structural adjustment with longer-term institutional development.[2]

Figure 11.1 IBRD/IDA commitments to the agriculture fishing and forestry sector (including agro-industry, markets and trade): by lending instrument, FY03-05



In line with the Operation and Evaluation Department (OED) findings (Battaile 2002), successful support to the agricultural sector will require a mix of instruments and effective sequencing of support to policy adjustment, capacity development, sectoral investments, and piloting of activities prior to scaling up. This mix will be strongly conditioned by the country-specific policy and institutional environment. In poor policy and institutional environments, simple project designs provide better results than complex and multifaceted undertakings. Although the current mix of lending to agriculture is still weighted toward investment projects (figure 12.1), programmatic lending, especially Programmatic Structural Adjustment Lending (PSAL) and PRSCs, is growing. Within project lending, there has also been a dramatic switch toward multisectoral operations using a community-driven development approach.

Community-Driven Development Funds. Community driven development (CDD) is an approach to poverty reduction that seeks to empower communities and local governments

[2] See the IAP, "Turkey: Hybrid Adjustment/Investment Lending," Module 1.

with resources and decision-making powers, to enable decentralized implementation of programs in rural areas. Investments in agriculture implemented through the CDD approach should be targeted to providing local public goods and developing productive assets for the poor. This approach typically gives communities access to local investment funds (often, but not always, provided in the form of matching grants) to implement subprojects of their choice. Initially, CDD grants, responding to community priorities, were focused largely on social services and local infrastructure. In more recent operations, more CDD grants are focused on income-generating activities (IGAs), especially in the agricultural sector. In the past five years the share of lending to agriculture through CDD has increased substantially (table 12.1).

Table 12.1 Agricultural lending through community-driven development (CDD) (FY03-FY05)

	FY03	FY04	FY05
Agriculture via CDD	299	734	1,012
Total agriculture	1,289	1,495	2,122
% CDD	23	49	48

Source: ARD Portfolio Team

Although the approach has been rapidly scaled up, the impact and sustainability of the CDD approach for production activities are still uncertain, and development of criteria and guidance for scaling up are inadequate. Where CDD projects move beyond purely public goods, particular care is needed to ensure that grants do not distort private markets for inputs and services, including financial markets. Another major requirement is to ensure that productive investments are pro-poor and not captured by local elites.

The development of manuals and toolkits to help capacity building at all levels is a key to scaling up CDD operations (for example, the "Ag and NRM Toolkit for CDD Projects"). Much sharing of good practice is required, particularly with regard to developing objectives, designing eligibility and selection criteria, and M&E of grant programs. Proper procurement and capacity building for local institutions that ensure delivery of services is important to improve their efficiency and relevance. This includes:

- Good practice guidelines, toolkits, and standard manuals for grants that target IGAs, including technical backstopping through advisory services responsive to community needs, and good practice tools for undertaking economic analysis of grant schemes.
- Training to strengthen the capabilities of Bank staff and borrowers in identifying and assessing market failure and in identifying cases in which grants and other interventions may or may not be a suitable instrument.

A companion note on CDD operations in agriculture provides additional information on current thinking regarding good practice. The recent OED evaluation also provides further insights into the experience so far on CDD operations (World Bank 2005).

Poverty Reduction Support Credits. The most rapidly expanding lending instrument is the PRSC, which was introduced as a specific form of Structural Adjustment Credit (SAC) or Sectoral Adjustment Credit (SECAC). Beginning in 2001, programmatic lending, mostly through PRSCs, accounted for 19 percent of fiscal year 2002 Bank commitments, although relatively little of this has been allocated to agriculture. A PRSC program is usually a multidonor operation that involves a series of sequential operations (individual PRSCs), and that together support a country's medium-term development and reform program to implement its poverty reduction strategy.

PRSCs differ from traditional Bank policy-based ("adjustment") lending, both in content and in the process of preparation and implementation. Development of PRSCs starts with a country's own PRSPs and involves extensive consultation and donor coordination. It represents a move away from narrow adjustment operations that address economic stabilization and policy distortions through balance of payments support, to a more development-oriented agenda—poverty, institutional capacity, social and structural reforms, especially in public sector management—addressed through budgetary support. PRSCs are especially suited for cross-sectoral issues that transcend ministerial boundaries. Many of the first-generation PRSCs have focused on fiduciary and public sector administration issues, thereby laying the necessary groundwork for future, more sectorally focused, PRSCs. Basic auditing, procurement, disbursement, and public sector management systems need to be in place before PRSCs can provide sectoral support.

When backed by good PRSPs with strong rural content, PRSCs may provide an appropriate tool for addressing agricultural and rural development issues that increasingly cut across ministries. Although experience is still limited, where countries have in place a well-articulated agricultural and rural development strategy and a sector-based, medium-term expenditure framework, with wide ownership (as in as Uganda), the PRSC seems to have been effective in supporting investment in the agricultural sector.[3] Experience to date suggests that for PRSCs to be effective:

- The country environment must be suitable for programmatic adjustment lending with appropriate institutional arrangements, a transparent budget process, and a stable macroeconomic framework.
- Investment programs should be backed by well-articulated and country-owned agricultural strategies, medium-term expenditure frameworks with sectoral outcome indicators, and related analytical work, such as public expenditure reviews.
- Sufficient institutional capacity should be in place within sectoral ministries to effectively implement the program.

However, the PRSC should not replace sector investment lending, especially for long-term institutional development where innovative practices are being piloted and tested prior to wider scaling up, and for lumpy infrastructure investments (for example roads and irrigation). And even when based on a good PRSP, there are doubts about the ability of weaker ministries (as agriculture often is) to effectively tap into PRSC support. Given the key role of agricultural and rural development, it will be important to put in place the preconditions, especially in agricultural ministries, to expand PRSC lending to agriculture.

[3] See the IAP, "Uganda: Cross-Sectional Programmatic Adjustment Lending Focusing on Poverty Reduction."

Making donor harmonization work. Donor harmonization and alignment are essential to improving the quality and impact of development activities. Much lip service is paid to donor harmonization, but frequently the reality is that it seems each donor wants to coordinate the other donors around its own approaches and agenda. Effective donor alignment must, however, be based on a process of country-driven coordination in which donors contribute to definition of reform programs and investment initiatives, but do so in the context of country ownership of the process. This implies, ideally, an explicit agreement on donor commitment for support over a multiyear period, harmonization and streamlining of administrative and financial procedures, and a common M&E framework and indicators. The first step at a global level towards this goal was taken in 2005 when the Paris Declaration of Aid Effectiveness was issued by 91 countries, over 20 donor organizations, and representatives of civil society organizations and the private sector.[4]

The trend toward programmatic lending (including PRSCs) has stimulated cooperation and alignment among donors in client countries. Support for national donor platforms for agricultural and rural development is crucial for programmatic lending. The agricultural sector investment program in Mozambique is an example of successful multidonor collaboration within a country-driven agenda.[5] The new "Global Donor Platform for Rural Development" has potential to provide a forum for better coordination of agriculture and rural development activities and approaches at a global level (http://www.gdprd.org/).

Scaling up at the regional level. A key challenge for agricultural lending is to find ways to support regional programs. Many development problems transcend national boundaries and solutions are best sought regionally. As an example, it is extremely inefficient for all countries to invest in the same research activities, especially if the market within a country is small. Thus, there is a good case on efficiency grounds for regional or international funding and execution of such research. Natural and environmental resource conservation also presents a strong rationale for regional cooperation in the management of shared ecosystems.

For small countries, regional market development is essential to achieve economies of scale that make many private sector investments viable. Regional harmonization of grades, standards, and market regulations; phytosanitary and biosafety regulations, reciprocal recognition of business certifications and permits, including seed and varietal registration; and shared information systems are important to increasing competitiveness and marketing efficiency. Regional harmonization of seed trade regulations has been relatively successful in Central America, Eastern Africa, and Central Asia, but other initiatives of this sort are relatively few.

The case for regional programs is clear, and regional programs in Africa have received support from a number of donors. However, some donors (such as the World Bank) provide support primarily to the national level, and tools and mechanisms are still

[4] For more details on donor harmonization, see www.aidharmonization.org.
[5] See the IAP, "Mozambique: Harmonized Donor Funding Around Principles and Coordination."

evolving for providing support to regional entities for coordinating or sharing across countries. The Africa region's Framework for Agricultural Productivity (FAAP) makes the case for expanded support to the regional level and, under FAAP, multidonor programs of support (including IDA support) are being developed in East Africa, Southern Africa, and West Africa.

Challenges for Scaling Up Agricultural Development Initiatives

Improving project design for sustainable project outcomes. Investment in agriculture offers potential for high returns in terms of poverty reduction, economic growth, and environmental conservation. Consistent with economic realities, high returns sometimes imply high risk, a fact borne out by the perception of past low ratings for agricultural project performance and sustainability. Average OED and Quality Assurance Group (QAG) ratings for the Bank agricultural lending portfolio are generally somewhat lower than those for all Bank projects, in terms of quality at entry, performance, and impact (table 12.2), although this gap has sharply narrowed in recent years. The biggest challenge is to raise OED ratings of sustainability and institutional impact to at least the Bank-wide average. Recent assessments by OED found that a sizable proportion of projects implemented in agriculture and rural development do not necessarily lead to satisfactory or sustainable outcomes.

Table 12.2 Agricultural project ratings compared to all Bank projects (%)

Rating	Agriculture portfolio[a]	Total Bank portfolio
QAG Performance Ratings (avg. 03-05)		
Problem Projects	12.1	12
At-risk Projects	13	16
OED Project Completion Reports (avg. 03-04)		
Satisfactory Outcomes	82.6	78
Likely Sustainability	70.7	74
Satisfactory Institutional Impact	55.8	50

[a] Using projects tagged as the responsibility of the Agriculture and Rural Sector Board as a proxy for the agriculture sector.

Source: World Bank internal documents

Quality of project design in agricultural lending depends on many factors, but the following four stand out:[6]

1. Set clearly defined and modest objectives with realistic assumptions of time requirements. Clearly link development objectives to the project components.
2. Customize the design of the investment in line with a comprehensive poverty diagnosis.
3. Link each component with a few carefully selected performance indicators that are quantifiable, and provide baseline information. Integrate M&E into project design from the start for ongoing learning and feedback.
4. Explicitly analyze sustainability of project interventions over the long term, especially fiscal sustainability and institutional capacity.

Among these, the most urgent challenges for agricultural lending are to enhance poverty impacts and sustainability and to improve M&E.

[6] See the AIN, "Nine Lessons for Improving Project Design for Better Investment Performance."

Enhancing poverty impacts. Poverty reduction must be the overarching objective of World Bank investments in the agricultural sector. There is now a better understanding of the determinants, complexity, and multidimensionality of poverty, which extends beyond low levels of income to include dimensions of:

- *Lack of opportunity:* Generally associated with the level and distribution of human capital and social and physical assets, such as land and market opportunities.
- *Low level of security:* Exposure to risk and income shocks that may arise at the national, local, household, or individual levels.
- *Lack of empowerment:* The inability of poor people and other excluded groups to participate in, negotiate with, change, and hold institutions accountable.

The first step in targeting poverty within agriculture investment projects (aside from ensuring that national policy supports an agricultural growth strategy and avoids market distortions and environmental degradation) is to *diagnose the nature of poverty* (box 12.4). A key issue is the relative emphasis on promoting broad-based agricultural growth versus targeting specific poor groups, the balance depending on country-specific circumstances.

Box 12.4 Targeting investments in poverty reduction

Agricultural investments can use various strategies for targeting investments to benefit the poor, such as farm size, gender, farming system, region, ethnicity, or caste. An essential first step in targeting poverty reduction is to ensure that national policy supports an agriculture-driven growth strategy. With this macropolicy environment in place, poverty-targeted investments must rely on:

- Sound diagnosis of the nature and causes of poverty, including: poverty profiles identifying the rural poor by income and nonincome indicators and by geographic, social, gender, and temporal incidence of poverty; analyzing severity of poverty and assessing the degree of asset and income inequality; and sources of vulnerability and their causes.
- Well-formulated poverty reduction strategies that provide a basis for comprehensive measures to reduce poverty, providing for growth within the agricultural sector.
- Investment project designs that address the lack of opportunity, security, and empowerment in the rural context, and that draw on better poverty analysis, participation by the poor in decision making, and adopting a relevant focus (for example, land distribution, market access) to reach the poor through agriculture.

Source: World Bank internal documents

The initial conditions that define the nature of poverty (and thus the most appropriate investments for reducing poverty) vary widely, and a criticism of past Bank investments in agriculture has been the relatively homogeneous approach taken to highly diverse rural areas. Future investment designs must accommodate the differing initial conditions that shape poverty if benefits are to be effectively targeted to the poor. Implications and strategies for poverty targeting will vary according to the characteristics of farming systems (Dixon et al. 2001), especially the relative emphasis on intensification and diversification of agricultural activities, versus options for increasing off-farm work or eventual exit from agriculture. Even within farming systems, poverty reduction strategies must recognize different farm types (commercial, medium-scale with market potential, and marginal). Concerns for economic growth and food security require public policy and programs to support growth in efficiency and competitiveness of commercial farms, while encouraging the shift of medium-scale farms with market potential to become fully competitive in domestic and international markets. Strategies for investing in marginal farms and marginal areas are more difficult, because many of these lack the resources and economies of scale necessary to become competitive. For many farmers in marginal areas and in middle-income countries, transition out of agriculture will be the best alternative. Women are especially important in agriculture and much more attention is required to mainstream gender concerns (box 12.5).

Box 12.5 Enhancing and mainstreaming awareness of gender issues

Awareness of gender issues in rural projects has improved, yet very often investments remain as pilot activities lacking significant widespread impact. Gender analysis to guide project and program design is key. A balanced analysis of women as economic actors and beneficiaries enhances the understanding and removal of barriers to including women and girls in projects. Recognizing women farmers and entrepreneurs as stakeholders can enhance the sustainability and effectiveness of projects and give women a stronger voice in their communities. The practice of including gender strategies and action plans arising from the gender analysis in project documentation is an effective approach to ensure gender integration throughout the project, from justification to activities, budget, and monitoring and evaluation.

Source: Authors

More effective impact of agricultural operations on poverty requires actions on a number of fronts (Byerlee et al. 2005):

- *Deepen the understanding of agricultural growth/poverty linkages,* seeking to increase poverty reduction for a given rate of growth by understanding (1) how poor people participate in and contribute to agricultural growth and (2) the mechanisms by which growth benefits poor people. In particular, more support is needed to strengthen qualitative and quantitative surveys to ensure that information relevant to agricultural and rural households is collected and analyzed (for example, information on vulnerability, access to assets, or livelihood options).
- *Recognize the importance of agriculture to the national pro-poor growth agenda.* For many low-income countries, agriculture is and will remain the mainstay of the rural and national economy, and its secure and equitable growth must be adequately addressed through the PRSP and other such processes.
- *Build national and regional capacity for agricultural policy research, dialogue, and debate.* Strengthening the underlying analytical framework for rural poverty reduction will allow public investment choices to be effectively debated and considered.
- *Share good practice on approaches to agricultural and rural poverty reduction at country and global levels.* Although there is growing global consensus on key approaches to rural poverty reduction, practical experience of what works and what does not work in different conditions could be better articulated, monitored, validated, and shared.

Enhancing sustainability through expanded partnerships. Enhancing long-term sustainability of lending operations, both institutional and financial, remains a critical challenge. It requires more attention to institutional analyses for investments and a better understanding of the determinants of institutional sustainability. An important step in getting beyond purely public sector approaches to implement programs has been the development of partnerships among the public and private sector and civil society. Much depends on building local constituencies of support for programs, enhancing the voice and influence of clients (including farmer organizations, consumers, and other stakeholder groups). Impact studies and monitoring systems are useful in this regard, and a general orientation to results and accountability to clients helps in building a constituency.

Financial sustainability is enhanced by greater cost sharing and improved managerial, operational, and maintenance capacity of stakeholders other than government, and by more efficient implementation mechanisms. Objectives of many past projects have been far too ambitious for a short five-year project period. Future donor involvement will often feature reduced public sector funding (and smaller loans), but projects will be of longer duration to build institutions that benefit from stakeholder consultation, client participation, partnership and alliance building, and learning and adaptation.

Monitoring and Evaluation

M&E is a perennial "end-of-the-list" entry in reviews and good practices for improving agricultural project and program performance. In fact, it should be at the top of the list, as there is little chance for investment to succeed if governments (and donors) do not define clearly what is to be accomplished and how it is to be measured. Both the QAG and OED in the Bank have consistently flagged "chronic weakness" in M&E systems, requiring urgent attention in the portfolio in general and in agriculture in particular.

M&E serves as a practical tool for better results-oriented management and as an input to planning and decision making at many levels. When done well, it allows year-to-year tracking of outcome-level indicators. Moreover, as a necessary feedback loop for continuous assessment, good M&E provides a knowledge system whereby lessons are learned for scaling up. The key issues for M&E are to:

- *Have an adequate M&E system in place before project/program approval* for both implementation and impact monitoring from the beginning.
- *Choose a few carefully selected indicators* that can be readily tracked during implementation, including clear tracking and impact measurement indicators for gender impacts. Indicators of project outcomes should link to specific CAS outcomes.
- *Establish a basis for comparison* by defining a relevant reference point and basis for assessing impact at program outset. Where possible, ensure collection of baseline data and periodic updates, emphasizing only key variables related to indicators.
- *Use beneficiary evaluation and other participatory evaluation tools* to obtain feedback for use in guiding the management of a wide range of agricultural investment programs.

Selected Readings

Asterisk (*) at the end of a reference indicates that it is available on the Web. See Appendix 1 for a full list of Websites.

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This overview was prepared by Derek Byerlee, Sam Kane, Eija Pehu, and Gary Alex. Peer review comments were received from Ai Chin Wee. The overview was updated by Eija Pehu and Riikka Rajalahti.

Targeting Agriculture Investments to Maximize Poverty Impacts

There is considerable evidence that progress in the agricultural sector can have major impacts on poverty reduction. While broad-based agricultural growth strategies continue to be important in fighting poverty, investment programs must be increasingly targeted to ensure maximum impact on the poor. Key mechanisms for targeting to directly improve the incomes of the poor include focusing investments on commodities that are important to the poor or regions where poor people are concentrated, mechanisms to reduce household vulnerability and improve access to assets, and encouraging inclusive participation. Pro-poor investment design is built on effective poverty diagnosis, appropriate project strategy, and inclusive implementation mechanisms.

The major theme running throughout the World Bank's current rural strategy, *Reaching the Rural Poor*, is a focus on reaching the rural poor by promoting a holistic approach to rural development. The first Millennium Development Goal (MDG),which is to halve by 2015 the proportion of people living on less than a dollar a day and suffering from hunger, is now the major driving force for Bank investments, including those in the agricultural sector.

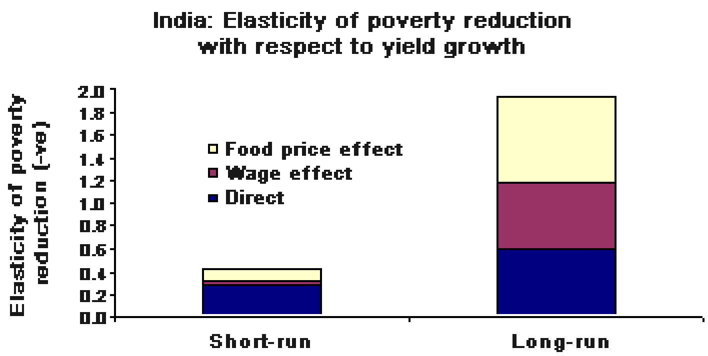
The modules of this Sourcebook have outlined approaches to addressing poverty reduction for specific investment areas. This investment note outlines the more generic lessons involving design processes for agricultural investments.

Linkages Between Agricultural Growth and Poverty Reduction

In low-income countries, the agricultural sector is the primary engine of overall economic growth, providing around 60 percent of total employment and 20 percent of GDP. Since most of the world's poor depend directly or indirectly on agriculture for their livelihoods, broad-based productivity increases in the sector are one of the most effective ways of reducing poverty (box 12.6). Agricultural modernization and productivity growth raises incomes of small-scale farmers and creates jobs in related industries (processing, marketing, inputs) that are labor intensive. Increased productivity also indirectly benefits the poor through lower food prices (food forming a large share of expenditure of poor households). Overall, the estimated elasticities of poverty reduction with respect to agricultural productivity are high. For example, the elasticity of poverty reduction with respect to agricultural yields is about 0.72 percent in Africa (Thirtle et al. 2003), and in India it has been estimated to be 0.41 percent in the short run and 1.9 percent in the long run (Ravallion and Datt 1998).

Box 12.6 India: poverty reduction from broad-based agriculture growth

In rural India, the percentage of the population living below the poverty line fluctuated between 50 and 65 percent prior to the mid-1960s but then declined steadily to about one-third by 1993. Much of this decline has been attributed to broad-based growth in agriculture and associated reductions in food prices. Yield-enhancing public investments in infrastructure, services, and institutions supporting agriculture have had a large, albeit mostly indirect, impact on poverty (see figure.



The highest payoffs to public investments in terms of poverty reduction were achieved through rural roads, followed by agricultural research, education, rural and community development, and then soil and water conservation investment.

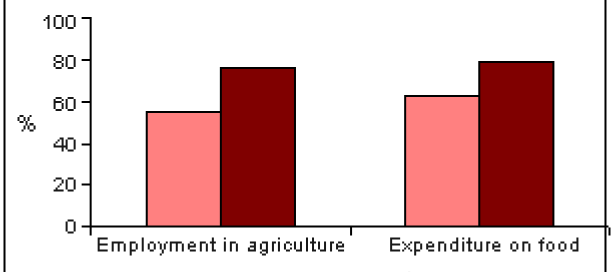
Source: Fan, Hazell, and Thorat 2000; Ravallion and Datt 1998

Conditions Influencing Poverty Impact of Agriculture Interventions

Poverty dimensions. The causes of poverty are multidimensional and typically interrelated. In general, poverty relates to inadequate assets (human, natural, physical, financial, and social), the returns to these assets, lack of political power, and vulnerability to shocks. The 2000-01 *World Development Report* outlined a three-pronged framework for action to reduce poverty: (1) promoting *opportunity* by stimulating economic growth, making markets work better for poor people, and building their assets; (2) facilitating the *empowerment* of poor people by making state and social institutions more responsive to them; and (3) enhancing *security*, by lowering the risk from events such as bad weather and natural disasters and reducing poor people's vulnerability to risks.

Broad-based agricultural growth. Broad-based agricultural growth can be expected to have the greatest impact on poverty where a large number of poor people depend on agriculture, the agroecological base allows significant potential for productivity growth, most land is controlled by small- and medium-scale farmers, farmers have (or potentially have) access to markets, and governance structures are sensitive to the needs of the poor. The strength of the link between agricultural growth and poverty is, however, conditioned by agroecological conditions, the structure of farm types and markets, level of technology use, access to assets, infrastructure, markets, and institutions, and other factors. Therefore, for any specific situation, an analysis of the potential for agricultural growth to contribute to poverty reduction must start with a review and assessment of the broader sectoral context for investment. Quite different agricultural investment priorities and strategies may emerge between and within countries depending on the local context (Byerlee and Alex 2002). Nonetheless, in many developing countries the high dependence by the poorest of the poor on agriculture necessitates that agricultural development be central to poverty reduction (figure 12.2).

Figure 12.2 Employment in expenditure; the poor and no-poor in Malawi, 1998



Source: World Bank Internal Documents

Changing context for targeting poverty. Increasingly, interventions must be more effectively targeted as the opportunities for high poverty impacts from broad-based growth are becoming less common. This is particularly so in middle-income countries in which the poor represent a smaller proportion of the population and are more marginalized (broad-based growth may easily bypass the poor). Liberalization of trade has integrated markets, reducing effects of productivity growth on domestic prices of tradable food staples and opening opportunities for high-value crops in some areas. Competitive pressures from liberalization may also squeeze farmers out of markets or further marginalize them, unless they develop new knowledge and skills. Livelihood shocks (natural disasters and market risks) may also be more common. In these situations, there are likely to be trade-offs between the poverty reduction impacts of investment in general productivity growth versus direct poverty targeting. Specific strategies will depend largely on poverty diagnosis relating to livelihood strategies of the poor, their resource constraints, and the market environment.

Steps for Targeting Poverty

Poverty diagnosis. A criticism of past investments in agricultural development has been the relatively homogeneous approach taken to rural areas that are highly diverse in terms of resources, livelihoods, and people. Future investments must accommodate the differing initial conditions that shape the nature of poverty. A good poverty diagnosis should include:

- A poverty profile that identifies the rural poor based on income and nonincome indicators, analyzes the severity of rural poverty, and assesses income and asset (particularly land) inequality.
- An analysis of the main correlates of rural poverty, for example, asset levels, market participation, sources of income, and geographic factors.
- An analysis of the relative merits of reducing poverty through: (1) new livelihoods—both farm and nonfarm sources, including migration; (2) reduced vulnerability—treatment of *critical long-run trends* (for example, degrading natural resources); *shocks* (for example, natural disasters such as droughts or floods, and economic shocks, such as price fluctuations), and *seasonality* (in both production and prices); and (3) access to, use of, and satisfaction with services and institutions.

Box 12.7 Web sources for diagnosis and design information

- The World Bank Poverty Monitoring Database http://www.worldbank.org/poverty/data/povmon.htm.
- LSMS Living Standards Measurement Study: Information Tables http://www.worldbank.org/lsms/guide/select.html.
- World Bank Africa Household Survey Databank http://www4.worldbank.org/afr/poverty/databank/default.cfm.
- World Bank Research http://econ.worldbank.org/.
- World Bank Poverty Reduction Strategy Sourcebook http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPRS/0,,contentMDK:20175742~pagePK:210058~piPK:210062~theSitePK:384201,00.html.

Source: Authors

There is now a rich database for carrying out this analysis in many countries (box 12.7).

Strategy. Project interventions need to be derived from the poverty diagnosis and appropriate in the context of the country and other sector interventions (box 12.8). Strategies can be focused, inclusive, or enabling. *Focused* or targeted actions center predominantly on actions that bring benefits to poor or disadvantaged people; specifically improve their social, environmental, and/or economic conditions; and remove barriers to their participation. *Inclusive* actions are broad-based and improve opportunities, infrastructure, and services generally and also address issues of equity and barriers to participation of poor people. *Enabling* actions relate to *policies* that underpin pro-poor economic growth and promote sound and economic management, governance, and social policies. The poverty outcomes of *inclusive* and *enabling* interventions rely heavily on the M&E indicators to measure poverty outcomes for different population groups. Where available, investment strategies should be developed within a strategic framework for national poverty reduction, such as the PRSP.

Box 12.8 Brazil rural poverty project: developing good strategy from effective diagnosis

Poverty *diagnosis* for the State of Piauí Rural Poverty Reduction Project in Brazil summarized national and state-specific poverty data relating to the dimensions, characteristics, and causes of rural poverty. The diagnosis recognized that rural poverty is fostered by a relatively weak natural resource base, vulnerability to frequent droughts, low labor productivity, high levels of illiteracy and poor quality and coverage of education, relatively large family size, poor access to basic infrastructure and services, skewed land distribution, and poorly functioning rural financial markets. A multipronged set of strategies was developed to meet needs of diverse groups and thus better target poverty. The *strategy* developed from this diagnosis included a thorough review of strategic choices and was rated as highly satisfactory. It included:

- Intensification of the economically viable small-farm sector.
- Revitalizing commercial agriculture to absorb wage labor and foster downstream growth.
- Stimulating growth of the rural nonfarm sector, especially processing and services.
- Accepting a certain level of migration as inevitable and rational.
- Provision of adequate safety nets for the rural poor who will not benefit from intensification.

Source: World Bank internal documents

Project design. Project design should have appropriate organizational and institutional mechanisms to meet the particular needs of *target groups identified in the diagnosis*. These mechanisms may emphasize one or more of the following:

- *Broad-based productivity enhancement* through technology and markets is still the most efficient means of reducing poverty in many situations. This involves investments in research, extension, infrastructure, and human resources that drive equitable growth processes.
- *Geographic areas,* particularly marginalized and resource-poor locations with limited access to social services and markets.
- *Specific disadvantaged groups*—particularly those that are excluded because of their gender, religion, caste, or ethnicity.
- *Certain commodities* (cassava or pulses) on which the poor in particular depend for income or consumption.
- *Equitable land distribution* to provide the poor with *secure access* to land.
- *Improved quality of natural resource assets,* through improved management of land, water, and forest resources and investments such as irrigation.
- *Microfinancial services* to promote savings and investment by poor households.
- *Building social capital and social inclusion* through decentralized development efforts (for example, CDD) that increase community participation (particularly of women, indigenous groups, and remote/marginal producers) in decision making (box 12.9).
- *Managing risk and vulnerability* may involve farm diversification or better coping strategies, reducing market risks (for example, by improving market access and information), and improving food security (reducing production risks, or safety nets). Effective programs include good targeting, high transfer efficiency, program transparency, and well-defined exit criteria.
- Reliable and affordable access to rural infrastructure services—transport, water and sanitation, and information and communication technology—dramatically increases rural people's access to markets and services.
- Access to health and education that improves productivity in farm and nonfarm jobs.

Box 12.9 India: watershed project design for social inclusion

One of four key elements of the *strategy* developed for the Karnataka Watershed Development Project in India was to reach marginalized and vulnerable groups. The project selected watersheds with some of the poorest populations in Karnataka's rainfed areas, and included those who subsist on the most marginal of resources: tribals and other vulnerable groups (scheduled castes, other classes with hardships, the landless, and populations below the poverty line). The project *design* involved the implementation of a Tribals and Vulnerable Groups Development Plan to cover all tribals and other vulnerable groups. Project implementation committees are composed of various stakeholder groups: at least 50 percent of the executive committee are women, and six are from scheduled tribes and other vulnerable groups. Nongovernmental organizations (NGOs) were intensively involved to build capacity of stakeholders in social aspects, beneficiary group formation and nurturing, participatory planning and implementation, and monitoring and evaluation throughout the life of the project.

Source: World Bank internal documents

Monitoring and evaluation. Monitoring of project implementation and impact must be integrated into project design from the initial phases of the process, with a specific focus on poor and vulnerable groups. Performance indicators should not be limited to income and may include indicators of access to assets, proportion of the population below a minimum level of dietary consumption, and indicators of participation by the poor. These indicators can include both quantitative (factor productivity, income, health statistics, for example) and qualitative (satisfaction with the provision of services, for example) measures.

Selected Readings

Asterisk (*) at the end of a reference indicates that it is available on the Web. See Appendix 1 for a full list of Websites.

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This investment note was prepared by Derek Byerlee and Sam Kane.

Nine Lessons for Improving Project Design for Better Investment Performance

Agriculture's importance to poverty reduction is now widely recognized, but the complexity and perceived difficulty of investing in the sector, along with somewhat moderate performance relative to many other investment areas, has contributed to stagnant lending. The World Bank OED recently identified seven key lessons from previous experience that can help improve the quality of project design and implementation and thus significantly increase performance.[7] Key recommendations include clearly identifying project rationale, analyzing poverty, phasing implementation, good M&E, and structuring stakeholder incentives.

The environment in which the agricultural sector contributes to poverty reduction, and the means by which it can most effectively contribute, continue to change rapidly. Fully exploiting the poverty reduction potential of agriculture requires that projects be evaluated critically to build an information base from which knowledge can be leveraged to improve future investment initiatives. This investment note draws from a recent OED study to outline the major generic issues to be addressed by practitioners during project design (World Bank 2003). It recognizes that sound project design is a precondition for good project performance and that the design process must draw from relevant lessons and be an ongoing process, in which changes in direction and the rationale for these changes are well documented. Sound project design must also include effective M&E systems to ensure that lessons can be articulated and used to guide future investments toward more sustainable and effective outcomes and impacts.

In recent years, Bank lending to agriculture has increased to some extent. Despite improvements in the persistent problems of sustainability and institutional development, the gains have largely been moderate. About 70 percent of projects are rated as "likely sustainable," and nearly 60 percent are rated as contributing to "substantial institutional development." This poor to moderate performance can be attributable to a variety of factors relating largely to *project design*. Problems include weak specification of objectives, weak translation of objectives into outcome-focused design, and poor policy and institutional design. An analysis of project evaluation results has identified several key lessons, outlined below, for future investments (World Bank 2003).

Recommendations for Practitioners

Identify the rationale. Clearly spell out the rationale for the project and the linkages from the rationale to the design. If the project rationale is not explicitly identified in an outcome-focused design, sound judgments made during preparation and appraisal may be compromised, and M&E may be hindered. Without *documented recording* of the evolution of project logic, staff changes may obliterate earlier logic and decisions. All

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[7] This investment note draws from Kumar et al. (2004).

significant design issues should be separately identified and addressed or disposed of rationally and explicitly in superseding documents (box 12.10).

Box 12.10 Bangladesh: failure to document justification for reform changes

In the Bangladesh Agricultural Research Management Project, carefully analyzed and well-articulated institutional reforms were developed early in preparation for consultation with the borrower, but were later dropped without clearly articulated and recorded justification. Consequently, the project reverted to "more of the same" and performed poorly. Such situations tend to be associated with a lack of ownership and pressure to lend as negotiations approach.

Source: Authors

Poverty analysis. Critically analyze who is poor and why they are poor to improve the pro-poor focus of the project. Project design must include effective results/logical framework links between specific policy and investment actions and *prior poverty diagnosis.* Rigid, target-based approaches are typically ineffective, and linkages are better made through incentive structures to encourage key agents (such as extension agents) to work with the poor. The challenge is generally to provide for increased participation of the poor through group approaches and through access to marketing channels suitable for resource-poor farmers. The Project Appraisal Document (PAD) should reflect on the following issues:

- Who are the *poor*, *how many* are there, and what are the *reasons* for their poverty?
- Who are the likely *gainers* and *losers* from the proposed project interventions?
- Is the project *area selection* pro-poor (for example, poor geographical zones)?
- To what extent is each main *investment* or *policy reform* selectively pro-poor?
- To what extent are participation *processes* expected to be pro-poor?
- Are any *grievance mechanisms* accessible to the poor?
- What *indicators* will suggest the achievement of any pro-poor objective?

This analysis can be used to *customize* project design to address specific characteristics, location-specific constraints, and opportunities of the poor.

Monitoring and evaluation. From the outset, integrate M&E into project design. M&E should be an organic part of project design, not an afterthought. Effective M&E must be in place to learn lessons for future, larger-scale operations (box 12.11). As soon as project objectives are initially formulated, even tentatively, consideration should be given to realistic targets, to readily quantifiable indicators linked to the objective/s, and to the initiation of M&E design. Management and information systems need to be established at an early stage to enable effective and responsive management:

- Get the objectives stated appropriately—neither too high and abstract nor too low and detailed. Aim for *outcome-focused design*.
- Start early, and reread Results/Logical Framework Guidelines or *attend training*.
- Initiate plans for baseline surveys if needed during early preparation. If possible, embed M&E in a permanent institution or link it to one.
- Build sustainable evaluation capacity, not just one-off, project-specific M&E systems.

- Look at incentives for M&E performance of different stakeholders and get commitment at the project management level with incentives to results-based management processes.
- Try to ensure that M&E staff are recognized professionally within the institution and are not in a temporary position.
- Coordinate M&E methods and reporting formats with other donors.

Box 12.11 Pakistan: consequences of ineffective monitoring and evaluation

Weaknesses in monitoring and evaluation (M&E) of the Pakistan Punjab Forest Sector Development Project arose from the failure to design M&E during preparation, inappropriate institutional location of the M&E function, and lack of incentives to report. These failures inhibited management responsiveness. For example, lack of M&E data and marketing studies left unaddressed serious questions about possible oversupply of wood and alternative marketing strategies.

Source: Authors

Design realism. Make sure that the elements of the project design are not only time-specific and measurable but that they are realistic and achievable—especially with regard to CDD-type activities and the incremental processes required for CDD implementation. Frequently donors underestimate the time required to meet targets and to ensure that impacts will be sustained into the future. This problem is particularly acute for capacity building investments, in which the building of trust and social capital is an incremental process that demands iterative learning. Creating incentives and stabilizing expectations takes time, and creating capacity at all levels (government, community, private sector) usually takes more time than anticipated. Project closure (along with inadequate follow-up work) just when organizations are established and most in need of external support, has occurred far too frequently in past projects. The result has been a loss of trust in donor organizations because of the unfulfilled expectations initially created within the community. Project design must recognize that organizational development typically spans multiple project periods, and thus any one project must seek to build upon previous initiatives and also provide the basis for future efforts to expand on its own outcomes.

Technical backing. Ensure that project components are based on thorough technical analysis, either through internal resources or via outsourcing of the expertise required. The World Bank (along with numerous other donors) has lost much of its capacity (technically specialized human resources in particular) to identify technical opportunities that would greatly enhance agricultural projects. In the past, donors have made major contributions in many technology-intensive fields, including precision irrigation, conservation tillage, pastoral livestock systems, export horticulture, and integrated pest management. A reduction in skilled staff has reduced the capacity to identify and exploit these types of opportunities—many of which still exist in agriculture (and are addressed throughout this Sourcebook). Building professional and institutional relationships among donors, universities, government agencies, and private sector providers can enable stakeholders to exploit their areas of specialization and comparative advantage and facilitate outsourcing of technical expertise.

Implementation actions. Design not just the substance but the phased implementation actions involved in agricultural investment and reform initiatives. Detailing the process by which policy and institutional reforms are to be achieved, and appropriately *sequencing* implementation, are as important as detailing the substance of the reforms. Ensuring that action is not just rhetoric can be achieved by working simultaneously and cooperatively with diverse interest groups to build support for reform. Reforms typically involve changes in laws and regulations, new governance and administrative structures and procedures, financial arrangements, and capacity building. Those who manage reform processes on a day-to-day basis need political commitment and support from politicians and senior policy makers. Implementation delays in institutional development are usually not unpredictable, but some scheduling or flow charts can guide the sequence, timing, and realistic length of each implementation step.

Stakeholder incentives. Through new policies and institutional arrangements, create incentives for various stakeholders to fulfill their respective roles and responsibilities. There should be a thorough analysis of incentives created by any new "rules of the game" for individual and institutional stakeholders, and the time needed for these to have impact. Institutional arrangements typically involve four sets of actors with different incentives:

1. At the central government level, key functions include new laws and regulations, nationwide coordination, building capacity, and financial decentralization.
2. At the local government level, decentralizing public services involves establishing a national framework with an appropriate mixture of administrative, political, and fiscal decentralization and establishing institutional arrangements for each service assigned to local governments.
3. Incentives at the community level are needed to make service providers accountable to farmers and enable the poor to exert pressure on local governments.
4. For the private sector, including individual farmers, successful liberalization and privatization of commercial activities may require capacity building and transitional arrangements as circumstances, capacity, and incentives evolve.

Participation of all legitimate stakeholder groups in reform processes helps to establish the credibility of the proposed reforms, assemble relevant information, and instill ownership in reforms. It is important to work closely with the potential losers who may undermine the reform process. A revival in the use of *farm budget analysis* would help to assess private financial incentives for investments.

Donor coordination. Ensure donor coordination by basing project design on a clear understanding of respective roles, responsibilities, and constraints of various partners. Without an understanding of the roles of various stakeholders, the leverage and broader development experience that may be obtained from effective donor coordination will never be realized (box 12.12). The following are important ingredients for better donor coordination:

- Willingness to really listen to donors and cultivate close relationships—what donors formally say may not reflect what is felt in private. Country-level dialogue can be important, but major decisions generally come from donor headquarters.

- Sufficient time to build trust. Donors have often felt rushed to make commitments, even in cases where project preparation takes a long time. As a result, many donors may pull out very quickly when things start to go wrong.
- Clear definition of what elements are being coordinated (for example, overall strategy, procurement, disbursement, phasing, community processes, reporting, subsidies or incentive payments) and realism about the limits to donors' procedural (especially procurement) flexibility.
- For the Bank, a willingness to let other donors chair coordination efforts may reduce risk of perceived Bank heavy-handedness.

Box 12.12 Nepal: an uncooperative and thus ineffective approach

Individual donors have supported different aspects of the community forestry program in Nepal, depending on their individual priorities, and they have preferred to work in specific districts. These preferences have put a great coordination burden on the government and stretched its limited institutional capacity. Diverse implementation strategies in different districts have created confusion, especially among field staff. Because of this uncoordinated approach, some important institutional issues received inadequate attention—for example, support for research has fallen between the cracks.

Source: Authors

Financial projections. Improve the financial sustainability of the project by incorporating specific analytical financial projections into project design. Low sustainability ratings indicate problems with planning for overall financial sustainability (box 12.13), which can be attributed to the uncertainties involved with agricultural production and the complexities of technical, political, and institutional dimensions of project settings. The project design should reflect on the following issues:

- Information on local funding needs for the project period and at least five years beyond, including information on other significant incremental donor projects in the sector.
- Information of the past five years of budgetary allocation to that sector or subsector.
- Analysis of any gap between the two—that is, between the demand for funds and a reasonable expectation of the supply of funds.
- Supporting evidence of changed government priorities for sectoral budgetary allocations if budget demand is shown to go significantly beyond past actuals.
- A substantive discussion on the implications of the data for financial sustainability, and an outline of how it has affected project design (for example, toward reduced scale, increased cost recovery, phasing, retrenchment).

Designing a project to be within the financial capacity of the borrower requires more than simplistic budget-cutting solutions (such as line agency staff reductions) and needs to be assessed in the context of overall national budget management and civil service reform (for example, staff reductions may not release funds if budgetary allocations are related to staff numbers).

Box 12.13 Poor financial sustainability: a Bangladesh research project as a typical example

Despite two earlier projects with serious financial sustainability issues, the Bangladesh

Agricultural Research Management Project had no analysis of financial sustainability. The Staff Appraisal Report (SAR) refers briefly to the risk of inadequate counterpart funding and notes that the government agreed at negotiations that adequate funds would be made available for the project—the largely boiler-plate statement found in many SARs/Project Appraisal Documents (PADs). The post-project scenario for funding was not discussed or analyzed in relation to past budgetary allocations.

Source: Authors

Selected Readings

Asterisk (*) at the end of a reference indicates that it is available on the Web. See Appendix 1 for a full list of Websites.

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This investment note was prepared by Ridley Nelson.

Agriculture Sector Program Lending

The Agriculture Sector Program (ASP), a sector approach to development, is a medium- to long-term national program specifically for agriculture. The formulation, scope, and sequencing of an ASP depends on the depth of the country's private sector, the status of its policy framework, and its institutional capacity to plan and implement a development program. Donors support government priorities as contained in the program. This eliminates the fragmentation, duplication, and lack of country ownership common under the conventional project investment approach. Donor involvement should include technical assistance for capacity building (through training of preparation and management teams, workshops, and other activities), sector studies, and developing information and communication systems.

In many countries, the effectiveness of donor assistance to agriculture has been less than satisfactory. An important reason is that when aid is delivered through a variety of projects, it results in a fragmented approach to agricultural development. Even if individual projects are well designed, the multiplicity of donors, objectives, management systems, and procedures make it difficult for sector managers to absorb and manage aid efficiently. Often donors have taken the lead in identifying, designing, and implementing projects. Although they do so with good intentions, this does little to help the country develop capacity or foster a sense of ownership of its development projects.

Sectorwide Programs in Agriculture

Sectorwide programs in agriculture, as in other sectors, function as an umbrella to help ensure the coherence of donor-supported government activities. Sector program approaches support a single sector policy and expenditure program, under government leadership, adopting uniform procedures to disburse and account for all funds. A sector program is defined as one that covers all the activities in a given sector (often used to mean all the activities of a government ministry's budgetary programs). A sectorwide program: (1) is sectorwide in scope or coverage; (2) is based on a coherent sector policy framework; (3) is prepared and managed by local stakeholders; (4) includes program participation by all major donors, thus avoiding duplication and conflict with other donor projects; (5) adopts, to the extent possible, the same arrangements for accounting, budgeting, procurement, and progress reporting, for all donors; and (6) is in line with the country's institutional capacity.

Benefits

Evidence suggests that projects perform significantly worse in situations of macroeconomic instability. However, stand-alone projects are ill-equipped to initiate macroeconomic reform, and adjustment lending, although suited to addressing "stroke of the pen reforms" (such as export tariff elimination), is not very successful in dealing with complex issues requiring longer gestation periods (for example, privatization of parastatals). ASP combines reforms in key sectoral policies, expenditure patterns, and institutions with financing for a sectoral expenditure program with a longer-term horizon. The approach broadens sources of funding, makes coverage of the sector more comprehensive, brings ongoing projects into line with the sector policy, and develops common procedures. It provides policy makers and practitioners the opportunity for systematic and comprehensive review of the public expenditure program, ensuring that priority programs are supported effectively and are appropriately sequenced. When successful, sector programs focus discussions between donors and government, link policy and implementation, balance investment and operating expenditure, and improve service coverage and quality (Foster, Brown, and Naschold 2001).

ASPs will not be appropriate in all countries, especially where serious macroeconomic problems exist, where there is not broad agreement on the aggregate pattern of priority public expenditure, and where institutional capacity to formulate, implement, and monitor programs is weak. ASPs cannot be thought of as substitutes for sound adjustment policies.

Design and Implementation Issues

Multiple stakeholders and cross-sectoral issues. The agriculture sector has many stakeholders, including private sector entities, multiple government agencies, and numerous donor organizations and NGOs (box 12.14). Many government functions of greatest importance to agriculture (for example, trade policy, or the regulation of transport and trade) are located *outside* of the agriculture ministry itself. This situation makes it difficult to develop consensus among stakeholders and to concentrate public sector initiatives. For improved coordination, governments and donors must seek consensus and a common agreement on the most suitable structure (and ministry) to lead public sector reform and program initiation.

Box 12.14 Kenya: Agriculture Sector Program (ASP) stakeholders

In Kenya, a workshop on the findings of the agricultural sector review identified the following key stakeholders:

- *Farmers and their organizations:* Smallholders and commercial farmers, farmers' groups (male and female), cooperative societies, apex and national farmer organizations.
- *Public sector:* Ministry of agriculture, other line ministries, treasury, ministry of planning and national development, department of personnel management, parastatals, area development authorities, and local government, including provincial and district administrations.
- *Private sector:* Traders, exporters, and agroindustries (including small-scale traders).
- *Policy group:* Academic institutions, other institutes and think tanks, elected representatives at the national and local levels, financial institutions, and nongovernmental organizations.

Source: Okidegbe et al. 1998

Country capacity. A major obstacle to the success of programs in the agricultural sector is a lack of national capacity to plan and execute a comprehensive program—in particular, capacity for financial management and for M&E. Initial ASPs should focus on reforming institutions and building capacity, keeping early programs relatively simple, focusing on a few core activities in one or two subsectors, and undertaking further tasks as capacity expands. A sector program may focus entirely on institutional development and capacity building and may not involve capital investments at all. The factors determining whether a program qualifies as ASP are the extent to which coherent policy and institutional frameworks exist and the degree of government commitment.

Donor coordination. Donor coordination and harmonization of donor support are generally difficult to achieve. Governments may lack the capacity or experience to handle this task, and donors may be unwilling or unable to harmonize their support because of their own internal procedures. The Special Program of Assistance for the Africa Region is one mechanism for improving donor coordination, offering donors the opportunity to discuss ways to coordinate their assistance and providing a model for governments. Adoption of common implementation arrangements is likely to be a slow process. Project implementation manuals should highlight the proposed implementation arrangements. Donors are likely to agree to harmonize some activities but resist harmonizing others. While donors are likely to agree to common reporting and auditing functions, for example, they are less likely to harmonize procurement and pooling of funds. ASP initial successes can build receptivity to further coordination.

Lessons Learned

Experience from recent ASPs not only offer some important lessons for future ASPs but show that ASPs are not panaceas for development success. ASPs have worked well in some countries but have experienced significant implementation difficulties in others.

Success criteria. Experiences have shown that ASPs work better in countries with:

- A coherent policy framework that addresses key macroeconomic and sectoral policy issues (there are no major policy distortions, or at least measures are in place to redress existing distortions).
- An institutional framework that is based on a detailed assessment of key institutions in the sector and supported by institutional reforms and rationalization.
- A sectoral public expenditure review process that identifies ways to improve the efficiency and impact of the public expenditure program.
- A government commitment to the program with concrete evidence of political, fiscal, and administrative commitment to program preparation and implementation.

Clarifying scope and building consensus. Experience shows that when initiating ASP preparation, it is useful for ASP advocates within government to clarify the scope of the ASP activities by first preparing a concept summary. This can be used to build consensus within government and among the key stakeholders on the need for an ASP. Once a consensus is reached to move forward, an ASP team, comprising representatives from key stakeholders, can prepare a program document to guide the preparation effort. Such a document should communicate to principal stakeholders; the ASP scope, evaluation criteria, design features, and preparation processes. Views of rural stakeholders throughout the country need to be incorporated in the preparation process.

Agriculture Sector Program design. Past ASPs have illustrated the importance of taking into account the country's implementation capacity and natural endowments. Therefore no one standard design is generally applicable. While flexibility is important, experience shows that ASP preparations must:

- Demonstrate the consistency of ASP activities with program objectives, the outputs required to achieve objectives, and the inputs needed to achieve outputs, emphasizing cause and effect linkages.
- Assess the affordability and sustainability of the program through a detailed public expenditure review.
- Address cross-cutting issues by evaluating the extent to which the program minimizes environmental degradation, reduces poverty, and improves gender equity, for example.
- Identify the technical capacity required to ensure that productivity gains in agriculture, especially among smallholders, can be achieved.
- Establish common donor implementation arrangements, possibly pooling funds to reduce preparation costs, delays, and confusion.

Client participation and sound management. ASP implementation is likely to be affected by the quality of public sector management and the guidance provided to those implementing the program at all levels. It is important to involve stakeholders at early stages of program implementation, establishing mechanisms for generating feedback from different client groups and for assessing farmers' opinions on the quality, affordability, and relevance of services. For example, a Zambian ASP successfully involved a wide range of stakeholders in the preparation stages, but this was not followed up during implementation (box 12.15). The end result was loss of ownership, poor implementation, and low impact. This experience illustrates the importance of making efforts to sustain client participation/ownership throughout the entire ASP process. Options for generating such feedback include beneficiary assessment, participatory rural appraisal, systematic client consultation, participatory M&E, and involving stakeholders in advisory roles. ASPs should institutionalize a learning culture and provide training for staff at all levels to familiarize them with ASP principles and implementation issues, particularly the need for client consultation and special attention to gender issues, management, personnel, and incentives. Planning must ensure smooth implementation, as any ongoing projects are systematically integrated into the ASP.

Box 12.15 Zambia: Agriculture Sector Program and local stakeholder ownership

Prior to the agriculture sector program (ASP), there were some 180 known donor-funded projects in the agricultural sector in Zambia. The government had at best only partial knowledge of most of these. When the ASP was launched in October 1992, it was agreed with all major donors that the government would drive the preparation process. The government began an 18-month preparation process to design a new, affordable program to revive the country's agricultural sector. To do so, it created a national task force with 14 working subgroups. Representatives of nongovernmental organizations (NGOs), private farmers, the universities, farmer groups, and public servants participated. They covered such issues as research, extension, privatization, rural finance, animal health, and land use and administration. Wherever possible, private sector members chaired the groups. The key to the program's eventual success was to bring in the private sector in a major way to run these groups.

Source: Harrold 1995

Monitoring and evaluation. Good M&E systems are needed for effective implementation of ASPs, especially for early identification of inadequate performance (deviations from plans, client dissatisfaction, or weaker than expected linkages between inputs, outputs, and objectives) and timely remedial measures. The systems may also identify corrective actions to rectify deficiencies. Impact assessments require a suitable M&E framework for the overall performance of the sector, and they can be viewed as a Sector Performance Analysis (SPA) (box 12.16). Statistics from the years preceding the ASP usually provide the "benchmarks" for assessing performance and impact. Sector performance findings should be summarized in interim and final reports and, following discussions/consultations with major stakeholders and the ministry of agriculture, should be distributed to all stakeholders for action.

Box 12.16 Requirements for Sector Performance Analysis

Monitoring systems for Sector Performance Analysis (SPA) should track such things as changes in cultivated area, production of key crops as well as total production, employment, and incidence of poverty. A combination of quantitative and qualitative methods can help to capture the main sources of variation and explain the reasons for change. For example, SPA analyses may try to quantify the impact of variable weather conditions, increased adoption of new technologies (including the impact of extension services), investments, availability of credit, policy changes, and external shocks (changes in export crop prices, for instance), as well as obtain qualitative information through consultations with farmers and other stakeholders.

Source: Okidegbe et al. 1998

Recommendations for Practitioners

- Begin by identifying key stakeholders and important areas for investment, launching generic studies, appointing and training preparation and management teams, and preparing a concept document (box 12.17). Gain consensus through startup workshops that enable dialogue and information sharing among stakeholders. Ensure that generic studies and the priorities, resources, and needs of stakeholders inform the final preparation report. Complete a comprehensive evaluation of the scope and technical feasibility of the ASP.
- Conduct a sectoral institutional analysis, including analysis of sources of power and influence, and a sector expenditure report, to inform the ASP (data generated by poverty assessments can be useful here), and to develop realistic and time-specific objectives for the ASP.
- Develop effective common implementation arrangements among donors.

Box 12.17 Potential investments

- Policy, regulatory, and institutional reform.
- Information services.
- Provision of extension services to smallholder farmers.
- Research priority setting.
- Development and protection of the natural resource base.
- Private sector support.
- Rural infrastructure.

Source: Okidegbe et al. 1998

- Project design must reflect the constraints and capacities faced, illustrate consistency between activities and objectives, assess sustainability through public expenditure reviews, and provide for linkages with other sectors (trade, roads, water, forestry, health) and the accommodation of cross-sectoral issues (environment, poverty, food security).
- Build a sound M&E system.
- Restructure donor support to conform to the country's budget cycle and phase out individual projects in return for recognition as a stakeholder in the sector.

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Asterisk (*) at the end of a reference indicates that it is available on the Web. See Appendix 1 for a full list of Websites.

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This investment note was prepared by Nwanze Okidegbe, with input from Sam Kane.

Community-Driven Development for Increased Agricultural Income

Community-driven development (CDD) investments use a variety of mechanisms to empower communities to define priorities and take charge of their own development investments. Typically, CDD programs provide resources, often through cash grants, to enable communities to undertake local development activities. Initial community projects frequently involve small-scale infrastructure, but increasingly productive projects become a priority to address poverty and income issues. Agricultural projects are potentially an important element of the subproject portfolio, though experience to date offers limited guidance on how to maximize sustainable impact on agricultural production systems with CDD investments. Supporting IGAs without introducing unsustainable subsidies and market distortions is a challenge to be addressed in future analyses of CDD investments.

CDD is an approach to poverty reduction that seeks to empower communities and local governments with resources and decision-making power so that they can take charge of their own development. "Empowerment" refers to increasing the assets and capabilities of poor people to participate in, negotiate with, and hold accountable the institutions that affect their lives. Achieving empowerment means promoting a stronger voice, access to information, social inclusion, accountability, and organizational strength. CDD is an established corporate priority of the World Bank and a key design principle in an increasing number of projects in rural areas. At present, approximately 45 percent of the lending to the agricultural sector uses some variant of the CDD approach—a proportion that is likely to increase.

Typically, the CDD approach gives communities access to funds to implement subprojects of their choice. Local investment funds are often, but not always, provided in the form of matching grants, whereby participating communities are expected to make a contribution in cash or in kind. To the extent that rural communities consider food security and income from agricultural sources as their priority needs, projects using the CDD approach are expected to promote agricultural development.

Policy and Implementation Issues

Local investment that is explicitly guided by community priorities and, in most cases, implemented by communities themselves, is the hallmark of the CDD approach. In order to respect the diverse needs of the poor, eligibility criteria for selection of subprojects are typically kept fairly open, either using a negative list of things that may *not* be financed (for example, religious structures or investments with potential negative environmental impacts); or a broad positive list of eligible subprojects for project financing (for example, social and economic infrastructure, natural resource management). Most World Bank lending using the CDD approach over the past decade has focused on infrastructure and social services, but other options are increasingly being explored, such as IGAs and NRM. Community choices are conditioned by several factors:

Meeting the most basic needs. When CDD projects target the poorest, beneficiaries usually lack basic needs, such as safe drinking water and access to health services. When presented with the opportunity to improve critical services, those priorities prevail. Once those needs are met, communities will address secondary needs.

Defining the community. Subproject choice often depends on the working definition of "community." If defined narrowly as a water user organization, for example, it would not be surprising to find demands for irrigation pumps or carts for produce. If the project works with parent-teacher organizations, then proposals would naturally focus on education. More typically, however, CDD projects work with villages or groups of villages defined by administrative boundaries, physical proximity, and/or social cohesion. Communities comprise numerous constituencies which, given hard budget choices, face important trade-offs in selecting subprojects from a range of sectors (health, education, water supply, transport, and agriculture; see box 12.18).

Appraisal methods. Another determinant of subproject choice is the method of community mobilization and planning used. Tools that focus on community problems often come up with priorities such as health and education. Tools that focus on a community's resources and abilities may favor economic development priorities. Planning based on community strengths and opportunities may produce a priority list different from that established by local government (Goldman 2003).

Box 12.18 Typology of community organizations in World Bank operations

1. *Common property resource groups*. Water user or forestry management associations.
2. *Producer organizations*. Groups that engage in crop and livestock production, forestry and forest products, fish production, postharvest and processing activities.
3. *Multisector functional committees*. Village or municipal development committees.
4. *Single-sector functional committees*. Health or education committees (common in Social Fund projects).
5. *Microcredit institutions*. Community savings and loan groups or revolving credit accounts.

Source: Parmesh Shah, personal communication

Using matching grants to generate income. Communities often identify productive activities as priorities, and matching grants have been used successfully to stimulate substantial gains in productivity and income (box 12.19). Using grants to support IGAs in farm and rural nonfarm activity is controversial, with a growing number of detractors and proponents on both sides.[8]

Box 12.19 Brazil: Hives of income-generating activity

Throughout the Piauí State in Brazil, 17 beekeeping subprojects financed by the Rural Poverty Alleviation Project have generated an estimated total incremental income R$348,000, or R$660 per beneficiary family. Total estimated production of honey is 189 tons (17 percent of state

8 This section is adapted from a concept note written by Jean Delion and William Steel, Africa Region.

production). The subproject package for beekeeping financed honeybees, fumigation equipment, centrifuge, honey filters/decanters, beehives, and other materials and equipment. CEFAS, a nongovernmental organization, provided technical assistance. In one example, 30 families formed the Association of Small Bee Keepers in the Floriano Region. Previously, only four of those families were producing honey, with a total yearly output of 320 kilograms. The 30 families now produce 9,000 kilograms annually. Average family income from honey increased from R$18 to R$510 per year. The association obtained financing from Banco do Brasil for the construction of additional infrastructure to store the honey.

Source: Parker 1995

Detractors argue that grants increase dependency, undermine a culture of financial discipline, and crowd out development of sustainable microfinance institutions. Grants that benefit only a small minority of the population may not support financially viable activities, and they are not sustainable because fiscal transfers are insufficient after a project to continue such support.

Proponents argue that, from a social assistance point of view, direct transfers may be justified for poverty reduction, particularly if they target the very poor.[9] From a rural development perspective, direct support for productive assets may be justified to raise the income-earning potential of the community and "kick-start" the local economy. Others point to positive externalities generated from the associated private sector development. Several rules of thumb for use of grants in CDD are included in box 12.20.

Box 12.20 Suggested guidelines for providing grants for income-generating activities

- Target grant assistance to very poor communities or groups that are beyond the current reach of microfinance institutions. One way is to make the grant amount large enough to be useful to the poorest, but too small to be worthwhile for better-off groups.
- Grants should be combined with training and support to establish local savings and credit associations to capture increased income flows and finance future income-generating activities (IGAs).
- IGAs financed must be cost effective, as demonstrated by impact and cost effectiveness indicators.
- The investments should not compete directly with private investment (existing or likely).
- Beneficiaries should contribute to projects, with at least part of the contribution in cash (no less than 5 percent of total project cost). Overgenerous subsidies create false positive demand and may jeopardize future maintenance of investments by beneficiaries. Subsidies can be structured so that the poor make lower contributions, but this option may negatively affect their ability to assert and defend their rights to flow of benefits.
- If the economic returns to a subproject are higher than the financial returns, one can assume that some level of subsidy is justified, the social returns being greater than the private returns.
- If the profile of revenues is skewed so that returns do not accrue for some years after investment (for example, forestry, tree crops), a subsidy to encourage adoption can be justified.

[9] Bank guidelines, specifically Operational Policy (OP) 8.30, state that "[s]ubsidies may be an appropriate use of public funds if they are fiscally sustainable and are economically justified or can be shown to be the least-cost way of achieving poverty reduction objectives."

- Subsidies used without tied commitments for repayment, user fees, or maintenance may create perverse incentives for greater rent-seeking by beneficiaries.

Source: McKean and Ostrom 1995

Using grants for IGAs for very poor people as social assistance is well accepted, although these interventions need to be carefully designed when working with the asset-poor. In district poverty initiatives in India, project teams have had considerable success funding income generation for the poor who own a plot of land, however small. They have had less success with the absolute poor who have no assets (box 12.21).

Box 12.21 Income-generating activities for the absolute poor: innovative examples

The design of community-driven development projects can address the difficult issue of income generation for beneficiaries with no assets.

- In a current project in India, a group of landless poor applied for a grant from a village fund for poultry. The proposal was not simply to purchase poultry, but to manage a poultry unit in a different way. One group member asked for training to market eggs; another specialized in transport; and another specialized in animal health. This approach proved potentially more profitable than simply asking for a grant to buy poultry.
- In another project, a village received a grant for irrigation. Although not everyone owned land, every member of the community contributed to the subproject and owned water rights. The landless were able to lease their water rights to landowners, thereby generating some income.

Source: Ethel Sennhauser and Philippe Dongier, personal communication

Grants can catalyze the formation of institutions for collective action. These, in turn, become the means for sustainably managing numerous goods and services. Many argue that the establishment of viable institutions for collective action is the primary goal of CDD programs. Accordingly, the factor determining whether to use grants may be the institutional outcome envisaged and not the individual goods and services produced, which may only be stepping stones to building institutions for collective action.

Lessons Learned and Recommendations for Practitioners

The CDD approach may encourage collective action for the purchase of inputs, technical support, and marketing. The logic of collective action is to bring new options to communities that are not open to individuals acting alone. Often collective action is in everyone's interest, but it may not be in any individual's interest to take on the cost of organizing the collective action. Certain investments are often needed to complement the CDD approach. Targeted capacity-building efforts, for example, are needed for participatory appraisal at the grassroots and local government levels to ensure that local development plans are properly articulated (box 12.22). These may require the use of NGOs or private companies experienced in local development. Public extension services may perform this role, although considerable effort may be needed to sensitize personnel to participatory techniques and a demand-driven mentality. Technical support services may need to be strengthened to cope with new demand from the CDD program.

Box 12.22 Demand-driven agricultural services funds

A demand-driven agricultural services fund is part of support to rural producer organization (PO) capacity in Agricultural Services Projects in Senegal and Burkina Faso. Funds allow POs to access public or private services to improve farming practices or develop off-farm income-generating activities. Key implementation responsibilities are shared as follows.

- Local POs prepare capacity-building subproject proposals on the theme of their choice, requesting funding for training, advisory services, or small productive investments. POs submit proposals to a provincial forum composed solely of PO leaders.
- Facilitating nongovernmental organizations (NGOs) help POs to form regional forums. The NGOs (1) disseminate information, (2) help POs select representatives at the village and local level, (3) assist them to elaborate operating rules, (4) maintain a database of eligible service providers, (5) train PO leaders and farmers on subproject selection procedures, and (6) monitor program progress.
- The project maintains records on subprojects, prepares contracts with POs, transfers funds to their bank accounts, and organizes technical and financial audits of subprojects.

The Burkina Faso project over five years financed approximately 1,250 capacity building subprojects, including 250 demand-driven agricultural extension subprojects. Financial audits have shown that funds were well managed and demonstrated that POs have the ability to elaborate and implement subprojects. In Senegal, after the first 20 local farmer forums had been in place for less than a year, they had already financed 187 subprojects, 53 percent of which were for training and 38 percent for agricultural innovation testing.

Source: Pierre Rondot, personal communication

Some investments needed to overcome constraints to development may not figure in community proposals, because they are too expensive (large public goods); benefit only individuals (some private goods); or are too long term (NRM). Projects may need to consider complementary funding windows for larger infrastructure that needs to be planned and implemented above the community level (box 12.23).

Box 12.23 Ethiopia: Funding windows to match needs

The Pastoral Community Development Project in Ethiopia promotes sustainable livelihoods, improved services, and reduced vulnerability to drought by combining the community-driven development (CDD) approach with:

- A community investment fund (up to US$10,000 per community) with an open menu of possible microprojects to support nomadic lifestyles or diversification away from livestock.
- A drought preparedness fund (up to US$80,000 per district) for local governments to implement larger infrastructure works that help pastoral communities cope with drought.
- A support services component aimed at increasing the capacity of public services (in water supply, animal health, education, and extension) to meet needs of pastoral communities.

Source: World Bank 2003

The CDD approach is not a panacea for agriculture or development in any other sector, but it is becoming increasingly important as a way to channel funds to the grassroots level. It increases the likelihood that such funds are used to meet the real demands of rural communities and makes resulting investment more sustainable. Designers of projects that use the CDD approach to promote agricultural income generation will need to ensure that the financial instruments are compatible with the existing rural financial sector, and that complementary technical support services are present or provided by the project.

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This investment note was prepared by Daniel Sellen, Talib Esmail, and Melissa Williams.

Monitoring and Evaluation: Measuring and Assessing Agricultural Development Programs

Monitoring and evaluation (M&E) are integral tools for assessing the efficiency and effectiveness of investment operations.[10] The design of M&E systems must be undertaken early in project preparation, and M&E systems must come into effect when implementation begins. Early definition of project objectives, identification of sound performance indicators, and clear reporting requirements are important for effective M&E systems. Baseline studies and benchmark indicators can provide the basis for the M&E process. Agricultural investment operations need to identify responsible institutional locations for M&E responsibilities and ensure the availability of qualified staff with ownership of the M&E system.

Invariably, Project Appraisal Documents (PADs) discuss M&E at the end of the reporting requirements, and supervision missions—mostly occupied with institutional, procurement, and financing issues—relegate M&E discussion to a minor element in progress reports. Both the World Bank QAG and the OED have consistently pointed out that attention is urgently needed to strengthen M&E systems and to improve performance and impact measurement. A Sustainable Agriculture Knowledge and Institutions (SASKI) thematic group review of agricultural research and extension projects found that only about 25 percent of the projects reviewed had adequate M&E plans (World Bank 2003). M&E issues as they relate to potential for scaling up are highlighted in the Overview section of each module in this Sourcebook. This investment note summarizes key aspects of M&E that should be considered in the design and implementation of agricultural operations.

Monitoring and Evaluation Systems

Monitoring is defined as "the continuous assessment of project implementation in relation to agreed schedules and the use of inputs, infrastructure, and services by project beneficiaries" (Operational Directive [OD] 10.70). Evaluation is defined as "the periodic assessment of the relevance, performance, efficiency, and impact (both expected and unexpected) of the project in relation to stated objectives" (OD 10.70). Thus monitoring focuses on project inputs and deliverables, whereas periodic evaluation (such as the mid-term review, completion reports, beneficiary assessments, impact studies, and so forth) establishes causality and attribution.

Monitoring and evaluation systems are designed to inform project management of whether implementation is going as planned or corrective action is needed. A well-designed M&E system provides data on the progress of a project and whether it is meeting objectives. These data may indicate that adjustments are required in the project to take into account different circumstances in the local environment. Through M&E, it is

[10] This investment note draws from the M&E sections of Sourcebook modules, World Bank (2004), and Rajalahti, Woelcke, and Pehu (2005).

possible to assess links between lending assistance and development outcomes and determine whether development objectives have been met. With its focus on a project's objectives and beneficiaries, M&E contributes to the clarity of the objectives and to the accountability of those implementing the project (box 12.24).

Box 12.24 World Bank monitoring and evaluation requirements

The Bank requires systematic monitoring and evaluation (M&E) of both program and project lending as indicated in Operational Directive 10.70 and Operational Policy (OP)/Bank Procedure (BP) 13.05. Among other things, OD 10.70 sets out the concept of M&E and provides general guidance on the design and implementation of the information systems required for M&E. OP 13.05 explains the rationale for the Bank's supervision of Bank-financed projects, which includes monitoring, evaluative review, and reporting. BP 13.05 explains the responsibilities of Task Teams (TT), and it requires that the borrower and the TT agree on implementation arrangements, including M&E arrangements, and the use of appropriate performance indicators.

Source: World Bank Operational Manual

Design of Sound Monitoring and Evaluation Systems

Monitoring and evaluation must be an integral part of the project design, not a peripheral item added as an afterthought. A well-designed M&E system is characterized by clear objectives and targets for investment outcomes. Bank experience shows that use of the "results framework" approach (or the logical framework in the past) is essential for developing a sound M&E system. A good M&E design and its effective implementation requires attention to the following issues:

- Articulation of a strong and clear Project Development Objective (PDO) is essential for good project design. A PDO is expected to illustrate the principal outcome of a change in end-user (primary target group) behavior.
- Careful selection of a manageable number of clear, good quality performance indicators.
- Use of participatory approaches to M&E during both the design and implementation phase, while giving consideration for appropriate timing and resource availability.
- Development of a clear M&E plan (what, how, why, when, who, and where) at the project design stage, with clarity and agreement with the Borrower on data requirements and clear responsibilities for obtaining and managing this data. A good incentive environment with clear accountability supports implementation of the plan and use of the collected data.
- Establishment of a simple management information system (MIS) for a project's internal system for collecting, analyzing, storing, and disseminating project information.
- Development of an M&E capacity assessment and enhancement plan, to be implemented throughout the duration of the project.
- Preparation of a user-friendly project/program-specific M&E operations guide.
- Testing of the M&E system in the first year of implementation to adapt it to local realities.

- Adequate attention to M&E during supervision—collection and use of project M&E data from the very beginning;
- Provision for an annual review of the M&E system to provide information on local constraints so that adjustments can be made in how a project is implemented.

The results framework and M&E. In 2003 the bank shifted from the logical framework as a mandatory requirement in project M&E to a two-pronged strategy comprising of the results framework and the arrangements for results monitoring (Kusek and Rist 2004). The results framework is a simplified version of the traditional logical framework, which focuses on (1) the PDO and (2) intermediate outcomes expected from implementing each individual project component, which contribute to achieving the PDO. The added emphasis on component outcomes helps focus project design and management on results. The results framework has the following structure: (1) PDO and Project Component Statements; (2) indicators for PDO outcome and intermediate component outcomes; and (3) explicit statement on how to use the outcome information. Table 12.3. illustrates the structure of the results framework as presented in the PAD and an example on a hypothetical agricultural research and extension project.

Table 12.3 The World Bank's results framework applied to a hypothetical agricultural research and extension project

Project Development Objective (PDO)	**Outcome indicators**	**Use of outcome information**
Statement of PDO: Agricultural producers increase the adoption of profitable and environmentally sound technologies	*List of outcome indicators at PDO level:* For example: Percentage or number of women and men producers who have adopted environmentally sound technologies by year *x*	*Specify the use or purpose of monitoring specific indicators and the use of the findings (PDO level):* For example: If the rate of technology adoption by women and men is lower than *x* percent by the specified target dates, then components 1 and 2 must be reviewed for efficiency
Intermediate outcomes for each component	**Outcome indicators for components**	**Use of outcome monitoring**
Statement of outcomes per component: Component 1: Extension service providers have an improved understanding of client needs and how to respond to them	*List of outcome indicators per component:* For example: Percentage of women and men producers satisfied with access to and quality of extension services	*Specify use or purpose of monitoring specific indicators and use of findings (PDO level):* If the rate of satisfaction is lower than *x* percent by the specified target dates, the activities under component 1 will be adjusted as needed
Component 2: National research institutes have improved capacity to conduct research in identified priority areas	For example: Percentage of priority research funds allocated to research in priority areas	If the proportion is lower than envisioned, the situation will be analyzed and corrected

Source: Rajalahti, Woelcke, and Pehu 2005

Unlike the logical framework (see World Bank: *The Logframe Handbook*), the results framework's main focus is managing outcomes of project interventions. The results framework also forces the M&E system track these outcomes and impacts rather than simply reporting on production of outputs. It does not replace or substitute for traditional analytical tools and methods. The results framework does not explicitly capture the CAS or sector goals and output levels, or the detailed project component activities and input levels. However, Bank-supported projects are required to articulate a clear alignment between the project and higher-order strategic, program, or sector outcomes to which the project contributes. The "Strategic Context" section of the PAD describes how the project contributes to these higher-level objectives. Furthermore, project inputs, activities, and outputs as well as the critical assumptions (factors that the project cannot or does not want to control but which are essential for reaching the desired outputs and outcomes of the project) and possible controversial aspects are now required to be captured in the main text of the PAD. In addition to the mandatory results framework, many project teams may opt to develop an "extended" logical framework with additional focus on intermediate outcomes besides the usual impacts, PDO, outputs, and inputs.

Performance indicators. Indicators are derived from the project frameworks and provide for measuring performance to assess the project's achievements. The results framework includes outcome indicators at two levels: PDO outcomes and intermediate project component indicators. Outcomes reflect the quality of outputs produced, behavioral change in target groups as well as changes in institutional performance due to the "adoption" of project outputs. They are closely related to the project activities but are not under the full control of the project (Rajalahti, Woelcke, and Pehu 2005).

- The indicator associated with the PDO describes a change in end-user behavior (primary target group).
- The intermediate outcome indicator of each project component usually describes the changes for the secondary target group.

In addition, goal, output, and input indicators must be defined for a logical framework.

- Sector Goal indicators measure change in the broad development goal to which the project contributes. Changes in these indicators are indirectly attributable to the project, and they usually cannot be measured during the life of a Bank-financed project.
- Outputs are direct products of project activities and inputs and are within the control of the project. Project output level M&E focuses on relatively simple quantitative measures of physical completion.
- Budget and input indicators measure the physical and financial cost estimates for producing certain outputs.

The fewer the indicators the better (one or two are recommended for the PDO and from one to three for each project component). Each indicator requires arrangements for monitoring (an M&E plan) and inclusion in the MIS. The effort expended should match the improvement gained in decision making. In many projects the number of indicators grows beyond the capacity of staff resources. In these cases data collection predominates and reduces time for reflection, evaluation, and charting new steps.

A simple way to characterize sound indicators is "TQQ": *time* (time-bound accomplishment), *quantity* (numerically measurable), and *quality* (what level of quality or degree of achievement is desired); see box 12.25 for an example. Another way to characterize indicators is “SMARTS”: simple and easily defined; measurable; attributable; realistic; targeted; and specific.

Box 12.25 Using TQQ to define sound indicators: an example

1. Set *Time*: Access to agricultural extension services for poor farmers in Quynh Luu District is improved *by the year 2007*
2. Set *Quantity*: Access to agricultural extension services for poor farmers in Quynh Luu District is improved *by* x *percent from the baseline* by the year 2007
3. Set *Quality*: Access to *good quality* agricultural extension services for poor farmers in Quynh Luu District is improved (where *good quality* is defined as…) by *x* percent from the baseline by the year 2007

Source: Riikka Rajalahti, World Bank

Major Issues in Monitoring and Evaluation of Agricultural Projects

Lag time for impact. Many agricultural projects (for example, irrigation and research) have long gestation periods, and their impact on the sustainability of natural resources and poverty reduction can only be determined years after a project is completed. A project’s impact is also affected by variability in agricultural production and incomes (caused by weather and prices) as well as by many other factors (beyond the control of the project) that affect the sector.

Project cycle and M&E. As emphasized, M&E systems must be part of the initial project design, with M&E given its own chapter in the project implementation manual, setting out the management information systems and the plan for using collected data. The mid-term review should undertake a detailed review of the M&E methodology and indicators. This review will assess the likelihood of achieving the project’s development objectives and specify whether changes are needed.

Participatory M&E. Involvement of stakeholders—particularly beneficiaries—in designing and implementing M&E systems is important to ensure ownership of results. Approaches to the including stakeholders in evaluation and benefiting from their valuable local knowledge are improving. Such approaches are particularly critical for activities requiring extensive community participation (for example, CDD-type initiatives). It is important that projects assess the desirable level and main stakeholders of participatory M&E activities, because many participatory tools are time-consuming and thus resource- and staff-intensive to use.

Baseline studies. Baseline surveys and studies provide benchmarks for measuring results and impact. Baseline surveys frequently are completed after project start-up and well into the implementation phase—a practice that should be avoided. Appointing M&E staff early in preparation is important if baseline studies are to be effective. Alternative means of assessing program results against baselines or controls are listed in box 12.26.

Box 12.26. Methods for establishing controls for outcome and impact assessment

- *Randomized controls:* Farmers or other beneficiaries are randomly placed into two groups—those affected by the program and those not. Program impact is assessed by comparing outcome variables.
- *Constructed controls:* Program participants are paired with an equivalent group not affected by program activities.
- *Statistical controls:* Program participants and nonparticipants are compared after correcting for other characteristics that differ statistically between the two groups.
- *Reflexive controls:* Data on program participants are compared before and after program assistance.
- *Generic controls:* Data on program participants are compared with established norms for changes occurring in the target population.
- *Shadow controls:* Actual changes in data for program participants are compared with estimates of what is normally expected, based on the judgment of experts, program administrators, or participants.

Source: Rossi and Freeman (1982) as summarized in Ezemenari, Rudqvist, and Subbarao (1999)

M&E staffing, unit, and budgeting. Funding for M&E activities must be ensured, particularly for staff training and baseline studies. Retroactive financing of M&E costs may be needed to cover baseline study costs. Establishment of a central M&E unit that is linked to the decentralized implementation units with respective M&E units is recommended to guarantee adequate links between various implementers and activities. The primary purpose of an MIS, as part of the M&E unit, is to support management in making timely and effective decisions for planning, monitoring, and managing the project. Design and planning of the MIS system requires systematic dialogue with stakeholders to guarantee that it operates using the regular client processes as much as possible. Selection of adequate numbers of qualified staff and funding for evaluations, impact studies and beneficiary assessments is essential to starting M&E systems on a solid foundation. M&E staff must avoid being seen as a police unit monitoring project management and financial conduct (this is the task of the auditors and project accountants). M&E staff should function as an integral part of program management and institutional planning units to anticipate needed changes and provide advice when requested.

Recommendations for Practitioners

- M&E costs should be distinct from other project management costs and should provide detailed budget items for staffing, training, technical assistance, studies, workshops, and equipment. During project identification and preparation, early decisions on data collection should be undertaken; this step makes it possible to finalize baseline surveys and studies needed for evaluations.
- The evaluation process, particularly at the mid-term review and project completion, should be transparent and provide opportunities for feedback by affected stakeholders.

Evaluation reports should be prepared in an appropriate format for the intended stakeholders and be discussed in special workshops with representation from project stakeholders.

- Support to funding agencies (for example, competitive grant programs) must establish realistic and clearly understood performance measurement mechanisms.
- Measuring the performance of agricultural projects requires indicators to assess outcomes and impact not only on beneficiaries but also to assess contributions to the national economy and relevant agricultural strategies. In CDD and extension projects, establishing effective systems to monitor decentralized programs must ensure that the data are available at the appropriate levels. This often requires linking a central M&E unit to decentralized implementation organizations and their respective M&E units.
- Investments in intensification of sustainable agricultural production, environmental management, and land resources require holistic monitoring systems capable of critically evaluating economic, social, and environmental changes throughout and following program implementation.
- Public investments in agricultural private sector and market development should be evaluated against the objectives of poverty reduction, efficiency, and sustainability.
- Since poverty reduction is the primary objective of Bank investments, monitoring of outcomes and assessing impacts on the poor, women, and minority groups needs special attention, even though many poverty reduction effects for these groups are likely to be indirect.
- The M&E plan and budget should provide for special studies that are a practical tool for providing data disaggregated by gender, ethnicity, or other key characteristic of client population; for stakeholders to learn about and affect the project and M&E process; for collecting information on agricultural systems, evaluating project impacts, and especially for assessing and measuring project outcomes; and to track specific planned and unplanned impacts or operational issues (such as access to technology by women or minority groups, and changes in land tenure and other social conditions in the area) (Rajalahti, Woelcke, and Pehu 2005).

Selected Readings

Asterisk (*) at the end of a reference indicates that it is available on the Web. See Appendix 1 for a full list of Websites.

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This investment note was prepared by Hamdy Eisa and updated by Riikka Rajalahti.

Mozambique: Harmonized Donor Funding Around Principles and Coordination

What's innovative?
Harmonizing donor funding to the agricultural sector through an agreement on basic principles and a sequenced, vertically integrated cycle of program planning, procurement, disbursement, audit, and review.

At the end of civil war in 1992, Mozambique was one of the world's poorest countries. Despite subsequent shocks caused by drought (in 1992/93 and 2003/04) and floods (in 2000 and 2001), the agricultural sector grew by an annual average of 6.8 percent between 1992 and 1997 and 4.6 percent between 1997 and 2003. Rapid growth in the mid-nineties reflected recovery from a very low base. More recent growth has been driven by some increase in food crop yields and by expansion in cash crops such as cotton, sugar, tobacco, and sesame.

These growth levels have been sequentially induced by the return of displaced rural families, sustained liberalization of macroeconomic and sectoral policies, and the gradual entry and expanding operations of new agribusinesses. Periodic flooding and drought constitute large exogenous shock to Mozambique's economy, but the potentially large fiscal and monetary effects of these shocks were kept under control by government commitment to macroeconomic discipline and sustained generosity on the part of Mozambique's external partners. As a result of substantial investment in communications infrastructure, liberalized agricultural markets are becoming increasingly integrated at domestic and regional levels. In partnership with private sector and aid partners, the Government of Mozambique is pursuing efforts to promote a better investment climate to improve competitiveness, stimulate domestic investment, and attract foreign investment.

The Mozambique Agricultural Sector Public Expenditure Program, originally a five-year APL project to support the Ministry of Agriculture (MINAG) in implementing the first phase of the National Agricultural Development Program (PROAGRI), has been extended until the end of 2006 to support the transition to Phase II (2006-2010) of the same program. Bank support to PROAGRI II and other rural programs will mainly come from the PRSC series. Originally PROAGRI was supported by some 20 development partners operating under two aid modalities—sector budget support (SWAP) and discrete projects. As the national economic and social situation evolved and public management improved, some partners decided to provide most of their support in the form of general budget support. This modality of aid is the most important for financing the Second Poverty Reduction Plan (PARPA II, 2006-2010), in which PROAGRI II is the agricultural component. The group of donors following the SWAP approach has remained more or less constant, as some development partners initially operating through discrete projects have now adopted the SWAP approach. PROAGRI II will be funded through three aid modalities: (1) sector budget support, (2) general budget support, and (3) discrete projects. Engineering a system to coordinate these three modalities, enhance links with central planning and budget institutions, and reinforce MINAG's leadership of the program is quite a challenge.

In response to this challenge, donors (providing sector and general budget support) and other ministries agreed to participate formally in planning and overall policy dialogue and monitoring at five critical stages in project planning and execution: (1) review of government performance in the past fiscal year (March-April); (2) discussion of consolidated guidelines to prepare the plan for the next year (April-May); (3) evaluation of consistency with basic principles of the MINAG-proposed annual plan before submission to MPD (July-Augusts); (4) review of government performance in the first semester of the current fiscal year (August-September); and (5) evaluation of the government-proposed plan before submission to Parliament (November-December). NGOS (projects) and private operators would be invited to participate in all but stages 3 and 5.

An agreement guiding basic principles, goals, and milestones makes broad coordination possible. Under this agreement, resources flowing through both types of budget support (sector and general) are not targeted at predetermined activities but allocated to activities selected through MINAG-led participatory planning. Only projects with objectives compatible with PROAGRI development goals can be implemented by MINAG. Additionally, as the national planning system was restructured to become more horizontally and vertically integrated, MINAG's planning process had to be fully integrated with the process of preparation and monitoring of the Economic and Social Plan (PES), the annual expression of PARPA II.

Donors providing sector and general; budget support have committed to improve the annual and midterm predictability of aid resources and avoid changing pledges in the course of implementation.

Project Objectives and Description

Among its other achievements, PROAGRI I successfully replaced fragmented, donor-driven projects with a comprehensive agricultural development program and helped MINAG to realign its functions, organization, and approaches with the requirements of a market economy. MINAG has designed PROAGRI II to support further improvements in the efficiency, relevance, and coverage of publicly promoted services and infrastructure in the new context of much greater administrative decentralization and increasing inter-sector integration. PROAGRI II seeks to:

- Promote the formulation and implementation of agricultural policies that effectively reduce poverty and food insecurity.
- Establish, at various levels of implementation, effective coordination frameworks for integrated public interventions and public-private partnerships.
- Improve the effectiveness and efficiency of delivery of MINAG's core and strategic functions at the central and local levels.
- Expand the coverage, decentralize the provision, and improve the effectiveness of publicly funded, demand-driven agricultural services and infrastructures.

The principles underlying PROAGRI II can be summarized as: (1) a focus on poverty reduction, including improvements in food security and household income; (2) decentralization and empowerment, including optimal representation of all stakeholders;

(3) good governance, transparency, accountability, and participation; (4) sensitivity to issues of gender, the impact of HIV/AIDS, and other causes of disadvantage; (5) concern for small-scale farmers' needs and rights; (6) social and environmental sustainability; (7) market-oriented policy; and (8) limitation of MINAG activities to core functions and strengthening its capacity to fulfill its role in promoting an enabling environment for agriculture sector development; and (9) a commitment to expand and facilitate the role of civil society organizations and the private sector in agriculture.

PROAGRI II will encompass all agricultural public expenditure managed by MINAG.

Benefits and Impacts

- Institutional investments in phase I created the conditions for rapid decentralization and steadily increased capacity at the local level, as advocated by recent decentralization legislation.
- Close partnership between MINAG and donors over the modernization of essential planning and fiduciary systems has opened the way for increased mutual confidence and sustained financial support. Internationally accepted financial management and procurement practices and methods were streamlined into MINAG's regular structures at the national and provincial level. MINAG's planning and fiduciary systems are recognized as a model for the modernization of other ministries.
- External technical assistance has been reduced to the strictly necessary.
- Articulated and open coordination structures implemented under PROAGRI I provided experience that can be adapted to institutions with a larger scope of operation and more complex coordination requirements.
- Endowed with financial resources and better qualified staff, provincial and district agricultural units are now regarded as credible institutions for coordinating and partnering with NGOS and private enterprises.
- Dissemination of rapidly maturing, disease-tolerant varieties and planting material has minimized farming communities' vulnerability (especially food insecurity) in the wake of natural disasters.
- Livestock populations have increased steadily in the past six years; from a very low base of 400,000 cattle in 1994, Mozambique now has 1,000,000 cattle.
- Recent analytical work indicates that public extension has had a significant impact, particularly on the livelihoods of poorer households. Decentralization has triggered the adoption of new and more cost-effective extension and outreach approaches.

Lessons Learned and Issues for Wider Applicability

PROAGRI is considered a leading model of donor coordination and is apparently one of the first examples of the complete pooling of donor funding in support of a program—in this case in the agricultural sector.

The key lesson from this experience is that a host country and a significant number of donors following different aid modalities can develop and adopt basic guiding principles and common and converging procedures for program planning, procurement, disbursement, audit, and review. Although complicated to set up, a harmonized system is highly effective in building host-country capacities and ownership, in enhancing donor coordination, and improving the host ministry's ownership and accountability.

Other lessons and issues include:

- The success of the sector budget support (SWAP) approach depends on strong sector and government leadership.
- Partnership, an understanding of institutional dynamics, and persistent collaboration with the institution's leadership are essential ingredients for success in a sectorwide program, particularly when the host ministry begins from a relatively weak institutional stage of development.
- Structured and periodic participation of beneficiaries and stakeholders in priority setting and evaluation at all levels (national, provincial, district) is key to ensure the program's objectivity, relevance, and sustainability.
- There is little doubt that, through its focus on decentralization, the Government of Mozambique (at various institutional and territorial levels) has significantly strengthened its capacity to carry out core public functions for the agricultural sector. MINAG has achieved significant progress at various levels towards becoming a modern public sector institution that is increasingly capable of promoting and managing diverse sets of agricultural interventions in the context of a market economy.
- The pooling of donor funds around a commonly agreed set of principles, indicators, and targets of development for host countries has potential for wide applicability throughout the developing world.

Country	Mozambique
Project Name	Agriculture Sector Public Expenditure Program (PROAGRI)
Project ID	P001799
Project Cost	US$202.0 million (Phase I) ; US$ 170 Million (Phase II)
Dates	FY 2000 – FY 2006
Contact Point	Daniel Libório da Cruz e Sousa The World Bank Office in Mozambique, Av. Kenneth Kaunda 1224, Maputo , Mozambique Telephone (202) 5333+342; Email: Dsousa@worldbank.org

Brazil: Empowering Rural Communities for Poverty Reduction

> **What's innovative?** Sustainable rural poverty reduction through a decentralized approach to resource allocation, community participation, and creation of social capital.

Northeast Brazil contains the single largest concentration of rural poverty in Latin America. The region covers 1.6 million square kilometers, comprising nine states and part of a tenth, with a population of 45 million, about 28 percent of Brazil's total population. About 16.8 million people live in rural areas of the Northeast, some 64 percent in extreme poverty. While socioeconomic development and the Human Development Index (HDI) have made impressive gains in some Northeast states since the 1990s, poverty remains severe, especially in rural areas. Poor rural families have limited access to land, markets, financial services, and basic socioeconomic infrastructure. Rates of adult illiteracy and child malnutrition remain high. The poor natural resource base and recurrent drought exacerbate the problem of poverty. The overall result is a region widely characterized by poor social conditions and agriculture of low productivity, with modest use of inputs and slow technology adoption.

Project Objectives and Description

The World Bank has supported rural development and poverty reduction in Northeast Brazil since the mid-1970s. The emphasis shifted successfully from a set of rural and agricultural development objectives implemented through a traditional, centralized, integrated rural development model, to poverty reduction objectives based on decentralization, matching grants, participation, and ownership. The era of CDD started with a small, successful pilot component of the Northeast Rural Development Program (NRDP) in 1985, whereby investment resources were transferred directly to community associations. Activities were financed through a Fund for Community Support covering three "lines" of operation: (1) mobilization and organization of producers and communities; (2) productive subprojects, including agricultural production, agroprocessing, and handicrafts; and (3) investments for use by the larger community, mainly for basic infrastructure such as electricity and water.

This component became the template for a radical program reformulation of NRDP (R-NRDP), which was virtually paralyzed by fiscal crises, overly centralized management, and complexity/coordination issues. The NRDP projects were transformed entirely into a community-based development program, drawing on and scaling up the successful, original pilot component and dropping all other activities. R-NRDP covered not only families with productive assets but all members of poor rural communities, based on a matching grant mechanism linked to beneficiary contributions to subproject costs. These matching grants were provided directly to community associations to finance small-scale subprojects identified by the association in a participatory manner. Two delivery mechanisms were initially established for screening, approving, and implementing community subprojects. First, under the state community schemes (PACs), rural communities submitted subproject investment proposals directly to their State Technical

Unit (STU), which screened and approved proposals and released funds directly to communities. Second, under the pilot municipal community schemes (FUMACs), subprojects identified and prepared by rural communities were presented to project-created, participatory Municipal Councils for approval. The Councils themselves screened and submitted subprojects to the STU for subsequent financing.

The R-NRDP projects were closed between 1995 and 1997 and progressively replaced by Rural Poverty Alleviation Projects (RPAPs) in eight Northeast states. These projects incorporated the lessons of the R-NRDP and other, similar Bank CDD programs, expanded successful aspects of the R-NRDP, and enhanced decentralization. Community subprojects (classified broadly as infrastructure, productive, and social) and institutional development became the main components of the RPAP, while the FUMAC Council approach became its central delivery mechanism. In addition, another, even more decentralized delivery model, the Pilot Municipal Community Funds (FUMAC-P) was introduced, by which selected, high-performing FUMAC Councils were allocated and managed an annual budget. Moving from PAC to FUMAC to FUMAC-P represents increasing degrees of decentralization of decision making and resource allocation responsibilities. A third generation of subnational projects followed the RPAP, consolidating gains, deepening/expanding coverage, and incorporating further innovations; in several states, a fourth generation of projects has recently been initiated, with integration features designed to use the participatory Councils to "leverage" additional financing from, and scale up application of the CDD participatory mechanisms to, similar/complementary rural poverty programs beyond the Bank-supported program.

Benefits and Impacts

The primary goal of the Northeast CDD program—reducing poverty by providing basic socioeconomic infrastructure and generating income—is being achieved. Over 50,000 subprojects (75 percent infrastructure, 22 percent productive, and 3 percent social) have been completed, benefiting some 2.5 million poor rural families—close to one-half of the Northeast region's rural poor—with at least one subproject investment, in a sustainable manner. Some US$1.4 billion (Bank loans of US$935 million) have provided, *inter alia*, 650,000 families with electricity, 800,000 families with safe water, and opened income generation opportunities for some 825,000 families. These and other investments have generated additional, sustainable annual income or savings exceeding US$200 million. Some 1,400 participatory Municipal Councils now operate in the 1,600 municipalities of the rural Northeast, representing around 40,000 community associations. Over 90 percent of program funds go directly to beneficiary community associations, the remainder being mainly for technical assistance, evaluation, and administration.

The social capital created by the Northeast CDD program, and sustainability of its impacts, are essential in assessing the benefits. A primary achievement has been supporting the decentralized allocation of resources. The subproject development and approval process captured in project design strengthens the capacity of communities and municipal governments to set investment priorities. Municipal governments are now accustomed to participatory decision making, and communities are more willing and equipped to voice their needs.

Lessons Learned and Issues for Wider Applicability

This established program provides both broad lessons for rural development and specific lessons for project design and implementation:

- Decentralization of fiscal and investment decision making—from federal to state and local governments and to community organizations—ensures efficient program administration, cost-effective investments, and superior outcomes.
- Participatory, CDD mechanisms promote social capital formation by giving poor rural communities a unique set of experiences in collective action, priority-setting, decision making, physical and financial management, and subproject operation and maintenance, while delivering tangible benefits. Communities are empowered to voice their demands, improving local governance. Social capital is both a benefit in its own right and an element of success in community-driven poverty reduction.
- Technical assistance enhances the ability of community associations to identify, prepare, and implement subprojects, increasing their capacity to compete for project investment funds with other, similar communities. Locating and/or developing sources of technical assistance in rural areas requires continuous attention.
- Standardization of subproject documents, technical designs, and unit costs simplifies subproject preparation and appraisal, improves subproject quality, facilitates procurement, prevents overdesign, reduces costs, and promotes participation by poor communities.
- Poverty targeting should be simple, verifiable, and based on objective criteria that foster transparency, minimize political interference in project resource allocation, and ensure that resources reach the poorest. Aggregate experience shows that effective poverty targeting combines self-selection by beneficiary communities with formal, data-based definition among cohorts of poor rural communities, to target the project geographically and allocate project funds by poverty level, based on HDI and other comparable indices.
- Scaling up CDD's impact on rural incomes through investments in productive activities/facilities is a challenge. Productive investments based on matching grants need rigorous selection, preparation, technical assistance, supervision, and linkage to a graduation strategy that normalizes their relationships with markets and inputs. They make sense if services cover a majority of community members, use is regulated by operational guidelines, operation and maintenance are assured through user fees, training and awareness-building are provided, technical assistance is built in and followed up, and impact criteria for HDI and environment are met.
- Greater impact on poverty reduction is possible through scaling up, using CDD mechanisms to improve the allocation and use of resources from other programs. Pilot experiences in Northeast Brazil integrated the execution of complementary state and federal programs (in agriculture, education, health, and environment) with the ongoing planning and investment activities of the project-created Municipal Councils, improving the execution of those programs by channeling them through

the participatory Councils and leveraging additional resources for the projects' targeted communities.

Country	Brazil
Project Name	Northeast Rural Development Program (NRDP); Reformulated Northeast Rural Development Program (R-NRDP); Rural Poverty Alleviation Program (RPAP); and Rural Poverty Reduction Program (RPRP)
Project Cost	US$935 million, Bank loans
Dates	1985-present
Contact Point	Luis O. Coirolo The World bank 1818 H Street NW Washington D.C. 20433 Email: lcoirolo@worldbank.org

Uganda: Cross-Sectional Programmatic Adjustment Lending Focusing on Poverty Reduction

What's innovative? A series of single-tranche programmatic structural adjustment credits support the implementation of PRSP and feature extensive consultations and donor coordination.

Eradicating poverty is the number-one priority on Uganda's development agenda. Despite significant progress in poverty reduction in the 1990s, 35 percent of the population still lives below the poverty line. Poverty is mainly a rural phenomenon: 85 percent of the Ugandans and 96 percent of the country's poor live in rural areas. Agriculture remains the backbone of Uganda's economy, accounting for 43 percent of the GDP and 80 percent of employment; hence increasing agricultural growth rates, diversifying agricultural production, and expanding nonfarm employment are essential for effective poverty reduction.

In response to these challenges, the government developed a Poverty Eradication Action Plan (PEAP)—a home-grown medium-term development plan to guide government policy and the development of sector and district plans. The overarching goal of PEAP is to reduce poverty to 10 percent or less by 2017. Specific goals include achieving universal access to primary education, primary healthcare, and safe drinking water. As part of PEAP, through a broad-based consultative process the government developed the Plan for Modernization of Agriculture, which promotes the transformation of subsistence agriculture to commercial agriculture. Because PEAP's objectives are fully consistent with the PRSP process, a summary of the PEAP was used as a basis for the Uganda PRSP.

Objectives and Description of Poverty Reduction Support Credits

The Uganda Poverty Reduction Support Credit (PRSC) is a series of single-tranche programmatic structural adjustment credits to support the implementation of PEAP/PRSP. The first PRSC (PRSC1) established a rolling medium-term policy framework that set out a three-year reform program with performance benchmarks, policy measures, and outcome targets. Subsequent PRSCs have refined and expanded the program, each adding a new year to the three-year rolling program. The reform program selectively focuses on policy and institutional reforms in PEAP/PRSP with the highest poverty impact.

The objective of the reform program supported by PRSC is to improve public service delivery, because weak public sector performance is one of the main constraints to economic development and poverty reduction. The reform program supports activities that improve access to and quality of education, health, water and sanitation, and rural services, aiming to raise quality of life and incomes of the poor. Since increasing access to and quality of these services requires more broad-based action than merely addressing sector-specific constraints to their delivery, the program focuses heavily on activities to enhance efficient and equitable use of public resources and promote good governance. The following key areas of reform support the implementation of the Plan for Modernization of Agriculture:

- Improve responsiveness and impact of publicly funded research.
- Increase access and effectiveness of agricultural advisory services.
- Develop the legal and regulatory framework governing microfinance and improve operating capacity of microfinance institutions.
- Implement the 1998 Land Act in a prioritized manner and promote access to land by women and orphans.
- Integrate environmental sustainability concerns in all government programs.
- Improve the network of district roads.

Benefits and Impacts

Implementation of reforms in basic service sectors (education, health, and water and sanitation) has proceeded broadly as planned. Net primary school enrollment has increased from 76 percent and 85 percent in 1999 to 83 percent and 90 percent in 2002 for the poorest and richest quintiles, respectively, with equal numbers of boys and girls. HIV/AIDS prevalence has declined, and safe water coverage increased from 46 percent in 1999 to 55 percent in 2002.

The government has also made progress with structural reforms in the area of rural development. Preparations for a comprehensive reform of agricultural research delivery have been made, and a new strategy promoting more demand-driven agricultural research has been developed. The National Agricultural Advisory Services program, supported by multiple donors, promotes comprehensive reform of agricultural extension services and is a demand-driven program that channels public funds to farmer fora at the subcounty level to contract the services of farm advisors. Arrangements to implement land reforms have also been established.

Lessons Learned and Issues for Wider Applicability

- The rolling nature of the policy framework enhances predictability of resource flows and improves the Bank’s ability to carry out continuous policy dialogue with the government on a key set of issues and monitor progress towards meeting agreed outcomes.
- PRSC has turned out to be a mechanism to bring donors together and harmonize their practices. A large number of other donors have linked their budget support disbursements to the PRSC reform program, and PRSC missions have become joint donor missions.
- A series of PRSCs can be an effective mechanism for comprehensively addressing sector-level and systemwide reforms.
- The shift to PRSCs is also attractive in that it is consistent with the Comprehensive Development Framework approach and directly links the PEAP/PRSP and Bank Group’s assistance program in Uganda.

Country	Uganda
Project Name	Poverty Reduction Support Credit I and II
Project ID	PRSC1: P050438
	PRSC 2: P073671
	PRSC3: P074081
Credit Amount	PRSC1: US$ 150 million
	PRSC2: US$ 150 million
Dates	PRSC1: Presented to the Board in May 2001
	PRSC2: Presented to the Board in July 2002
	PRSC3: Presented to the Board in September 2003
Contact Point	Satu Kahkonen
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