



EXECUTIVE SUMMARY

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More than a half century of persistent efforts by the World Bank and others have not altered the stubborn reality of rural poverty, and the gap between rich and poor is widening. Most of the world's poorest people still live in rural areas and this will continue for the foreseeable future. The day when the goals for international development will be met is still far off in many parts of the world.

What is more, with globalization, the “poverty challenge is getting bigger and harder,” according to World Bank President James D. Wolfensohn. “Many of the benefits of an increasingly interconnected and interdependent global economy have bypassed the least developed countries, while some of the risks—of financial instability, communicable disease, and environmental degradation—have extracted a great price.”

FROM VISION TO PRACTICE: THE CASE FOR A REVITALIZED STRATEGY

From Vision to Action, the Bank's previous rural development strategy launched in 1997, had a decisive influence on global thinking—but disappointing results on the ground. In 2001 lending for agricultural projects was the lowest in the World Bank's history (box 1).

The new strategy is results oriented. *Reaching the Rural Poor* stresses practice, implementation, monitoring, and empowerment of the people it is designed to help. The strategy responds to changes in:

- **The global environment** – changes brought about by the forces of globalization and persistent trade distortions
- **Client countries** – challenges of unfinished policy reforms, decentralization, institutional development, poor governance, the expanding roles of the private sector and civil society, and proliferating national and regional conflicts

- **The World Bank** – to apply the lessons learned in the past four to five years while implementing *From Vision to Action*. Work on *Reaching the Rural Poor* began in mid 2000. Starting with the development of regional action plans and extensive consultations at the regional level, the new strategy was designed to respond to the local circumstances and needs of the people who have the greatest stake in its implementation (box 2). Regionally drafted strategies became the framework for the new corporate strategy. This process was followed by intensive dialogs with individuals and with international, national, and local organizations.

Reaching the Rural Poor also reflects and reinforces the Bank's commitment to the UN Millennium Development Goals (www.developmentgoals.org), which will be met only through increases in rural incomes and broadened opportunities for rural inhabitants. The strategy assigns great weight to developing, establishing, and supporting appropriate implementation and monitoring mechanisms and processes at the national, regional and international levels.

Recent Bank Operations in Rural Areas

Rural investment is under-represented in the World Bank's lending. The Bank's lending to rural areas in Fiscal Years 1999–2001 amounted to a total of US\$15 billion (about \$5 billion annually). This represents around 25 percent of the Bank's total lending and therefore is not congruent with the greater incidence of poverty in rural areas. Figures from Fiscal Year 2002 (FY02) show that this situation has not changed. The situation is particularly acute for agricultural lending, which has declined markedly over the past 20 years, both absolutely and as a proportion of total Bank lending. Of the US\$5 billion lending to rural areas in FY02, total investment in the agriculture sector (including agro-industry and markets) was US\$1.5 billion. This equates to just 7.9 percent of total Bank lending, whereas in the early 1980s it accounted for more than 30 percent.

- a. The term "rural areas" as used throughout this publication includes small and medium sized towns, according to the national definitions. Investment in rural areas covers investments in all sectors (agriculture, natural resource management, rural transport, water and sanitation, telecommunications, education, health, and other social services).

THE KEY FEATURES OF REACHING THE RURAL POOR

Reaching the Rural Poor will revitalize World Bank activities in rural areas by adjusting the strategic framework and formulating a program of concrete and attainable actions. The strategy calls for raising the profile of rural development efforts and extending Bank endeavors to reach the rural poor. The strategy:

- Focuses on the rural poor
- Fosters broad-based economic growth
- Addresses rural areas comprehensively
- Forges alliances of all stakeholders
- Addresses the impact of global developments on client countries

Focusing on the Rural Poor

Who are the rural poor? Where do they live? What challenges does poverty pose in their respective localities? Answers to these questions

are the basis for an effective rural development strategy. The rural poor include the landless, individuals and households with few assets, smallholders, pastoralists, rural women (especially women-headed households); ethnic minorities, and indigenous populations. The rural poor are not a homogeneous group. Understanding the needs of such different groups is central to the success of the Bank's new strategy.

Fostering Broad-Based Economic Growth

Reaching the Rural Poor makes broad-based economic growth its primary objective. Rural poverty is as diverse as are the rural poor in their livelihood strategies, but in most of the poorest developing countries agriculture is the main source of rural economic growth. That is why improved agricultural productivity and growth are central to the Bank's strategy for reducing poverty. At the same time, the Bank recognizes the importance of nonfarm economic activities in rural development, so their promotion is another key feature.

Addressing Rural Areas in Their Entirety

To reduce rural poverty, the Bank must work with clients to address rural areas in their entirety—all of rural society and every economic, social, and environmental aspect of rural development. Past approaches identified most pieces of the puzzle but failed to put them together in a way that attained objectives. Sustainable rural development requires multidisciplinary and pluralistic approaches to poverty reduction, social and gender equity, local economic development, natural resource management, and good governance. The Bank is moving away from short-term, sector-by-sector approaches and toward coherent cross-sectoral approaches for the sustained reduction of rural poverty.

While the poor have much in common with each other wherever they live, rural areas are distinctly different from urban ones. For this reason, the approaches in addressing the needs of the rural and the urban poor must be tailored specifically to each group. However, the Bank's rural strategy recognizes that urban and rural areas are inextricably linked in the process of development and that the strategy must take into account the diverse range of interactions between urban and rural economies

Reaching the Rural Poor: The Consultative Process

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More than 2,000 people (government officials, civil society, nongovernmental organizations, academics, private sector, and donor agencies) were involved in the consultations for the rural strategy. Consultations involved four major stages:

- Consultations on the regional strategies and the initial framework of the corporate strategy. Eleven regional consultations were held in early 2001 (Nepal, Philippines, China, Lebanon, France, Kenya, Senegal, Russia, Panama, Belgium, and Japan).
- Consultations and seminars focused on the corporate strategy and its implementation. In 2002 a series of consultations and seminars on implementation were held in countries including Vietnam, Nigeria, and Ethiopia and at regional development banks.
- Presentations, seminars and panel discussions at major international gatherings with broad-based stakeholder participation. These venues included the International Food Policy Research Institute 2020 Conference in 2001, and in 2002, the Food and Agriculture Organization Council Meeting, the United Nations Conference on Financing for Development, the United Nations PrepComm for the World Summit on Sustainable Development, the European Sustainable Development Conference, the 35th World Farmer Congress, the World Food Summit—Five Years Later, and the European Rural Development Forum.
- Rural strategy website and internet consultations on the final draft of the strategy. A website was created early in the strategy-development process with drafts and all relevant material posted for comment. Numerous comments were received from academics, civil society groups, donors, governments, nongovernmental organizations, and private individuals.

when crafting future development efforts. As development progresses, all countries undergo a transition from a predominantly rural to a more heavily urban economy. Urban and rural areas are a continuum, but they are also internally heterogeneous.

Forging Alliances of All Stakeholders

To broaden stakeholder participation in project and program design and implementation, the Bank is working with clients to overcome the shortcomings of earlier top-down, non-inclusive approaches. The Bank will work with others (governments, develop-

ment agencies, civil society, private sector, academia) in a broad-based global coalition to make the reduction of rural poverty a major thrust for the coming decade. Through enhanced partnerships and other linkages, the development community will increase advocacy for rural development and share experiences in best practices and innovation.

Addressing the Impact of Global Developments on Client Countries

The process of globalization has brought about a “shrinkage” of spatial distance and a lowering of transaction costs that has resulted in growing interdependence of the world’s economies, markets, and people. Globalization encompasses 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. This expanded market in goods, services, and information provides new opportunities for rural development and poverty reduction. But globalization and economic liberalization carry risks as well as opportunities

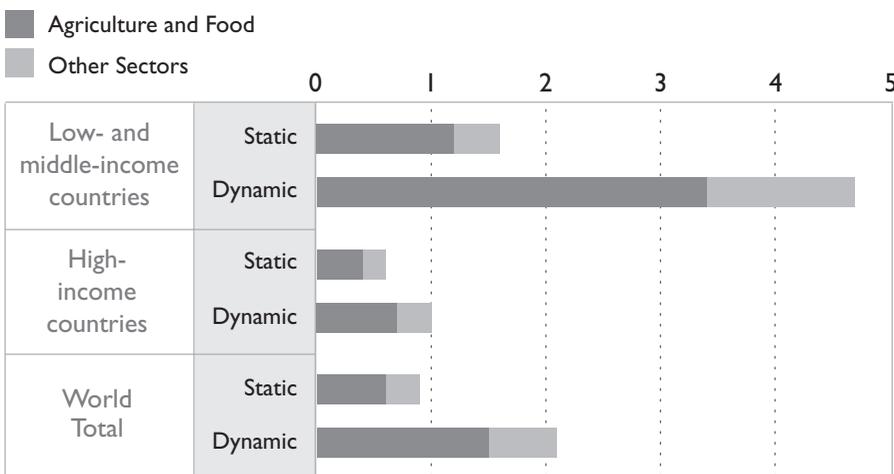
and create losers as well as winners. Finding ways to harness the growth opportunities while managing risks and compensating losers is a challenge for policymakers everywhere. *Reaching the Rural Poor* reflects the World Bank’s increased emphasis on helping countries meet these challenges, addressing global issues such as international trade policy, subsidization of agriculture, and global climate change.

THE STRATEGIC OBJECTIVES OF REACHING THE RURAL POOR

The Bank’s objectives in rural poverty reduction, and for rural development in general, are geared to helping clients accelerate economic growth so that it is shared by the poor. The strategy therefore focuses on:

- Fostering an enabling environment for broad-based and sustainable rural growth
- Enhancing agricultural productivity and competitiveness

Figure 1: Potential Gains from Full Multilateral Trade Liberalization (percentage of income)



Note: Static gains refer to results holding productivity constant. Dynamic gains allow productivity to respond to sector-specific export-to-output ratios.

Source: World Bank, 2001f.

- Fostering nonfarm economic growth
- Improving social well-being, managing and mitigating risk, and reducing vulnerability
- Enhancing the sustainability of natural resource management.

Fostering an Enabling Environment for Broad-Based and Sustainable Rural Growth

An appropriate macroeconomic policy environment and a supportive institutional framework are essential to growth and poverty reduction and for the success of World Bank supported activities in the rural sector:

World-wide trade policy reform. Because so many of the poor derive their livelihood directly or indirectly from agriculture, developing countries have a huge stake in the full integration of agriculture under multilateral trade rules. A major reason both for the limited growth of agricultural trade and for the inability of developing countries to enlarge their share of this trade is high protection in the large markets of the industrial world. High subsidies and other forms of trade protection impair developing countries' ability to compete in global markets with farmers from the industrial world. They also encourage surpluses that have been sold on world markets, depressing world prices and undermining the potential contribution of agriculture to global prosperity.

The potential economic welfare benefits of global agricultural trade reform for the developing world are estimated at US\$140 billion annually. For the developing countries, the impact of agricultural trade liberalization by the industrial countries alone amounted to more than 50 percent of the official development assistance given to developing countries in 2001 (figure 1). These countries are the developing world's largest potential market for agricultural products. Considering the potential for significant increases in income in developing countries from agricultural trade, it is crucial that the industrial countries liberalize their agricultural markets by removing trade barriers to open market access for developing countries' products and by phasing out subsidies.

Bulgaria: Agricultural Sector Adjustment Loans I and II

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Bulgaria elected a new government in 1997 with a strong commitment to market reform. The government eliminated export bans and controls on profit margins on agriculture and food products, eliminated most import quotas and duties on cereals, and liberalized markets. The Bulgarian adjustment program had the full support of the elected government and Parliament.

World Bank provided sector adjustment loans were designed to promote efficiency in the agricultural sector, generate rural jobs, raise living standards, and enlarge consumer choice by:

- Promoting a land market, including restitution of 80 percent of the designated land area and enactment of several administrative measures to facilitate land transactions
- Developing a private grain market by privatizing the grain marketing agency and limiting the state grain reserves to agreed amounts
- Privatizing state agricultural enterprises, including agreed numbers of grain mills, seed, and food industries
- Privatizing irrigation systems through decentralization by transferring management of operation and maintenance to water user associations on at least 100,000 hectares
- Improving agricultural financing according to agreed criteria
- Liberalizing trade in most agricultural products
- Improving forest legislation and increasing community-based participation in forest management.

The World Bank will continue to assist its clients in improving their own trade policies using the system of multilateral trade rules to expand their trade, thereby enhancing their development prospects. The Bank's comparative advantage is that it can combine trade policy analyses with significant expertise for a comprehensive view of the ways agricultural trade liberalization, globalization, and market integration can promote growth and rural development. This capacity can be used to support better agricultural and trade policies through:

- Increased advocacy for trade liberalization in both industrial and developing countries

- Mainstreaming agricultural trade liberalization and trade-capacity development in the Bank's country assistance and operations
- Facilitating capacity building through technical assistance and training on trade-related issues
- Increased assistance in the area of standards and sanitary and phytosanitary regulations
- Conducting analytical work at both global and country levels to identify key areas for future policy reform.

Sound policy environment in developing countries. The developing countries, too, have work to do if they want to gain long-run benefits from trade liberalization. Their domestic policies must allow domestic producers to respond to changing domestic and foreign conditions. The World Bank will continue to assist its clients in their efforts to improve their own policy environment for rural development and thereby enhance their development prospects (box 3). The nature and degree of the reforms will be influenced by the extent of agricultural trade and subsidy reform in the industrial countries. The Bank's policy agenda will focus on:

- Improving the macroeconomic framework for agricultural and rural growth by correcting remaining biases in the macroeconomic environment
- Espousing the principles of nondiscriminatory taxation and reform credibility in both theory and practice
- Supporting an enabling policy environment for agricultural trade and market access by reducing trade barriers and anti-export bias in order to promote growth in agricultural trade, by widening access to foreign markets, by reducing protection for nonagricultural goods, and by developing policies to minimize the effects of declines in world commodity prices on farmers
- Introducing sound food and agricultural policies; supporting the development of effective markets for agricultural inputs, outputs, and services; removing obstacles to effective market operations
- Designing and targeting safety nets that directly protect the poor, particularly rural dwellers
- Assisting in the establishment of complementary legal and regulatory frameworks that support private enterprises
- Improving the operation of land markets and land administration, promoting land reform for countries with inequitable land distribution, and promoting equal access to secure land holding, especially by women.

Good governance and institutions. Good governance and institutions are indispensable for sound rural development; poor governance inhibits development. Overcentralized institutional structures char-

4 Latvia: Agricultural Development Project and Rural Development Project

Latvia's emerging private rural economy has received support from the Agricultural Development Project (ADP) and the Rural Development Project (RDP).

No commercial banks in Latvia were interested in serving small private farmers when ADP was launched in Fiscal Year (FY) 1994. The Agricultural Finance Company (AFC) was set up with a squad of mobile credit officers who took financial services to the farmers instead of waiting for them to come to a site, often far away. The idea of "taking the bank to the clients" eased farmers' transportation problems. In four years, with only 42 staff members, AFC approved US\$43 million for 2,860 subloans, with high repayment rates at around 93 percent. The loans were offered at market interest rates in the local currency, Lat, and U.S. dollars. The AFC, now merged with a commercial bank in Latvia, continues to serve the rural population.

The RDP supports a wide variety of rural entrepreneurs. Approved in FY98, the project was directed at helping the government build its rural policymaking capacity in preparation for membership in the European Union. One of the RDP's innovations was the "special credit line" with a government bonus of a matching grant for small farmers and rural entrepreneurs borrowing for the first time. First-time borrowers received a small portion of the loan as a bonus after they had fully repaid their loan. Some 1,300 of these small loans have been made, each for a maximum of US\$4,000 equivalent. Most of these loans went to rural, nonfarm entrepreneurs—tourist services, hairdressers, tailors, doctors, and other service providers—and only 20 percent to farmers. Repayment performance is outstanding at around 98 percent. The RDP also successfully introduced participatory approaches to rural development by creating Local Action Groups. Two group leaders received a United Nations Award of Excellence for community-led development.

acteristic of many government administrative systems also sap the effectiveness of development investments and policies. That is why, based on empirical evidence, the Bank has made institutional reform central to its new strategy.

In the decentralization process, local governments must be given sufficient fiscal resources to discharge their new responsibilities. Political decentralization is also necessary, as it promotes accountability and governance reforms at the local level. This is especially important for rural areas because most rural people have had a weak political voice at the national level.

The Bank will encourage governments to concentrate on: providing public goods; establishing legal, administrative, and regulatory systems that correct for market failures; facilitating efficient operation of the private sector; and protecting the interests of the disadvantaged. Decentralization offers great scope for improving delivery of public sector functions. Facilitating further decentralization in rural areas is an important part of the policy agenda outlined in the strategy. To promote the development of effective institutions for rural development, the Bank will support:

- Strengthening of local administrative capacity
- Transfer of responsibility for services to the administrative level closest to the users
- Enhanced accountability for public administration at every level
- Participatory approaches, including increased political space and participation in decision-making bodies for women
- Economies of scale in government functions
- Appropriate private sector involvement in the delivery of public services, with public accountability.

Rural financial services. To achieve broad-based economic growth and reduce vulnerability, people and enterprises in rural areas need access to financial services. Many developing countries have no formal financial institutions to provide services. Supply-driven agricultural credit has proven unsustainable and unsuccessful and is no longer supported by the Bank, although many countries still use it.

To ensure new and innovative approaches, the Bank will strengthen its support for the development of financial products and institutions that fill the special needs of poor rural clients. This will include financial instruments for income generation and reduction of financial risk and recognize the multiplicity of potential delivery mechanisms, suppliers, and users of rural financial services (box 4). To this end, the Bank will:

- Continue to expand its menu of instruments in rural finance and test them for effectiveness, replicability, and sustainability
- Continue to support provision of credit to farm and rural nonfarm enterprises where market failures inhibit the flow of liquidity, while observing sound market development approaches and discipline in financial intermediation
- Work to narrow gaps in knowledge about the relation between financial services and poverty.

The Agricultural Growth – Poverty Reduction Connection

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- A 1 percent increase in agricultural GDP per capita led to a 1.6 percent gain in the per capita incomes of the poorest one fifth of the population in 35 countries analyzed.^a
- A 10 percent increase in crop yields led to a reduction of between 6 percent and 10 percent in the number of people living on less than US\$1 a day.^b In Africa, a 10 percent increase in yields resulted in a 9 percent decrease in the same income group.
- Wheat prices would have risen 34 percent, and rice prices 41 percent, more between 1970 and 1995 in the absence of international agricultural research.
- The average real income of small farmers in southern India rose by 90 percent and that of landless laborers by 125 percent in 1973–1984, as a result of the “Green Revolution.”^c

Sources: a. C.P. Timmer, 1997. How Well Do the Poor Connect to the Growth Process, Consulting Assistance on Economic Reform Discussion Paper 178 (Cambridge, Mass.: Harvard Institute for International Development); b. Irz, L. Lin, C. Thirtle, and S. Wiggins, “Agricultural Productivity Growth and Poverty Alleviation,” *Development Policy Review* 19(4): (2001); c. P. Hazell and C. Ramasamy, 1991. *The Green Revolution Reconsidered: The Impact of High-Yielding Rice Varieties in South India* (Baltimore, Md.: Johns Hopkins University Press).

Enhancing Agricultural Productivity and Competitiveness

With so many poor rural residents and changes in the agricultural sector—compounded by the deteriorating natural resource base—agriculture has never been more important than it is today in achieving Bank goals. International experience has demonstrated the direct relation between agricultural growth and rural poverty reduction (box 5). Agricultural development also induces economic growth in other rural sectors by generating demand for inputs and providing materials for processing and marketing industries. Future Bank activities will therefore focus on:

- Providing an enabling policy and institutional environment to foster agricultural growth
- Supporting sustainable intensification of production through the use of new technologies
- Enhancing the quality of food produced
- Encouraging, partly through demand-driven extension services, more efficient use of farm inputs and reduction of post-harvest losses

6 Underlying Factors of Success in Agricultural Development

- Policies must neither discriminate against agriculture nor give it special privileges. This means, for example, that agriculture should be taxed lightly, using the same progressivity and instruments as for other sectors.
- The economy should be open, employment-sensitive, and oriented toward smallholders.
- The importance of external markets, including specialty and niche markets, should be fully recognized and exploited.
- Foreign direct investment should be recognized as an integral part of the agricultural development process.
- Land reform is essential where land is very unequally distributed.
- Rapid technological progress is needed, and both the private and public sectors have important roles in research, extension, and financing.
- Rural areas need substantial investment in education, health, and infrastructure, such as roads.
- The needs of women—a neglected group of farmers and farm laborers—must be built into programs.

- Increasing the productivity of water use
- Supporting agricultural diversification, especially into high-value products
- Strengthening farmer-to-market linkages
- Enhancing food safety and addressing competitiveness through quality control and supply chain management
- Applying differentiated strategies to fit various farm types
- Supporting the development of physical and services infrastructure.

A Refocused Agenda for Agriculture

The new agenda set by this strategy expands and refocuses the Bank's existing support program for agriculture with a number of important new features. These include shifting the emphasis from:

- a narrow agricultural focus to a broader policy context—including global factors;
- a focus on crop and livestock yields to market demands and incomes;
- staples to high value crops;
- primary production to the entire food chain;
- a single farm type approach to heterogeneity;
- public to public-private partnerships, including community driven development;
- avoidance of issues to a head on approach (biotechnology, forestry, water).

Policy and institutions. *Reaching the Rural Poor* treats agriculture as the leading productive sector within the rural economy and closely linked to non-farm activities. The strategy recognizes that the production of staple foods is the main source of income for many poor rural households, but that—to get out of the poverty trap—they must diversify into livestock, higher value crops, and nonfarm activities. The Bank's experience has shown that agricultural investments are more effective if set within appropriate policy and institutional environments with adequate infrastructure and market development. In their design, future Bank-supported activities in agriculture will incorporate successful aspects of the lessons learned (box 6).

Agricultural science and new technology. Beyond providing an enabling policy and institutional environment, Bank support for agriculture

will stress sustainable intensification through the application of science. Since most high potential agricultural areas have reached the limits of their exploitable land and water resources, much of their future growth in productivity depends on inputs of knowledge. Public and private investments in science and technology will receive continued Bank support. The Bank will also invite global policy dialog to ensure fair access to new technologies and will continue to provide leadership and financing to the system operated by the Consultative Group on International Agricultural Research (CGIAR), a major provider of international public goods in agriculture. The Bank remains committed to helping developing countries assess, explore, and safely use biotechnology and other new technologies and to promote environmentally sustainable pest management systems (box 7).

Agricultural extension services. To bring new technology to farmers, agricultural extension services are crucial and can also play an important role in delivering information on rural development, business development, and marketing. In the poorest countries, government will have a role in financing extension. Elsewhere, the private sector, nongovernmental organizations, and universities can compete to provide extension services subject to periodic review by local institutions.

Water productivity. Water is becoming a scarce and precious commodity, and agriculture is a major user. Getting “more crop per drop” is therefore essential. Future investment priorities for agricultural water use will concentrate on making existing systems more productive, because irrigation management is often poor and the potential for constructing new irrigation systems is limited. This will require: ensuring the integrity of infrastructure, for example, repairing leaks in irrigation canals; addressing adverse environmental impacts; providing demand-driven irrigation to improve the livelihoods of poor producers; and improving management and cost-effectiveness. Irrigation and drainage development and improvements will be viewed in the context of integrated watershed and catchment systems. Bank-supported investments in irrigation will be on a smaller scale than in the past, with the emphasis on water use on farms,

rehabilitation of existing irrigation systems, and participation by farmers and other private investors in management.

Market expansion and diversification. Markets are now the driver for agricultural growth. Food retailers and processors today source from around the world. Consumer demands and market and trade liberalization are opening new niches and specialized markets for agricultural produce, offering farmers an opportunity to diversify into high-value, high-quality items such as fresh fruit and vegetables, fish, and flowers. Therefore, the Bank will focus on strengthening farmers’ connections to markets through supply-chain management structures, improving product quality, establishing appropriate post-harvest systems, and assisting clients in refining methods of product certification and improving food safety.

Farm-type tailored strategies. Better technology, access to inputs, and product markets improve poor farmers’ income-earning capacity. But they do it in different ways, depending on farm types, production systems, and market opportunities. Future

Mali: IPM Special Initiative-Capacity Building and Policy Reform

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Cotton is a basic higher value crop and a main source of export revenues for Mali. About 90 percent of Mali’s pesticide imports are used on cotton. In the 1990s, due to pesticide resistance and inappropriate use, pesticide costs crept up steadily while yields stayed flat or declined. Evidence of occupational health problems and pesticide residues in food mounted. Based on a comprehensive status report produced by a local research institution and a stakeholder policy workshop, an Integrated Pest Management (IPM) Special Initiative was developed. The Initiative takes a problem-focused view, cutting across project components.

Policy reform elements include expanding participatory farmer training for IPM, strengthening regulatory controls, building capacity for monitoring environmental and human health impacts, and adjusting fiscal and economic incentives (eliminating hidden subsidies for cotton and food crop pesticides, providing sustainable funding for regulatory and training activities by eliminating import duty exemptions for pesticides).

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productivity increases therefore depend on tailoring technologies to specific groups of farmers in

more narrowly defined production and market environments. Accordingly, the Bank is committed to using a different strategy for each major farm type: commercial, family, and subsistence. Extension and advisory services will be strengthened and broadened to address the knowledge and management services needed by farmers and other rural households. To link farmers to input and technology providers, strong producer organizations and community-driven groups should work toward and increasingly function in an inviting environment for private investment.

Physical and services infrastructure. Farms, households, and other components of rural systems need a minimum bundle of rural infrastructure services to function efficiently. These basics include:

- An adequate supply of safe drinking water. Unsafe water is a major contributor to diarrhea, a frequent cause of death among children in rural areas.
- Health and education infrastructure. Clinics and schools are needed to ensure quality health care and education.
- Transportation infrastructure and services. Without roads and railroads, farmers cannot send their produce to markets outside their localities, and trade cannot expand.
- Information systems. Marketing today depends on adequate information about what people want, at what price, and who can supply it.
- Adequate and dependable energy supplies. Energy is essential for virtually all activities in rural areas.

Adequate infrastructure of every type is imperative for agricultural and rural development. The Bank thus intends to enhance its support to clients' efforts to put in place the basic physical and social infrastructure for rural economic growth (box 8).

Fostering Nonfarm Economic Growth

If poverty is to be reduced, a flourishing agricultural sector is essential in most developing countries, but agriculture alone cannot do the whole job. Rural communities also need nonfarm

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Peru: Roads Bring Markets to the Rural Poor

New roads in the Sierra countryside, built under the Peru Rural Roads project, have made the outside world and its markets more accessible for the area's 3 million poor.

The program's design was innovative with a strong poverty focus, grassroots participation, and collaboration among key players—the Ministry of Transport and Communications, the Inter-American Development Bank, the World Bank, and more than 20 non-governmental organizations. An institutional collaborative framework was set up to make the most of each stakeholder's best talents.

The program reduced the isolation and facilitated the integration of the beneficiary communities, enhanced economic opportunities, and spurred local entrepreneurship. More than 11,000 km of rural roads were rehabilitated, and 32,300 seasonal unskilled, and 4,700 permanent, jobs were created in 410 local road maintenance enterprises. This innovative partnership program received a 2001 World Bank President's Award for Excellence.

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Madagascar: Rural Nonfarm Investment Benefits the Poor

Aqualma, a shrimp-processing and export company in a remote corner of Madagascar has become one of the country's top private enterprises, with exports of US\$26 million in 2000.

Established in 1992 with support from the International Finance Corporation, the company has had a profound impact on the local economy and living conditions. Of Aqualma's 1,200 employees in 2001, 80 percent had never previously held a wage-paying job.

Employees and local villagers gained access to education and health services through the primary school and clinic established by the company. The project generated many connections with small local enterprises during the construction and operational phases.

Future plans include expanding production on a new site, for which a community development plan and a conservation management plan to protect biodiverse habitats are being developed.

income-producing activities. Nonfarm activities, often with linkages to agriculture and natural resources, have important multiplier effects (box 9). They are also an important source of employment for rural women. Developing effective support to the rural nonfarm economy is therefore an essential part of the Bank's rural strategy. The Bank will work with clients and others to exploit current opportunities, seek new ones, and tackle the removal of barriers that exclude rural people from diversified employment and business activities. Its interventions will address the institutional support needed by a diversified rural economy at the national, subnational, community, and local levels.

Strengthening skills and organization capital.

The Bank will support future labor market and enterprise development in rural communities. Skills needed range from functional literacy and numeracy, to specific labor-market skills, to managerial and administrative skills for enterprise development, including market assessments and detection of business opportunities. Close attention will be paid to women's demands and needs. Research links growth in nonfarm activities to declining poverty for both male- and female-headed households, but the drop is faster for woman-headed households. Trade, professional, and other common interest associations, and cooperatives will also be promoted.

Promote local economic development and intersectoral linkages.

Recognizing that many ministries and private players share sectoral responsibility for the rural economy, the Bank will support formation of cross-ministerial and other working groups nationally and locally, with both public and private participation. Such groups at the subnational and local levels should address local-level competitiveness and the wider enabling environment of both the farm and nonfarm sectors and identify and seek means to remove barriers (legislative, regulatory, taxation, infrastructure, and financial).

Strengthening the supply chain and product linkages. Trends in consumer markets, quality requirements, and competition require better

planning and coordination of supply chains from input suppliers, primary producers, traders, and processors, to retailers. Competitiveness depends on effective and flexible logistics and low transaction costs within the chain. The public sector's role is to create adequate conditions for the development of efficient private sector supply chains, promote investment in physical infrastructure, and support effective subcontracting systems and quality inspections through appropriate legal frameworks and enforcement systems.

Support micro-, small, and medium enterprises.

The development of small rural enterprises requires first and foremost a good investment climate. This will be promoted through assessment and policy dialog. Especially in rural areas, the development of small and medium enterprises (SMEs) is inhibited by lack of a skilled labor force and public and private financial, technological, and other services. The Bank will promote SME development by supporting commercial business development services (box 10), and, through small and medium enterprises, efficient service delivery, especially in rural infrastructure services.

Kenya: Entrepreneurs Build Market for Business Services

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The Kenya Micro and Small Enterprise Training and Technology Project, an innovative World Bank project with a rural component, has been using vouchers since 1998 to enable small, local rural entrepreneurs to purchase skills and management training. As a demand-side instrument, the voucher project departs from the old approach of supporting public training institutions. Now, diverse suppliers are packaging their services for rural entrepreneurial clients. Skilled craft workers have emerged as the leading providers of training. Local private agencies handle voucher allocation.

More than 25,000 vouchers have been issued, 60 percent of them to women entrepreneurs. Among training recipients, employment and income have increased 50 percent. The project subsidizes up to 90 percent of the cost of each voucher, but cost-sharing percentages rise with second and third vouchers. Rural entrepreneurs now frequently purchase training without vouchers from providers who have demonstrated the value of their services.

Some Management and Coping Strategies for Crop-Related Risk

- **Providing more and better information.** Sound information on markets, weather, and technologies can reduce uncertainty in a risky world.
- **Insurance.** Insurance is a device that allows the insurer to pool risks among many clients in return for a fee or premium. New mechanisms for insuring against commodity price risks are being explored in a donor-supported initiative operated out of the Agriculture and Rural Development Department of the World Bank (the Commodity Risk Management Program). Still experimental, price insurance arrangements will operate—possibly in conjunction with credit instruments—to reduce downside risk to both lenders and small-scale borrowing producers. To overcome some of the problems associated with traditional crop insurance, the World Bank and several partners are testing novel rainfall-based insurance policies. The International Finance Corporation is investing in a global facility to develop weather-index insurance in emerging economies and financing the establishment of a weather-based insurance scheme in Morocco. The Bank is testing a weather-based insurance scheme for poor pastoralists in Mongolia.
- **Contract marketing.** Marketing arrangements allow farmers in many countries to reduce price risks for commodities not yet produced or for inputs needed in the future. The most important alternatives, from a risk-management perspective, include cooperative marketing with price pooling and forward contracts for commodity sales or input delivery.
- **Income diversification.** To reduce fluctuations in income, a variety of cropping practices, investments in livestock and nonfarm income, and migration can help farmers diversify their income sources. Traditional risk-coping strategies may also serve this function.

Recognize and support labor mobility. Migration and labor mobility are essential aspects of economic development, job creation, and poverty reduction. Therefore the Bank will support policies that increase mobility through information on, for example, labor legislation, communications, and skills development as well as on welfare and entitlements. Particular attention will go to policies that minimize the potential for social tensions and environmental damage.

Improving Social Well-Being, Managing and Mitigating Risk, and Reducing Vulnerability

To improve social well-being and minimize the vulnerability of the rural poor, the Bank will endeavor to improve access to nutrition and health services, help mitigate the effects of HIV/AIDS, increase access to rural education and improve its quality, and help improve food security for the rural poor. To achieve these objectives and foster broad-based growth and sustainable management of natural resources, the Bank will also promote inclusiveness and removal of barriers that exclude individuals on the basis of gender or ethnicity from economic and social opportunities.

Health and nutrition. The Bank will stress governments' obligations to ensure that resources for health care reach the rural poor. The Bank will also emphasize the importance of improving dietary quality and micronutrient status. Supplementation and fortification, including biofortification through purposeful plant breeding, are important strategies to combat micronutrient deficiencies.

HIV/AIDS. HIV/AIDS is threatening the progress made in agricultural and rural development in the past 40 years, particularly in developing countries where 95 percent of the infected population live. Combating the disease is therefore a core element of the Bank's strategy to support rural development, especially in Africa. The Bank gives high priority to stopping the spread of HIV/AIDS, helping communities cope with its impacts, and mainstreaming HIV/AIDS issues in Bank operations.

Rural education. Universal primary education with gender equality and quality improvements will be the Bank's top priority in education. In addition, the Bank will promote literacy and training opportunities for unschooled rural youth and adults and ensure that investments in agricultural and vocational training programs are in line with current needs. It will also support development of curricula appropriate to the needs of rural and agricultural populations and piloting of new approaches to private education.

Food security and risk. As articulated in the World Development Report 2001 on poverty, a

workable strategy for reducing poverty must enhance security by reducing the risk of natural, financial, and health shocks and by enabling households to mitigate their consequences. But policies, institutions, and investments still have to be designed and adapted to directly manage, reduce, or counteract the special risks of rural residents, particularly the poor. In addition to deepening the understanding of household and community risk and vulnerability, the Bank is promoting new policies and instruments for managing and coping with risk (box 11). In doing so, it will seek to avoid potential market distortions and disincentives from risk management. Instruments that can play a role in this strategy include new types of insurance based on weather rather than yield outcomes and novel mechanisms for commodity price insurance. New instruments being assessed for their effectiveness include market-based financial products not yet readily accessible to many of the poor—such as forward contracting, hedging, and pool pricing. The Bank is also exploring ways to help poor people learn about and use insurance and to reduce costs for primary insurers and reinsurers.

Targeted transfers are one way of reducing income and health uncertainties for the poor and vulnerable. However, such programs face special challenges in rural areas due to difficulties in defining targeting criteria, collecting beneficiary contributions, and administering programs in sparsely populated communities with undeveloped infrastructure. The poorest countries, the ones that need poverty programs the most, also have the greatest need to be selective to avoid compromising macroeconomic stability or reducing investment in human and physical capital.

World Bank–supported programs and policy advice are based on the experience that many targeted food security programs are more cost-effective than generalized food subsidies. Today, food insecurity for most households boils down to lack of access or purchasing power for an adequate diet and lack of complementary inputs such as safe water to maximize the nutritional impact of the food eaten. Food assistance may be given to families (rather than individuals), but any food assistance should be a part of a comprehensive nutrition pro-

gram for vulnerable children or health programs for pregnant women. The Bank is also emphasizing strengthening informal support programs building upon traditional rural community structures. Although these informal safety nets frequently fail in times of shared hardship, this risk may be reduced with support from government.

Social inclusion. An important priority of the rural strategy is to help make institutions more responsive to the rural poor, thereby improving social well-being and reducing vulnerability. Bank activities in this area focus on institutional reform to establish minority rights and opportunities and to strengthen the political voice of women, refugees, ethnic minorities, the landless, and the disabled. It is now widely acknowledged that one of the most critical factors in revitalizing rural development is to raise the productivity of women farmers. In most of the developing world, women do most of the agricultural work. Women are usually in charge of household food security, yet in some areas they are constrained in their access to, and ownership and control of productive resources such as land and finances. Decentralized development efforts such as community driven development (CDD) offer the potential for increased community participation in all aspects of rural development as well as offering greater inclusion of all social groups in rural decision making.

Enhancing Sustainability of Natural Resource Management

Agriculture, as a heavy consumer of natural resources—especially water and soil nutrients—has an obligation to play a commensurate role in their conservation. Many producers are already concerned about the deteriorating land and water base in their areas, and public awareness of environmental issues adds urgency to the search for solutions to conservation issues—many of them global in nature. Increasing the efficiency and sustainability of water use in agriculture and improving irrigation system performance are key strategic conservation goals. Ensuring sustainability of intensive agricultural production systems will take, as a priority, careful management of natural resources, especially in fragile production environments. To promote conservation and restoration of natural

assets in rural areas, the Bank has developed guidelines and strategies for the environment, forestry, and water. Devoted entirely to sustainable development, The World Development Report—2003 was released at the World Summit on that topic in August 2002. The Bank will link rural development, especially in agriculture, to effective sustainable resource management. The Bank's objectives in this regard include:

- Reducing desertification and other types of land degradation
- Improving water management
- Enhancing sustainable fisheries management
- Sustaining production of forest products while protecting the environment
- Protecting biodiversity
- Incorporating knowledge about climate change into rural development planning.

The strategy promotes innovative approaches to using natural resources most efficiently to meet agricultural productivity goals while protecting the long-term productivity and resilience of natural resources. Such approaches take into account the interactions among soil, water, solar energy, plants, and animals as well as the social and economic well-being of the people who use these resources.

STRATEGY IMPLEMENTATION

The new strategy provides guidelines and focal points for maximizing the results of World Bank support to clients' rural development efforts. The approach is flexible, action oriented, and client driven. The goal is to transform rural development activities in the Bank from compartments of sector departments and divisions into a coherent, multisectoral effort, supported by internal budgetary and planning frameworks conducive to efficient implementation.

Key Thrusts in Implementation

Raising the profile of rural development in national policy. The Bank will support the development of locally organized national rural development strategies and capable client-country institutions that articulate and work to fulfill the needs of rural inhabitants, specifically the rural poor. To have

an impact, such efforts must be aligned with national development strategy processes and supported by high-quality and focused analytical work by client countries, the Bank, and other development partners. The main thrust of this joint effort will be to strengthen the voice of the rural poor in national planning processes. The Bank will recommend the participation of all stakeholders in rural areas and foster a holistic approach reflecting the multisectoral dimensions of a sustained drive to reduce poverty. The Bank will provide analytical work to deepen and expand the understanding of rural areas in client countries. The improved analytical platform will be a foundation for better decision-making on resource allocation—and more effective advocacy by rural representatives in client countries, members of the Bank's rural development staff, and other development partners.

Scaling-up innovations and successful investments in rural development *Reaching the Rural Poor* pays close attention to identifying and scaling-up good-practice investments both within countries from pilot initiatives and from one country to other countries or continents (Box 12).

Scaling-up good practices must become an integral part of national rural development strategies. Good practices are acquired after years of development experience and often gained through pilot projects. Innovation through pilot projects will therefore also be supported. Effective intervention—with its socioeconomic and gender impacts—must be locally validated and adapted. Scaling-up does not mean the Bank will apply the same approach everywhere. Innovative methods of learning and information sharing among countries and development partners need support. Mechanisms for capturing, validating, disseminating, and adapting good practices have to be developed concurrently. Key lessons learned from this process and good and innovative practices will be shared with development partners as an essential part of this effort.

Improving the impact of bank operations in rural areas. To improve the impact of projects at completion and the quality of project and program preparation, major attention will be given to identifying and sharing improved procedures to sharpen

the focus on poverty and the long-term development impact of Bank-supported rural operations. This will include reviewing both the quality enhancement and assessment of projects for their pro-poor features, as well as supporting new and innovative work addressing both poverty impacts and sustainability of interventions. The Bank has established a task force to improve the guidelines on the different aspects of project sustainability now being applied throughout the Bank and their application. The task force will work closely with ongoing Bank-wide initiatives to enhance poverty impacts and the alignment of rural interventions with the Millennium Development Goals.

Pursuing the bank's global and corporate priorities. High-quality, high-impact operations to reduce rural poverty will require continuing international commitment to key global public goods and a constant awareness of their connections to rural poverty. This can be done by ensuring that: the interests of the rural poor are safeguarded in an increasingly global world; new and appropriate technology for poor farmers and rural communities is readily accessible; and the poor countries can deal with the challenges of global climate change. The Bank will help build the capacity of client countries so they can take full advantage of opportunities in the ongoing Doha Round of trade negotiations of the World Trade Organization. The Consultative Group on International Agricultural Research complements the Bank's efforts to enable developing countries to realize their full agricultural technology and production potential. The Bank's current support for the CGIAR will be broadened to programs to meet the new challenges in science and technology for the benefit of poor farmers in developing countries.

Operational Levels for Implementation

Reaching the Rural Poor outlines the framework for action at three different levels of current Bank operations.

- The corporate strategy provides the conceptual underpinnings and macroeconomic foundation as well as the overall implementation thrusts. Based on the Bank's track record and analysis of best practice, the corporate strategy identifies a

Possible Areas for Scaling-Up and Innovation

12

Policy and institutions

- Agricultural policy reform
- Development of rural strategies
- Institutional reform and capacity building
- Participatory planning

Agricultural productivity and competitiveness

- Land reform and administration
- Research and extension
- Information technology—marketing and knowledge
- Irrigation and drainage
- Support for producer organizations and user groups
- Food safety and agribusiness

Nonfarm rural economy

- Rural finance, including microfinance
- Development of the rural nonfarm economy including businesses
- Private sector role in service delivery
- Infrastructure and local economic redevelopment, including small towns

Strengthening social services and reducing risk and vulnerability

- Rural health and education service provisions
- Community-driven development and district programs
- Social inclusion with focus on women and girls
- Commodity, climate, and disaster risk management
- Emergency reconstruction

Sustainable natural resource management

- Soil fertility
- Watershed development
- Community natural resource management
- Community forests
- Fisheries

menu of interventions and instruments that may work under different country conditions and performance indicators that the Bank can use to gauge its progress in aligning its resources and promoting rural development. The corporate

13 Regional Priorities

The six regional action plans reflect rural development agendas fully consistent with the overall Bank rural development strategy. Each has a poverty reduction focus and a multi-sectoral approach with increased emphasis on the private sector, yet they all maintain a region-specific character. The diversity in these plans is a major strength of this undertaking. The **Africa** action plan places major emphasis on the institutional foundation for reducing rural poverty. It advocates support for government efforts to decentralize, and enhance the participation of rural communities. The **East Asia and Pacific** regional plan calls for financing programs that directly attack poverty through targeted productivity enhancing investments in very poor areas. The **Europe and Central Asia** region focuses on sustainable rural productivity growth and the completion of the transition process in the rural areas. In the **Latin America and Caribbean** region, the action plan puts special emphasis on rural and urban dynamics, and adopts a Local Economic Development approach to addressing rural development built around increased participation of local actors including local and sub-national governments, private sector and organizations of civil society. The **Middle East and North Africa** action plan places a high priority on rationalizing water management and policies. The focus of the **South Asia** regional action plan is the enhancement of human and social capital development in rural areas, as well as decentralization. Major gender concerns across the regions are women's illiteracy, lack of access to social services, economic infrastructure and resources.

For further details, see: From Action to Impact: the Africa Region's Rural Strategy 2002; Reaching the Rural Poor in East Asia and the Pacific Region 2002; Reaching the Rural Poor in Europe and Central Asia 2002; Reaching the Rural Poor in the Latin America and the Caribbean Region 2002; Reaching the Rural Poor in the Middle East and North Africa 2002; South Asia Strategy and Action Plan for Rural Development 2002.

strategy also provides a vehicle to convey the Bank's message on rural development to external partners and audiences and garner interest and collaboration of partners around rural poverty reduction efforts.

- The regional action plans, built upon local consultations, differentiate region-specific needs in line with the overall message of the corporate strategy (box 13). The plans provide a differenti-

ated framework for actions at the individual country and subregional levels. At the country-program level, the strategy emphasizes strengthening of the analytical underpinnings for country dialog and a framework and incentives for improving cross-sectoral support to poverty reduction interventions in the context of the Country Assistance Strategies (CASs).

- Within countries, the national rural development strategies will be locally developed and driven, reflecting national priorities for rural areas and agriculture. The process of national dialog, together with these national strategies, will guide the rural development aspects of the CASs, as well as the Poverty Reduction Strategies, and provide the specific demand for further Bank operations.

Strategy implementation relies heavily on stimulating the demand for rural development from the two main groups of decisionmakers, the clients and the Bank-country teams. At the client level, the Bank will support the preparation of national rural strategies that integrate the needs of the rural poor in national policy dialogs. At the level of the country teams and other decisionmakers, it will seek to improve the quality and the impact of Bank operations in rural areas by sharpening the focus on poverty, using the most appropriate instruments, seeking economies of scale, and scaling-up investments that have proven effective in reducing rural poverty. Several donors have indicated their interest in cooperating with the Bank. Though probably slower to materialize, an approach that relies on stimulating demand and monitoring lending trends closely is more appropriate to the country-driven nature of Bank programs, and more sustainable in the long term, than relying on preset lending targets.

What the Bank Needs to Change

Enhancing bank-wide multi-sectoral cooperation in the rural space. One of the greatest challenges will be to ensure that rural poverty is truly reflected in Bank-supported programs and operations in the manner and form envisaged in this strategy. Each level of the Bank decision making structure must become an integrated part of the implementation process. This will entail new and innovative relations

between all Bank units active in rural areas. The implementation of this strategy also requires that operations in rural space are designed in a multi-sectoral fashion and that self-standing sectoral operations are coordinated within an overall strategy. Specific regional organizational arrangements are proposed to improve coordination of activities in the rural space and to achieve the strategy's objectives. These arrangements would operate within the framework of existing management structures.

Improving the application of instruments.

Addressing rural poverty in a comprehensive fashion requires that an evolving set of instruments, with the right focus, are applied to Bank operations in rural areas. The balance between the different instruments is a complex implementation issue. There is clearly no one "golden rule" as to the optimal distribution between different Bank instruments of programmatic, adjustment or investment lending, or between economic, social or natural resource outcomes. Nevertheless, some general directions for Bank operations in rural areas are:

- The diversity of needs within rural areas between regions, countries, and sub-country regions requires the use of a broad set of instruments supporting a number of sectoral interventions, within the framework of the Country Assistance Strategies.
- Traditional investment projects will continue to play an important role, however they should be blended with the new type of operations such as the Learning and Innovation Loans, the Adaptable Program Loans, and the Poverty Reduction Support Credits, etc., according to country requests and new conditions;
- The broader use of new instrument modalities, such as programmatic lending, should be pursued after careful assessment of lessons from field experience and assurance of an adequate rural focus.

Improving linkages to development partners.

There is growing consensus among international development partners—including the Bank, FAO, IFAD, EC, regional development banks, and major

bilateral agencies—that national and global poverty reduction targets will not be met unless poverty in rural areas is reduced. Understanding what it takes to meet the needs of the rural poor has never been closer, as many agencies have recently taken stock of their experiences and redefined their approaches and commitments to poverty reduction in rural areas. The further development of relations with international partners aimed at improving the distribution of labor among the various partners is based on the Bank's and the partner's specific comparative advantages. Coordinated support to client countries for the development of national rural development strategies, in conjunction with Poverty Reduction Strategies and Country Assistance Strategies, will be a major focus of the Bank's interactions with international partners.

Improving linkages to the private sector and civil society.

Increasing links and improving relationships with the private sector and civil society within a country framework are among the top priorities for the Bank in each region. The Bank's links to representatives of civil society and nongovernmental organizations have increased dramatically over the past ten years. Internet websites and information sharing now provide the opportunity for increased direct dialogue and interaction between the Bank and NGOs. The consultation process on regional action plans and the new corporate framework for the rural strategy proved to be a valuable and productive means of enhancing relationships with both large numbers of NGOs as well as with the private sector across all regions. In a rapidly globalizing world, links with multinational companies that have an impact on rural development are also essential.

Monitoring Implementation Progress and Managing Risks.

This strategy presents a program for revitalizing Bank activities in rural areas and increasing the effectiveness of the Bank's work in reducing rural poverty. *Reaching the Rural Poor* pays close attention to monitoring and evaluation of strategy implementation. The targets and benchmarks will be used against the current baseline for evaluating progress over a five-year period. The Implementation Monitoring framework is designed

around results-based management principles, expressed as inputs, outputs, outcomes, and impacts. The Bank's Agriculture and Rural Development Sector Board will work closely with senior Bank management to ensure alignment of the rural strategy implementation framework with emerging Bank work on results-based management.

Several risks are inherent in implementing the strategy. Some of these depend on events that are beyond the control of the Bank and of the countries concerned. The main risks perceived are:

- Not all sectors operating in rural areas take up the challenge of rural poverty reduction.
- The necessary institutional arrangements, incentives framework, and appropriate staff skills mix are not addressed.
- The opportunities do not materialize for the institutional learning and innovation that are expected to emerge in the context of a sharpened focus on programmatic lending operations.
- The Bank, its country partners, and other stakeholders cannot mobilize country buy-in to intensifying emphasis on attacking rural poverty.
- The client countries do not achieve long-term growth and do not address issues related to enhanced and more equitable access to assets for all.

The successful implementation of the new strategy is a challenge for both the Bank and for its clients and partners. The Bank recognizes that it cannot work alone. It will deepen relationships with client countries, strengthen existing alliances and forge new ones with other development partners, the private sector and organizations of civil society to broaden the understanding of rural development issues, share experiences, build capacity, and mobilize the necessary resources to overcome rural poverty.

