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C. GOFFIN



April 15, 1969

ACHIEVEMENTS OF THE WORLD BANK IN FINANCING AGRICULTURE  
IN DEVELOPING COUNTRIES

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Address Presented to  
Confédération Internationale du Crédit Agricole (CICA)  
at Chase Manhattan Bank in New York, April 15, 1969,  
by Paul C. Goffin, Chief, Agricultural Credit Division,  
Agriculture Projects Department

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Mr. Chairman and Delegates. I am honored to be the guest of such a distinguished group. I am grateful for the opportunity to address you this morning on the agricultural activities of the World Bank. What I have to say, incidentally, applies equally to the International Development Association--we call it IDA for short--which is essentially our soft loan window rather than a separate organization as such.

In the next 30 minutes or so, I hope to cover in broad terms the Bank's experience with agricultural finance. The substance of what I have to say can be divided conveniently under four headings. First, I would like to review briefly the history of banking lending for agriculture. Next, I will outline for you the general problems we have encountered in agricultural lending; this might be called "lessons from experience." Then, I will cover the particular problems we have encountered in agricultural credit. Finally, I will say a few words on the role of technical assistance as related to the Bank's operations. In essence, I am speaking to you today about a crucial aspect of economic development that has risen spectacularly in the World Bank Group's list of priorities in recent years. This is the need to increase agricultural production.

At this point in history, agriculture still employs more than two thirds of the total working population. Yet, it accounts for less than a third of the total value of output. For the less developed world as a whole, rapid agricultural progress is necessary merely to keep pace with the subsistence needs of a rising population. For almost all developing countries, over and above the problems of feeding ever greater numbers of people, agricultural progress is the "must do" element without which a satisfactory rate of growth and a desirable social and regional pattern of development cannot be achieved. At least that is how the problem looks today; for if higher yields on the land can--in the near future--generate savings and foreign exchange earnings, then, in the long run, labor can be released for productive employment in other sectors of the economy; the import bill for food and fiber items can be cut; and domestic manufacturing will be stimulated both by more abundant raw materials as well as a widening market for locally made goods.



The problems of agriculture are tremendous. Let us not oversimplify the task of coming to grips with them. But it seems to me that in the past the effort all of us have made in this field has lacked a sense of urgency, and, one might even say, sufficient imagination. The importance of capital was recognized, but the more subtle human and institutional problems of making effective use of capital were not sufficiently recognized.

Bank Group has devoted considerable resources to developing agriculture. Its policies toward agriculture can be conveniently divided into two phases. The dividing point is somewhere in the early years of this decade. In earlier years, the Bank devoted considerable resources to promoting improvements in agriculture both directly--by financing projects for irrigation and reclamation, land settlement, farm machinery imports--and indirectly through assistance to road development and other infrastructure programs. During the 1960's, three main changes have taken place:

- 1) The emphasis on agricultural development in the developing countries themselves has become much greater now than ever before.
- 2) The Bank Group has substantially increased the volume of lending for agriculture.
- 3) In the process, the Bank Group has discovered and developed many more kinds of opportunities for profitable agricultural investment, and in many more parts of the developing world.

The period of the 1960's has been one of constant policy review. In particular, we have vigorously explored the possibilities of further lending activities. Lending for large-scale irrigation and flood-control projects has remained important. But financing activities by the Bank and IDA have been widened to include projects over a broader range of agricultural requirements. Many of the projects now being supported were considered outside the scope of Bank/IDA operations only a few years ago. We hope to push forward our assistance on an even wider scale in the future.

In our expanded effort to promote agricultural development, we have put greater emphasis on technical assistance. This assistance has aimed at two goals: to help borrowers identify and prepare projects for the Bank Group's consideration, and to increase the degree of certainty that loans and credits, once approved, will be used effectively. A number of lending operations have included funds to pay for initial technical services and where necessary the employment of consulting firms. Some loans have also provided funds to institute adaptive research aimed at the particular problems of specific agricultural situations.

The increase in our volume of lending for agriculture will give you a broad indication of how much the Bank has intensified its support of agricultural development. Let us take 1962 as a dividing point. Prior to June 30, 1962, a total of approximately \$583 million had been lent by the Bank and IDA directly for agricultural projects. Over the next six years,



to June 30, 1968, the total was increased to some \$1,253 million. Thus, the two institutions lent more money for agriculture in the past six years than in the previous sixteen. In fiscal 1961/62--our year goes from July 1 to June 30--agricultural projects accounted for about 7-1/2% of the Bank and IDA's total lending to developing countries. In the last complete fiscal year--1967/68--the proportion had risen to 18%.

Yet even these statistics do not tell the whole story. The loans I have been talking about were specifically for agricultural development. In addition, much of the money lent for transport, especially road transport, has gone to projects intended mainly or partly to serve the needs of farming communities. The same is true of loans for power development. Indeed, a substantial proportion of all Bank/IDA lending, including industry and education, has had links with agriculture.

In the coming years, agriculture will be given even greater priority. This has been explicitly and strongly expressed by our President, Mr. Robert McNamara, in his address to the Board of Governors in September 1968: "...the sector of greatest expansion in our five-year program is agriculture; indeed, in the coming year we plan to process more than twice the value of agricultural loans as in the last and our agricultural dollar loan volume over the next five years should quadruple..."

#### How the Scope of Our Loans Has Shifted

It is illuminating, I think, to review briefly the Bank Group's involvement in agriculture. This involvement did not begin with some sort of grand design. Rather, it edged its way forward, picking and choosing among projects of high economic priority. Although our program was modest, our aim was not; we wished to concentrate on bottlenecks in a country's agricultural economy that we deemed crucial and that seemed well suited for Bank financing. The first agricultural loan, made in 1948, provided \$2.5 million to Chile for imports of agricultural machinery. The loan was not untypical of what was to follow in those early years--a large proportion of the lending, down to the late fifties, helped to finance the purchase of agricultural machinery. That was a period when there was a desperate shortage of such machinery, and of the dollars required to buy it from the country that was the main supplier at the time. Thus, the Bank's early loans, though modest by today's standard, helped to push forward the modernization of agriculture during a period of acute financial difficulty.

The main focus of the Bank's interest during its early years was in what might be called moderately well developed countries. As more of the poorer nations of Asia and Africa became members, the nature of the agricultural lending changed. In the scheme of things, the scope for machinery loans declined rapidly. In fact, no loans have been made specifically and exclusively for this purpose since 1957. I hasten to add that agricultural machinery continues to be important in our lending as a component of loans encompassing a wider range of purposes.



In the second phase, broadly covering the late fifties and the early sixties, the Bank's agricultural lending shifted toward irrigation and flood control projects. Irrigation proved to be particularly well suited for Bank Group lending. The capital cost of irrigation projects is usually large; much of it is in foreign exchange; and that is where institutions like the Bank and the International Development Association have found it possible to be particularly helpful. But equally to the point, irrigation projects provide the farmer with what is often his most important input--a large, assured, or regulated supply of water.

But in irrigation agriculture, as in other types of cultivation, experience has shown that a large, narrowly conceived project, no matter how well conceived in terms of itself, is not enough. It would be nice indeed if one could simply build a dam across a river and then sit back and wait for a spectacular increase in agricultural productivity. Unfortunately, the wait is likely to be long and frustrating. The project has to be visualized in a broader setting, in the sense that a variety of supporting investments are required. Because this factor has often been neglected, many irrigation projects around the world were giving lower yields than they should.

Irrigation, as such, does not always require a fundamental change in farming practices. But quite often, to make full use of the new irrigation potential that has been created, new crops have to be grown, or more intensive cultivation has to be undertaken, or multiple cropping becomes necessary. In cases such as these, radical changes from old farming methods are required. In particular, the development of multiple cropping calls for a whole series of fundamental changes. Early-maturing crops have to be introduced. Field work has to be mechanized. Fertilizer and pesticides have to be used. And, in support of it all, new marketing facilities have to be created, and--not least of all--a larger supply of credit becomes necessary.

When such radical changes are required, the responsiveness of the farming community becomes the limiting factor. The knowledge of farmers becomes crucial, along with the social, institutional and psychological factors governing their reactions to reform. To teach the farmers what to do and how to do it, agricultural services have to be organized. These services must be staffed with qualified personnel who themselves must first be trained. In this way, by providing a variety of services and facilities, we aim at strengthening the farmers' incentive to innovate. Also, by introducing suggestive policies in regard to credit for instance, the farmers will be helped to see their own good beyond the risks of innovation.

The relevance of this catalog of changes is not limited to irrigation projects. A general need to foster innovation among farmers can be stated as a prerequisite of a variety of agricultural projects. The Bank Group's response to the need has taken two main forms in recent years. The first is that we have increased our support for general agricultural development. While irrigation loans continue at a high level,



greater emphasis has been given to investments in related fields. We have moved toward a more comprehensive approach to agricultural development. To name a few areas of importance: farm credit, livestock production, land settlement, seed improvement, grain storage, agri-business, training and extension work. Our second response is more particular in nature: agricultural credit projects have been supported more vigorously. Agricultural credit is vital for changes at the "grass-roots level"--to borrow a phrase from the politicians--because it can provide a large part of the resources required for the purchase of inputs such as fertilizer, as well as much of the capital required for investment on the farm itself. Where properly employed, agricultural credit can be a very effective means of encouraging higher productivity on the farm.

We are trying to achieve four main objectives with our agricultural credit projects:

- 1) To reach large numbers of farmers, including small farms close to the subsistence level. We are always looking for new techniques and assistance to reach this goal.
- 2) To make agricultural credit a viable banking operation and, at the same time, build up sound institutions. This means that credit should be fully repaid. Neither the provision of credit and administration of it should be considered a subsidy.
- 3) To base the acceptance of loan applications on economic criteria rather than on collateral.
- 4) To induce farmers to save through making deposits in credit agencies. By so doing, the farmer contributes to mobilizing resources within the country.

In general, credit loans have been found to be very flexible in terms of lending arrangements, and thus they are very adaptable to Bank/IDA requirements. The result is that agricultural credit is now the second biggest category of the Group's lending for agriculture. Furthermore, its relative importance is growing. Credit has been channelled to the farmer through a variety of institutional arrangements and in association with private banks. In Mexico, the credit has been routed through the Central Bank, which relents the funds through commercial banks. In the Philippines, the money has flowed to the farmer through small rural banks. In Tanzania, the funds went to the agricultural credit agency which in turn relied on the strength of local cooperatives to channel funds to the farmers. To date, we have worked with institutions such as these in 18 countries.

#### Some General Problems Involved in Agricultural Financing

The growing importance of credit loans provides a good point to end this brief history of Bank/IDA lending for agriculture. For I think it is easy to transfer one's focus from this particular technique to the



more general problems of agricultural lending. We will come back later to some of the specific problems of agricultural credit loans.

It is frequently assumed that the low levels of productivity prevailing in the less developed countries can be remedied merely by providing additional finance, either from abroad or from domestic sources. In fact, finance is not the primary limiting factor. Effective use of capital is impeded by a host of human and institutional problems, including the following:

- 1) The diffuseness of the agricultural economy, typically comprising thousands of unorganized producers. This makes it hard to identify, prepare, and appraise "projects" and to supervise the use of credits.
- 2) The economically precarious character of farm units in many countries. This permits of little capital accumulation, provides little security for loans, and often makes adoption of technical innovations seem unacceptably risky to the farmer.
- 3) The general isolation of rural districts from modernizing influences. This is characterized by a low level of education and a consequent absence of trained, progressive leadership.
- 4) The lack of transport and other facilities needed for efficient marketing of agricultural output. These marketing problems need no elaboration.
- 5) The weak incentives to higher productivity in many areas. Where output is largely for subsistence, markets are ill-organized, and tenancy and tax arrangements are often unfavorable.
- 6) The inadequacy of government organization and personnel in agricultural work. This is due partly to the low prestige of agricultural employment. The lack of experienced personnel to prepare and execute projects is of particular consequence. And, finally,...
- 7) The ineffectiveness of price controls or other economic measures. These measures are applied by some governments in a way that discourages efficient production and investment.

In a number of countries, large plantations or big estates will continue to play a major role in the economy. And in others, there is considerable potential for commercial farming on relatively large units of land. Such large operations are usually less affected by the typical human and institutional problems--they are better able to employ modern equipment and practices; they are better able to raise output rapidly, and



they are better able to take advantage of export possibilities. When I say "better able", I am comparing large agricultural undertakings with the characteristic situation of agriculture in so many countries where one finds large numbers of smallholders. It must be noted, however, that there is strong political pressure throughout the world for the breakup of large units, even at a serious cost in productive efficiency.

In most of the less developed world, for many years to come, a majority of the population will continue to depend for their livelihood on small farms or livestock herds. Crucially important to the smallholder is the evolution of patterns of agricultural production and trade that will make the small unit viable in a modernizing economy. This evolution would give increasingly productive employment to the rural population. It would retard the movement to urban areas, thus having a positive effect on political stability, and at the same time would avoid wasteful land use. Given the complexity and mutually reinforcing character of the problems involved, an essential condition for such evolution is likely to be progress in "agrarian reform" in the broadest sense. This obviously includes improvement in land utilization and, where appropriate, in tenure arrangements. It also includes improvements in government agricultural services, in price and other economic policies, in marketing, and in the supply of credit and farm requisites. In passing, let me say that I always prefer to use the expression "agrarian reform" in this broad sense; I use "land reform" to refer to programs involving chiefly a change in ownership or tenure conditions.

Global demand for most of the developing countries' traditional crops is now growing slowly. In the future, growth of demand may be further limited by competition from substitutes. While their agricultural output will be expanding, the availability of markets will depend in part on whether they can shift production patterns toward commodities for which there is more dynamic world demand. This is to recognize that the less developed countries should be very much concerned with the latest techniques of marketing, processing, and sales promotion. It will also depend, probably in even greater measure, on the growth of domestic demand--resulting from urbanization and rising income levels. Thus the expansion of output is only one aim of agricultural development. Development must also bring about changes in the structure and geographic pattern of production.

#### Some Problems of Agricultural Credit

The problems just outlined are common to all of our agricultural projects; in addition, there are problems that are more particularly related to agricultural credit. But first, let me give you a general conclusion. Our experience has taught us that, when complemented by other elements of "agrarian reform", agricultural credit can be a very effective aid to higher productivity. Furthermore, it appears to be a field especially well suited for Bank/IDA assistance. Our experience indicates that the organization of agricultural credit programs is likely to involve a number of difficulties. I will mention five general problem areas:



- 1) It is often hard to get accurate estimates of the effective demand for credit. This is because reliable information about the farmers' intentions is usually lacking. Since there is a lack of accumulated experience with credit operations in the less developed countries, it is even more important that applications for financing need to be based on a realistic lending program in which the several categories of investment-- for example for tree crop development or the farm machinery-- can be assessed separately.
- 2) It is often difficult to insulate the making of loans, recovery of arrears and other operating decisions from political interference. The most common cause of this difficulty is that agricultural credit institutions are mostly government-owned and are sometimes subjected to substantial political pressures.
- 3) The earnings of these institutions are seldom sufficient to cover the cost of proper staffing. Earnings usually need to be supplemented by governmental subventions.
- 4) Moreover, these institutions are sometimes assigned various functions not directly related to their lending. Examples are the operation of marketing, research, and extension services. Such services are necessary complements to credit, but it is generally preferable that they be separately administered and financed. Similarly, experience suggests that the administration of industrial financing should normally be separated from agricultural credit.
- 5) Supporting services to agriculture often are not of sufficient strength. Farmers can make effective use of credit only if they are supplied with knowledge of the functions to be supported by credit.

In order to overcome these difficulties and reach our objectives, money by itself is not sufficient. This is why we are also concerned that credit institutions we become associated with be provided with extensive technical assistance for improving their organization and operations.

More often than not, the strengthening of credit institutions involve institutional aspects such as board direction, management, organization, staffing and operating policies and procedures. The Bank Group has helped to fill these deficiencies in a number of ways. By arranging for temporary expatriate assistance, it has helped to overcome the acute shortage of personnel on the scene with experience of agricultural lending.

Technical assistance for project implementation is, of course, not unique to the Bank's agricultural credit projects. I would like to speak briefly of how we view technical assistance in general in connection with Bank/IDA lending operations in agriculture. Our experience has



convinced us that a major limitation on agricultural expansion of current importance is a lack of soundly planned investments projects and a shortage of experienced people to carry out agricultural policies and to prepare and execute such projects. Finding satisfactory management for proposed projects contrives to be a serious difficulty. In Africa, the Bank's Agricultural Development Service, based in Nairobi, is helping to overcome this problem by making managers available to governments for agricultural projects on a reimbursable basis. Elsewhere, notably in the Western Hemisphere, the Bank has employed, on contract, a number of technical managers who have been seconded to governments to help operate projects.

This by no means exhausts the list of complex problems that stand in the way of more rapid progress in the agricultural sector. For instance, there continues to be a lack of adequately studied, economically promising projects ready for financing. The Bank has taken a number of steps aimed at helping member governments to ease this critical bottleneck. A principal action was to enlist the assistance of FAO. Under its cooperative program with the Bank, the FAO works with governments to identify and prepare projects with a view to their eventual submission for Bank or IDA financing. Under this program, the FAO sent 56 missions to the developing countries during 1967/68. It also participated in 41 of the 143 missions organized by the Bank to look into problems of agricultural development. Specific actions have also been made to offer more assistance in Africa, where many of the newly independent nations are in special need of help with project identification and preparation. The Bank has set up two Permanent Missions, one in Abidjan and the other in Nairobi, to assist our member governments in these areas.

Largely as a result of these various arrangements, the number of well-prepared, high-priority projects coming forward for consideration particularly from African members, has increased considerably. Indeed, a queue of pipeline of sound projects is beginning to build up. At the end of June 1968, 22 agricultural projects were in an advanced stage of appraisal or negotiation, and 55 others were in earlier stages of processing.

The Bank has also been coordinating its work with the United Nations Development Programme (UNDP). Where studies financed by the UNDP might lead to Bank Group financing, the FAO usually becomes involved under the cooperative program. Similar cooperation has been established with the United Nations Educational, Scientific and Cultural Organization (UNESCO) for the preparation of educational projects; some of these educational projects are intended directly or indirectly to benefit agriculture.

The Bank Group has thus diversified the nature of its agricultural work in terms of studies, preinvestment surveys, project preparation, and lending. The work has also been extended to many more parts of the world than was the case a few years ago. Until recently, most of the Bank's agricultural lending was concentrated in a relatively small number of countries. India and Pakistan--including the Indus Basin Development Scheme--headed the list. Other large borrowers included Mexico, Malaysia, Thailand, Morocco, Peru, Brazil, Colombia and Iran. But our policy is to offer



assistance to all our members where the need is evident and the circumstances warrant Bank Group operations. The Bank Group now has some kind of agricultural work in progress in sixty countries.

To conclude, I would like to express my confidence that we will reach the goal set by our President, and in this expansion, agricultural credit will play an increasingly important role.