DEVELOPMENT CONTEXT: WHY A STRATEGY UPDATE IS NECESSARY

Simply put, a revision of the rural development strategy is necessary because the environment in which the Bank operates has changed. Globalization opens new doors and poses new threats. The needs of client countries have evolved, as has the way the Bank approaches its mission of “fighting poverty with passion.” This section briefly describes the nature and importance of some of these changes at the global, client country and Bank level, and focuses on the developments since the Bank’s rural development strategy From Vision to Action was adopted in 1997.
THE EVOLVING GLOBAL CONTEXT

Persistent Poverty and Food Insecurity
One of the most frustrating moral contradictions of our time is the persistence of poverty. More than a billion people are desperately poor. The number of people living on less than $1 per day has declined only slightly in the 1990s, and best estimates indicate that 1.2 billion persons still live below that poverty line (World Bank, 2001b). Other social and poverty indicators over the same period demonstrate that some regions are a long way from the day when the goals for international development will be met.

Poverty is predominantly a rural phenomenon. Approximately 75% of the poor reside in rural areas, and the rural poor will outnumber their urban counterparts for at least another generation (Alderman, 2001). By most quality-of-life indicators, people living in rural areas, on average, have a lower quality of life than urban residents (Box 1.1). Rural public services, as measured by per capita public expenditure are approximately one-half that of urban areas.

There is a disturbing paradox in recent developments: the existence of pervasive malnutrition in a world of abundant food supplies. Growth in global food production over the past four decades has more than kept pace with growth in population. While global production has grown faster than demand, hunger and malnutrition persist. This enigma has been addressed by many eminent economists who conclude that hunger is less strongly related to the level of food availability than to household income, or as Amartya Sen puts it, the “entitlement” to sufficient resources to purchase enough food to live (Sen, 1981b).

The persisting high share of poverty and food insecurity in rural areas has important implications for public policy and in the design of any strategy for its reduction (Binswanger and Landell-Mills, 1995). Because of the geographic dispersion of the rural poor, it is more expensive on a per capita basis for central governments to provide them with public infrastructure, social services, and safety nets equivalent to those provided to urban residents. A willingness to spend more public resources targeted to the rural poor, and decentralizing decision making to localities and communities are first steps, but these are limited by a lack of political voice and influence in many rural areas.

Globalization
The concept of globalization captures the growing interdependence and linkages of the world’s economies, markets, and people. It concerns more open international trade in goods and financial services, growth of multinational companies, more uniform labor and environmental standards, and growing global sourcing in supply chains. In the context of rural development and poverty reduction, globalization presents both emerging challenges and new opportunities. The process of globalization, including increasing inter-linkages across countries, lower transaction costs, and expanded trade, financial, and information flows, provides some of the key ingredients for rural development and poverty reduction. But globalization and economic liberalization carry with them risks. There are winners and losers in globalization, and the challenge for policymakers is to provide adjustment assistance or at least partially compensate losers.

Urbanization and Demographic Shifts
Despite higher rural birthrates, between 2000 and 2030 virtually all net population growth in the world will be concentrated in urban areas, as a result of con-
continued rural migration to urban centers. This migration is driven by the desire for higher incomes. The pace of urbanization will be most rapid in developing countries, where the urban population is forecast to increase from 1.94 billion to 3.88 billion in the next thirty years. Rapid urbanization has been accompanied by increasingly strong links between rural and urban economies, and the dichotomy between rural and urban is beginning to blur. Rural households are more and more likely to participate in non-farm employment opportunities available in small towns and cities. Seasonal employment in urban areas, and remittances from household members working in urban areas, frequently enable rural residents to supplement their agricultural incomes. Resulting changes in intra-household division of labor also affect the status of women. In an area of male out-migration women may manage the entire farm often without legal ownership of the assets. In other areas, off-farm employment is an income-generation opportunity for women. The interdependence of rural and urban economies and strong linkages at household levels implies that effective policies to reduce rural poverty also need to be concerned with growth and economic development in urban centers, and particularly with the linkages between smaller cities and market towns in more isolated areas.

Growing Scarcity of the Rural Natural Resource Base with Global Climate Change

Whether the world continues to be able to feed itself depends in large part on the condition of the world’s natural resource base in the future, and this depends, in part, on whether poverty will be greatly reduced. Poverty and environmental degradation are closely linked, often in a self-perpetuating spiral where poverty accelerates environmental degradation and degradation exacerbates poverty. Poor people live at the margin of subsistence and are more vulnerable to adverse events than others. Concern by policy makers over environmental degradation is driven by growing scarcity and continued degradation in both developed and developing countries.

There is consensus among climatologists that the global climate is changing. There is, however, considerable controversy over the nature and extent of climate change, and potential impacts, both positive and negative. Climate change will affect food production, ecosystem function, and farmer vulnerability in many areas of the developing world, especially in Africa and parts of Asia. These changes are likely to have a disproportionate impact on the poorest countries, and the poorest people within those countries, thereby exacerbating inequities in health status and access to adequate food, clean water and other resources.

Clearly the concerns over environmental degradation and global climate change and their links with rural poverty and agricultural development are well placed. Continuing to neglect vulnerable areas where many of the world’s poor live will only make degradation and misery worse—continuing present trends is simply not a long-term option.

The Revolution in Biological and Information Sciences

Biotechnology based on molecular biology is generating revolutionary advances in genetic knowledge and the capacity to change the genetic makeup of crops and livestock, which have the potential to benefit poor producers and consumers. Despite this potential, the complex issues of biosafety and food safety, bioethics, and accessing proprietary science for the benefit of the poor must be addressed. Also, early adopters may incur significant risk. Although biotechnology strategies will vary with each country’s technological capacity and level of agricultural commercialization, all countries need some amount of investment in public-sector research and regulatory frameworks. The biotechnology revolution in agriculture is only beginning and presents policy makers with a unique set of challenges. There are ethical, safety, health, and property rights issues. Yet the promise of this technology to assist in coping with increasing food demand is enormous—so large that the challenges mentioned above must be addressed.

New information and communication technologies (ICTs) with lower costs combined with the increasing literacy and sophistication of farmers have the potential to revolutionize rural information systems, providing more and better information directly to farmers, extension agents, agribusinesses, and other intermediaries. Application of ICTs in rural
areas may increase the flow of information of all types, and facilitate market transactions, changes in employment, emergence of new industries, and social development, but such advances are dependent upon telecommunications reaching remote rural areas and diverse populations, including rural women.

CHANGES IN CLIENT COUNTRIES

Progress in Policy Reform: Unfinished Agenda. The past decade has seen much progress on policy and institutional issues throughout the developing world, yet the policy reform agenda in many countries is still far from complete. Developing countries’ own policies may: a) create terms of trade unfavorable to agriculture; b) have higher levels of protection against agricultural imports than developed countries; c) have a prevailing urban bias in public expenditures; and d) create an unattractive environment for private economic activity.

Governance: Decentralized and Improved, but still Inadequate. In the past decade, there has been increasing recognition among development stakeholders that good governance is crucial for achieving sustainable development and poverty reduction. This recognition has brought about improvement in many aspects of governance, but the impact of these improvements has been relatively limited in rural areas.

Increased Role of the Private Sector. One of the most visible signs of change in client countries is the increased role of the private sector in rural development, and the growing recognition that new jobs in the private sector will do the most towards reducing rural poverty. The incentives for private investment depend greatly on the enabling environment. Markets are the vehicle for rural economic development and allow for specialization and diversification into new products. However, markets can be inefficient because of externalities, difficulty in achieving economies of scale, asymmetric information, non-excludability, and excessive transaction costs.

Increased Role of Civil Society. In recent years civil society (including local and transnational NGOs) has become a major force in international development. The civil-society organizations participating in international development serve a variety of functions ranging from service provision to advocacy on issues as diverse as water, forestry, food security, human rights and humanitarian assistance. It is recognized that NGOs/CBOs can be effective in reaching poor communities and remote areas at low cost, as they are more inclined to identify local needs and promote participation, and that engaging these groups in projects and policy dialogue can improve project design, implementation and sustainability.

Continuing Regional and Local Conflicts. The past decade has been characterized by the resurgence of conflicts in several regions. Most of the physical and economic damage resulting from these conflicts takes place in the poorest areas of the countries and regions involved. Many of the recent conflicts have been fought over the use of certain natural resources or have an ethnic origin. These conflicts bring additional hardship to the rural population, particularly women, who are the most vulnerable to their negative impacts.

CHANGES WITHIN THE BANK

The changing global environment has also shaped the Bank and its approach to development. This change has become especially pronounced in the period since the Bank’s last rural development strategy, From Vision to Action was completed five years ago.

New Approach to Development Assistance

A new approach to development assistance, the “Comprehensive Development Framework” (CDF) was initiated by the Bank and the development community. The CDF builds on lessons concerning development aid effectiveness, such as the need for social inclusion, better governance, and understanding of the complementary roles of civil institutions, the private sector, and donors. It offers an opportunity to approach rural development challenges holistically, by catalyzing local initiatives, taking a long-term perspective on development, and focusing on coordinated “country-driven” strategies among development partners.
The Bank’s Strategic Framework Paper (SFP) identifies two main pillars of the Bank’s assistance to clients in fighting poverty: (a) building a climate for investment, jobs, and sustainable growth; and (b) empowering poor men and women to participate in development. Together these pillars embody the key elements of sustainable development. The SFP also calls for selectivity: (i) within countries based on the CDF principles; and (ii) across countries, guided by income, poverty, and performance in focusing on countries where the overall policy environment favors aid effectiveness; and (iii) at the global level, based on clear linkages to the Bank’s core institutional objective, its leveraging and catalytic effect, and a balancing of resources and risks.

**Sharpened Poverty Focus**

One of the most visible changes in the Bank over the past several years has been the increasing poverty focus combined with a growing emphasis on meeting the Millennium Development Goals (MDGs) articulated in 2000 (Box 1.2). In late 1999 finance ministers of World Bank and IMF member countries called for Highly Indebted Poor Countries (HIPC)s to draft Poverty Reduction Strategy Papers (PRSPs) as a condition of HIPC debt relief. In Bank practice, these PRSPs have become central to the preparation of Country Assistance Strategies (CASs) for all IDA countries.

**MIXED RESULTS IN IMPLEMENTING FROM VISION TO ACTION**

The Bank’s performance in rural development during the past several years can be best analyzed in light of the main principles and objectives set out by From Vision to Action. It was expected that From Vision to Action would revitalize the lending program for rural areas into a vibrant, broad-based, and broadly focused high-quality rural development program. The major thrusts of From Vision to Action were clear: the Bank’s rural development strategy would shift from a narrow agricultural focus to a broader rural development approach, incorporating long ignored issues such as land reform and nutrition, and finding new ways to address old issues, such as rural financial services and community driven development. Above all, From Vision to Action sought to integrate rural development more closely into CASs. To implement those thrusts, the main priority actions included increasing economic and sector work, enhancing knowledge management and agricultural research programs, and strengthening alliances with other international organizations, for example, FAO and IFAD. In terms of major outcomes, the Bank was to be seen by 2000 as the world leader in the fight against rural poverty, to have significantly contributed to freer and fairer world trade in agriculture, and to have...
revitalized rural development in a number of under-performing countries. In conjunction with From Vision to Action, at the request of the Bank’s President, a special action program was launched in fifteen focus countries, and a budget allocation from the Strategic Compact was made available to support rural development in these countries.

1.3 **Bank Operations in Rural Space**

**(FY99-01)**

- Total annual average investment in rural space: $5 billion, [$2.7 billion IDA (46% of total IDA) and $2.4 billion IBRD lending (17% of total IBRD)]
- Share of total investment in rural space: SAR 41%, AFR 39%, MNA 38%, and EAP, ECA and LCR between 16% and 23%

**INSTRUMENTS (PERCENT OF NUMBER OF PROJECTS WITH ANY INVESTMENT IN RURAL SPACE)**

- Eighty-five percent of the Bank’s APLs include investment in rural space (this is equal to 55% of all APL lending)
- Sixty-eight percent of the Bank’s LILs include investment in rural space (equal to 55% of all LIL lending)
- Ninety-eight percent of projects with components in rural space are Investment lending
- Eighty-three percent of Emergency Recovery projects include investment in rural space
- Seventy-one percent of Financial Intermediary Loans include investment in rural space
- Twenty-six percent of the rural space projects used community-driven approaches (FY01)

**POVERTY ORIENTATION**

- Twenty-nine percent of lending focused predominantly on poor people (“focused operations” (see footnote 6)), 52% involved broad actions, which improve services and opportunities, including for poor people (“inclusive operations”) and 19% covered overall policy changes, such as sound economic management, governance and social policies (“enabling operations”)
- Sixty-five percent of lending on ‘focused’ operations is from IDA sources, compared to 49% and 42% respectively, of lending towards ‘inclusive’ and ‘enabling’ operations
- Only sixty—one percent of the IDA interventions in rural space were labeled with the PTI flag*

* A project is identified as a Program of Targeted Intervention (PTI), if it has a specific mechanism for targeting the poor, and/or the proportion of the poor among project beneficiaries is significantly larger than their proportion in the overall population.

**Main Outcomes**

From Vision to Action has had a significant influence on global thinking on rural development, induced a stronger participatory approach in Bank rural lending and non-lending activities, and, within the agricultural sector; promoted a broadening of the scope of lending. Moreover, the current portfolio, in terms of the mix of instruments, and key quality aspects, has improved, although there has been a slight decline in FY01. Valuable experiences in critical investments affecting the livelihoods of the poor have also been gained. The improvements in project quality achieved under From Vision to Action provide a strong platform from which to launch Reaching the Rural Poor and move to “scaling-up” quality rural operations.

While significant progress in rural development has been made, major challenges still lie ahead. The revitalization of the lending program for rural areas into a vibrant, broad-based, and high-quality rural development program has not materialized. Although the role of the private sector was recognized, little was done to support the non-farm private sector. Rural needs are still not adequately taken into account in national and Bank decision-making processes. Many internal and external constraints to multi-sectoral approaches to rural poverty reduction still exist. Finally, the agricultural development portfolio has not yet met the 80% satisfactory development outcome rating at completion, as targeted by From Vision to Action. The quality of the poverty focus, and the sustainability and quality of the institutional development still leave much to be desired. Reaching the Rural Poor will address these concerns. One particular concern is the strikingly low resource allocation to support rural women. In the 2001 rural portfolio, 23% of the projects addressed gender issues, but only 2.8% of the funds were allocated towards gender-responsive components (World Bank, 2002b, FY01 Rural Portfolio Review).

**Trends in Lending for Rural Development**

While From Vision to Action did not set specific lending targets, the underlying assumption was that lending for rural development would grow. However, the contrary has occurred. While there are no long-term trends available for total lending in rural areas, a special analysis carried out for this review showed that in FY99-01 (aggregated), the
The World Bank invested $15 billion (about $5 billion annually), or 25% of its total lending, in rural space.\(^1\) Out of the $5 billion annual World Bank investments in rural space, more than half were IDA investments ($2.7 billion in FY99, and $3 billion in FY01). Projects coded for urban development are 11% of total lending. The remaining national operations cannot be spatially attributed, but experience indicates that these operations are predominantly focused on city dwellers. Taking these two factors together; lending to rural space as a proportion of overall Bank lending is not congruent with the greater incidence of poverty in rural areas. OED also reported a rural under-representation in investment (World Bank 2001c). According to preliminary analysis, this situation has not changed for FY02. Using comparable methodology, total investment in rural space in FY02 amounted to about $5 billion (or 25% of total lending) (Box 1.4).

**Lending for agricultural activities** declined dramatically as a proportion of total Bank lending, from about 31% in 1979–81 to less than 10% in FY00 and FY01 (Figure 1.1). The reasons for this decline are many, and some are, in fact, positive. A clearer understanding of public and private roles, market functioning and the need for institution building resulted in a shift away from big (but unsuccessful) investments in public infrastructure and government bureaucracies, to more effective inputs into comprehensive rural institution building, which requires less funding. For example, comparing the nature and scope of lending approvals from FY79–81, with those of FY99-01, the largest declines are in the sectors of (a) perennial crops and agro-industry, because of the shift away from support for parasitral enterprises, (b) agricultural credit, because of a shift away from targeted credit, (c) irrigation and drainage, because of the shift away from large new irrigation schemes to institution building and operation and maintenance; and (d) agriculture adjustment operations, because of a much more gradual approach in the Bank’s policy dialogue in the sector:

- It is highly unlikely that the Bank will revert to those types of investments, and it therefore also unlikely that the Bank will attain those levels again. However, there has been further decline in agricultural lending over the past five years, since From Vision to Action was launched. Between FY96-98 and FY99–01, lending for agriculture declined by more than 30%. The decline was particularly strong in EAP, SAR, and ECA, which experienced an average drop of 40%-50%, over that period. LCR declined by about 13%, while AFR and MNA showed increases of 15% and 74%, respectively, over this period. Preliminary results for FY02 confirm this decline (Box 1.4). This cannot be explained by the shift away from the costly and outdated agricultural and rural operations of the past. Part of the decline in rural lending is due to the perceived burden of safeguard policies for projects predominantly in rural space.

### Current Bank Operations in Rural Space – FY02 Update

- **Total investment in rural space in FY02** was US $5 billion, or 25% of total lending. Of this, $3.2 billion was IDA investments (40% of total IDA), and US $1.8 billion IBRD lending (15% of total IBRD).

- **Instruments:** Adjustment operations, 17%; Investment, 83%.

- **Total investment in the agriculture sector** (including agro-industry and markets was US $1.5 billion (or 7.9% of total Bank lending). Lending to the Crops sub-sector amounted to 32% of Agriculture Sector lending, while Irrigation and Drainage received 22%, and Agriculture Markets and Trade received 14%. These figures were derived using the new project coding system introduced in July 2002.

### Rural Space Lending and the Millennium Development Goals\(^2\)

In undertaking the rural portfolio review, efforts were made to align ongoing (FY99-01) activities to the MDGs (Table 1.1). The bulk of lending in rural space (46%) is allocated towards Goal 1, poverty reduction and the elimination of hunger: Support to social sector goals total 18% of overall rural space lending, with Goal 2 of primary education receiving 8%, and Goals 4–6, the health sector related goals, at 10%.\(^3\) The current information management systems, however, are not yet adequately refined to align or attribute fully the Bank’s contributions to the MDGs. For example: lending towards Goal 1 includes all economic activities, access to, and quality...
of, infrastructure and assets and may not be exclusive to the poverty reduction objective. Similarly, systematic tracking of lending to rural women (MDG 3) has not been possible with the present portfolio analysis tools. Bank-wide systems are now being put in place to achieve better alignment and it is anticipated that the work undertaken in FY99-01 will form part of the baseline for monitoring the rural sectors’ contribution to the MDGs.

Improved Leadership Role of the Bank in Rural Development

The Bank has made progress toward achieving a leading international role in rural development as was envisaged by From Vision to Action, as it has significantly influenced thinking on the holistic nature of rural development, decentralized decision making, and greater stakeholder participation. Several international agencies developed similar strategies afterwards.

In regard to developing fair and freer trade and increased access to OECD markets for client countries, the record has been disappointing. The Bank has not taken a forceful position on this until recently, when more active support to client countries in their preparation for WTO negotiations has been offered. Additionally, the Bank’s senior management has spoken on the need for freer trade in several international fora. The Bank’s impact remains limited, however, as the Bank has no direct influence over OECD countries in addressing such issues as subsidies and market access.

Why From Vision to Action Did Not Completely Succeed

Earlier approaches to rural development often involved significant government intervention frequently leading to inefficiencies, reduced institutional sustainability and pricing and marketing policies that were adverse to farmers. From Vision to Action recognized the deficiencies in these approaches and attempted to find new avenues for rural development assistance. Approaches such as community driven development, pluralistic rural service provision and support to producer organizations emerged and have been piloted. The major challenge for the future is to scale up the best practices among these pilot projects.

Why did the envisaged rural development program not materialize? Why were the results under From Vision to Action mixed? The Bank has analyzed this question thoroughly. Some reasons are associated with decision making at the client level. Earlier political interests in rural development (for example...
Securing food for urban areas) have now been met in most regions, and more focus should be placed on the neglected political voice of the rural poor with appreciation for the ethnic, age, and gender diversity of this group. The PRSP process offers new opportunities to get the needs of the rural poor better recognized. A preliminary review of the first set of PRSPs and Interim PRSPs prepared during 2000 and 2001 showed that in all these documents, rural development was stated as a priority (Cord, 2001a). However, the actions were often narrowly defined and tended not to address the broader needs of rural development. The involvement of agencies often considered to be champions of rural development in the PRSP processes such as the Ministries of Agriculture or Rural Development, rural NGOs, and community-based groups was felt to be weak.

Systematic implementation of From Vision to Action did not last long. With the exception of Africa, after the initial adoption of the strategy, it was never deepened and taken forward by the regions. While this strategy was reasonably well known within rural departments of the Bank, it was not integrated into the strategies of most Bank client countries. The lack of baseline data and clear outcome indicators for From Vision to Action limited the value and impact of the monitoring and review processes.

Other reasons for the mixed results of From Vision to Action are more internal to the Bank and are mainly concerned with relative costs, resource levels, and resource allocation mechanisms. Over the past few years, the Bank has been called to attend to an expanded mandate, thus increasing competition for resources. Against this background, rural projects are perceived as more costly, more complex, riskier, and smaller and slower disbursing. In addition, staff responded to an apparent decline in demand from client countries for rural operations.

Annex 1 presents the major achievements and lessons learned of From Vision to Action as derived from OED’s rural strategy review (World Bank, 2001c), the Rural Portfolio Review, and internal deliberations within the rural sector units within the Bank.

Table 1.1: Alignment of Rural Space Lending of the Rural Portfolio with the MDGs (FY99-01) ($m)

<table>
<thead>
<tr>
<th>Millennium Development Goals</th>
<th>Total Bank Lending ($m)</th>
<th>Total Bank Lending %</th>
<th>IDA ($m)</th>
<th>IDA %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goal 1. Eradicate extreme poverty and hunger</td>
<td>6,998</td>
<td>46</td>
<td>3,215</td>
<td>40</td>
</tr>
<tr>
<td>Goal 2. Achieve universal primary education</td>
<td>1,134</td>
<td>8</td>
<td>751</td>
<td>9</td>
</tr>
<tr>
<td>Goal 3. Promote gender equality and empower women</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Goal 4. Reduce child mortality</td>
<td>178.5</td>
<td>1</td>
<td>132</td>
<td>2</td>
</tr>
<tr>
<td>Goal 5. Improve maternal health</td>
<td>178.5</td>
<td>1</td>
<td>132</td>
<td>2</td>
</tr>
<tr>
<td>Goal 6. Combat HIV/AIDS, malaria and other diseases</td>
<td>1,251</td>
<td>8</td>
<td>729</td>
<td>9</td>
</tr>
<tr>
<td>Goal 7. Ensure environmental sustainability</td>
<td>1,289</td>
<td>8</td>
<td>689</td>
<td>9</td>
</tr>
<tr>
<td>Goal 8. Develop a Global Partnership for Development</td>
<td>2,421</td>
<td>16</td>
<td>1,340</td>
<td>17</td>
</tr>
<tr>
<td>Rural Space investment ($m) FY99-01 directly aligned to MDGs</td>
<td>13,450</td>
<td>88</td>
<td>6,989</td>
<td>88</td>
</tr>
<tr>
<td>Contributing to multiple goals</td>
<td>1,768</td>
<td>12</td>
<td>981</td>
<td>12</td>
</tr>
<tr>
<td>Total Rural Space Investment ($m) FY99-01</td>
<td>15,218</td>
<td>100</td>
<td>7,970</td>
<td>100</td>
</tr>
</tbody>
</table>

Notes:
1 The portfolio review ranked this activity but did not differentiate funding allocated.
2 The portfolio review marked Key Components supporting the two Goals (5 and 6) in a combined manner. Due to the methodology used, it is not possible to allocate the actual shares of lending to these Goals. The lending amount for the Key Component has therefore been divided arbitrarily and allocated equally to the two Goals.
3 This can be calculated at 3% using a different data set.
ENDNOTES

1 In this report, the term “rural space” includes small and medium sized towns, according to the national definitions and applies to all sectoral investment i.e., social sectors as well as agriculture, natural resources management, infrastructure etc, in rural space.


3 When using only the Bank’s sector codes and methodology used for defining rural space against Goal 2—achieving universal primary education—a share of some 49% of total Bank lending was estimated as allocated to rural space and for the combined health sector Goals (Goals 4–6) some 54% of Bank lending was estimated to be allocated to rural space.