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Bernard R Bell Files - Research and Sector Papers - Correspondence -  
Volume 3



Bank Group Support for Small Scale  
Industries in Manufacturing:  
The Emerging Issues

Introduction

1. In the past Bank Group lending for small scale industries has been negligible (Annex A). Total projected IBRD and IDA lending for industry and DFCs is expected to grow from \$1,822 million in FY1969-73 to \$2,940 million in FY1974-78 (an increase of 61 per cent). Small scale industry lending is expected to grow from only \$52 million in FY1969-73 to \$213 million in FY1974-78. While this is a marked increase in absolute terms, as a proportion of total lending for industry it is an increase from only 3 per cent to only 7 per cent. These projections take a very optimistic view of the exploratory moves now being made with regard to small scale industry lending; they indicate that even on this basis lending to small scale industry is likely to remain a very small proportion of total lending for industry unless a substantially greater lending effort is made. Two types of issues arise:

(a) Is the role of small scale industries in socially oriented development sufficiently important to indicate that Bank Group lending to small scale industries should become substantial?

(b) If Bank Group lending to small industries is to be markedly accelerated, what are the problems in doing so?

A. The Role of Small Scale Industries

2. The industries most relevant to a consideration of small scale industry problems are those employing less than 20 workers.

The evidence regarding small scale industries is fragmentary, but several conclusions can be drawn:

(a) The role of small scale industries is most important in non-industrial and industrializing countries, where over 95 per cent of manufacturing enterprises employ fewer than 20 workers, accounting for well over half of the industrial labor force and contributing roughly a third to a half of the value added in manufacturing. In the more advanced, semi-industrialized and industrialized countries small scale industries are significantly less important. Nevertheless, even in semi-industrialized countries small industries continue to employ about a quarter of the industrial labor force and account for about 15 per cent of the value added (Annex B).

(b) Thus while small scale industries make a substantial contribution, they contribute more to employment than to value added. The gap is widest in non-industrial and industrializing countries; this is due both to the use of labor intensive technologies combined with low labor productivity. In semi-industrialized countries the gap persists, but narrows.

(c) Small scale enterprises can operate competitively in a wide range of product groups. (See Annex C)

3. The developmental characteristics of small scale industries may be summarized as follows:

(a) The most important developmental function of small industries is in stimulating entrepreneurship. As this is a very scarce productive factor in most developing countries, and particularly in least developed countries, the encouragement of small industries is critical to



indigenously based industrialization.

(b) Small enterprises tend to present better opportunities for the use of relatively labor-intensive production techniques than large scale industries. Therefore under appropriate conditions they can employ more labor than would otherwise be employed. These conditions, however, are not always present; and consequently small enterprises are not always more labor-intensive than large enterprises. Appropriate policies giving correct price signals to capital, labor, etc., are thus necessary to ensure that small scale industries exploit opportunities for labor intensive techniques.

(c) Small enterprises can play an important role in using resources that otherwise would not be used in developing regional and least developed countries' production capacity. Again, with the proviso that appropriate industrialization policies are followed, small scale industries depend less on imported equipment and other imports than large industries.

(d) Small industries, principally through their employment effect, can play an important role in relieving poverty.

(e) Small scale industries can also contribute to a broadening of the ownership of wealth through the extension of the entrepreneurial base.

4. Many of the economic characteristics, and the precise developmental roles of small industries, have not yet been clearly delineated, but their stimulus to entrepreneurship and their potential for employment creation and an improved ownership of assets are well enough established to give

a rationale for their strong encouragement and support.

5. In most countries trade, credit and other industrial policies are biased against small enterprises, contributing to their low productivity. The ways in which such biases operate are well known in general terms. Some countries have tried to offset these biases by extra protection to small enterprises without remedying the original bias, but this can be wasteful. Small enterprises cannot thrive without a reasonably healthy policy environment, but this is an area in which economic analysis is ahead of governments' desires and capacities to implement changes. Enough is known about the economic policies necessary to stimulate small scale industries to make possible an immediate start on programming for the growth of small enterprises.

6. Small scale enterprises thus play an important role in industrial development, and their impact could be substantially increased by improving their productivity and accelerating their growth. The proposed scale of bank lending does not appear commensurate with the importance of the problem.

#### B. Issues for Bank Lending

7. The Bank Group is facing a number of problems as it enters the small scale financing field. The principal issues relevant to an increase in lending appear to be concerned with:

##### (a) Risk

Small entrepreneurs, and particularly small new entrepreneurs are very risky. In any innovative promotional program a significant proportion of borrowers must be expected to fail. The issues facing the



Bank Group therefore are concerned with how the high risks concomitant to small enterprise lending might be handled without damage to the innovative and enterprising characteristics such lending requires? What are the terms and conditions under which financial assistance should be extended to small scale industries and to intermediaries specializing in small scale industry lending?

(b) Financial intermediaries and technical assistance.

Bank lending to small enterprises will have to be undertaken through suitable financial intermediaries. It is unlikely that it will be advisable to draw a distinct line between lending for manufacturing and for other small scale enterprises such as those engaged in construction. In small countries and in isolated regions intermediaries serving all types of enterprises, including those in agriculture, are likely to be needed. Such intermediaries, and the enterprises they serve, are likely to require a much higher input of technical assistance than is usual in Bank Group lending to industry or to development finance companies. Four principal questions arise (i) What sort of financial intermediary is best suited to small enterprise lending under various conditions? (ii) What is the best form of technical assistance? (iii) Should technical assistance be direct, could it be made available in conjunction with other aid agencies, or should several methods be used? (iv) What is the proper mix of credit and technical assistance of various types required by small scale operations in countries at various levels of development?

(c) Operational guidelines and the evaluation of loans.

Given the high risk factor, and the tenuousness of small

enterprises own bookkeeping, new performance criteria will have to be established both for the intermediaries and for the sub-projects financed. The questions which arise concern (i) the spread between borrowing and lending rates that will enable intermediaries to cover the high costs of lending to small enterprises and how this spread may best be covered; (ii) performance criteria for sub-projects and intermediaries; and (iii) the most effective supervision methods to enable the Bank to supervise lending appropriately and yet to handle a large volume of individual sub-projects.

(d) Bank Group Organization.

At present lending for small scale industry is the responsibility of both the Projects Department and the Development Finance Companies regional Divisions. An accelerated lending program would be heavily staff intensive, particularly in the initial years. Small enterprise lending has to be considered in the light of a country's overall development program, and since the volume of lending is likely to be proportionately small, any leverage on policy can only be through the overall Bank Group-Country dialogue. How then can the Bank Group organize its lending for small scale industry to make the most effective use of limited staff, that is limited at least in the short run? What is the Bank Group's comparative advantage in this area, and how should it relate its lending to other sources of finance and technical advice?

C. Proposals for Future Work

8. To assist in the resolution of these issues, and to give immediate support to the lending program, a research project designed to throw light on lending and related issues is being undertaken by the



Economics of Industry Division under the aegis of the Research Committee. The Swedish International Development Authority is participating in this research. The research team is headed by Dr. David Kochav, an Israeli consultant. Israel's successful experience in financing small scale enterprises has been used as the "pilot" stage of the study. After a briefing in Washington in October 1973, which will ensure that the concerns of the Bank Group's operating staff are taken into account, the research team will undertake field work in seven countries (Colombia, Trinidad, Guyana, Singapore, Iran, Zambia and Ghana) selected to illustrate a variety of conditions and programs for small scale industry growth. The study is designed to answer questions about conditions of financial and technical assistance postulated above. In addition, more broadly based economic analyses of small scale industries are being undertaken in the context of the Economics of Industry Division's sector work in several countries.

9. If it is thought appropriate, the results of these studies could provide the basis for a policy paper to guide Bank Group lending to small scale industry. This could be completed by October, 1974.

Annex A

IBRD and IDA Lending to Small Scale Industries, FY1962-78

<u>Countries</u>		<u>FY Thru' 1963</u>	<u>FY 1964-68</u>	<u>FY 1969-73</u>	<u>FY 1974-78</u>
<u>South Asia</u>					
Pakistan	IDA	6.5			
Bangladesh	IDA			3.0	5.0
India	IDA			25.0	85.0
<u>East Asia &amp; Pacific</u>					
Indonesia	IDA				15.0
Philippines	IBRD				25.0
<u>EMENA</u>					
Yemen	IDA				3.0
<u>South America</u>					
Colombia	IBRD				5.0
Ecuador	IBRD				10.0
<u>Eastern Africa</u>					
Kenya	IDA				8.0
Malawi	IDA				3.0
<u>Western Africa</u>					
Togo	IDA				2.0
	IDA	6.5	0	28.0	121.0
	IBRD	0	0	0	40.0
<u>Sub Total</u>		6.5	0	28.0	161.0
<u>DFC 1/</u>				24.0	52.0
<u>GRAND TOTAL</u>				52.0	213.0

1/ DFC lending estimates for small scale industries are based on a 1970 sample of Bank Group financed DFC sub-projects which found that 4 per cent of commitments to such projects was to enterprises with fewer than 20 workers. The percentage for FY1974-8 has been raised to 10 per cent to account for planning now under way. Double counting has been avoided by subtracting the India IDBI loans specified in the South Asia lending from the DFC small scale industry lending estimates.



Annex B

Contribution of Establishments with Fewer  
Than 20 workers in Manufacturing\*  
(Given as Proportion of Total Industrial  
Sector)

Countries	Number of Establishments %	Employment in Industry %	Value Added %
Industrialized (France, Norway, USA)	75	18	12
Semi-industrialized (Brazil, Mexico, Portugal)	90	25	15
Industrializing (Central America, Colombia, Paraguay, Malaysia, Iran, India)	96	60	30
Non-industrial (Ethiopia, Ghana, Indonesia)	99	80	45

\*Preliminary

Source: Based on data for countries indicated.

Industries Particularly Suitable for Small Scale ProductionMarket Oriented Small Plant IndustriesAgricultural Supplies & Equipment

Animal feeds	Wooden containers
Agricultural implements	Cardboard or paperboard boxes
Agricultural and pastoral machinery	Chemical supplies
Sheet metal products	Fertilizer mixing

Construction Goods

Bricks	Structural metal products
Clay tile and pipe	Plastic pipe and conduit
Concrete products	Office and store fixtures
Millwork and joinery	Signs and displays

Household Goods

Bread	Wooden furniture
Soft drinks and carbonated waters	Metal furniture
Noodles, spaghetti, macaroni	Mattresses
Ice cream	Components of consumer durables
Manufactured ice	such as radios, sewing machines,
Oil stoves	bicycles

Transport Equipment

Truck and bus bodies and trailers	Wooden ship building and repairs
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Products of Simple Assembly, Mixing, or Finishing OperationsFood Products

Chocolate powder and paste	Mayonnaise
Bean paste	Peanut butter
Soy, tomato, chili sauce	Table oil
Baking powder	Shelled and roasted nuts

Clothing, Made-up Textiles, Footwear

Men's work clothes	Hats and caps
Men's shirts	Belts and suspenders
Uniforms	Narrow fabrics
Men's and boys' suits	Embroidery
Women's and girls' blouses & skirts	Cordage, rope, and twine.
Women's and girls' suits	Canvas products (tent, sail,
Knitwear-flat and circular	tarpaulin, waterproof clothing)
Sweaters and blouses	Women's and children's shoes
Underwear	



Leather Goods

Portfolios and book bags  
Wallets, watch straps  
Handbags, jewel cases

Leather gloves and mittens  
Industrial belting and picking bands

Chemical Products

Pharmaceuticals (tableting, capsulation, packaging)  
Paint, varnish, and lacquer  
Cosmetics and perfume  
Cleaning and polishing preparations

Dyes and pigments  
Printing Ink  
Synthetic resins  
Industrial acids and salts

Miscellaneous Products

Lamps and lampshades  
Buttons  
Plastic products  
Toys  
Ophthalmic goods, including eyeglass frames

Sports goods  
Recreation equipment  
Umbrellas and parts  
Costume jewelry

Resource Processors

1. Weight-reducing or preservative processes rooted to materials that are widely scattered because of physical production characteristics or land tenure patterns:

Rice cleaning and polishing  
Barley cleaning and polishing  
Corn milling and chaff cutting  
Olive oil extraction  
Cotton ginning  
Cold storage  
Palm oil expression  
Ham and bacon curing  
Sausages  
Natural cheese  
Condensed, evaporated, powdered milk  
Distilleries  
Wine

Sawmills  
Cooperage stock, shingles  
Wood preservation (kiln dry)  
Naval stores (turpentine, resin)  
Charcoal and by-products  
Coal briquettes  
Leather tanning  
Agricultural ground lime  
Gypsum plaster  
Building lime  
Salt blocks  
Refined salt  
Cut stone and stone products  
Essential oils (citronella, lemon grass)  
Lac

2. Semiprocessing, opening up new territories where transport links are poor or resource volume limited:

Khandsari sugar (India's open pan sulphitation process)  
Semirefined sugar (Mexico); panela (Colombia); gur (India)  
Semievaporation of milk (Peru)  
Semiprocessing of fruit (pulp, juice in bulk, mango packing in brine)  
Retanning of village tanned hides (India)  
Potato starch (green)

3. Multicrop processors or mixers, often located in nodal towns to tap variegated supply areas:

Fruit and vegetable canning	Solvent extraction of oil
Jams, jellies, preserves, juices	(cottonseed, groundnut)
Pickles, sauces	Prepared animal feed
Canned and cured seafood	
Fresh and frozen packaged fish	

4. By-product utilization, also often near nodal collection points or large-scale plants:

Bagasse hardboard, insulation board  
Molasses products: yeast, vinegar, dehydrated molasses for animal feed  
Rice bran oil  
Meat by-products: grease and tallow, glue, soluble dried blood, bone black, ossein (for edible gelatin)

Note: The above lists of products, organized under different headings, illustrate the possibilities for production on a small scale. Manuals and reports containing specifications for machinery and production techniques for a variety of products (industries) are published by ECAFE, APO, ECLA, FAO, and numerous other international development organizations.

SMALL ENTERPRISES IN MANUFACTURING:

THE EMERGING ISSUES

Background Paper

Economics of Industry Division

June, 1973

FV



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Appendix A: The Share of Small Enterprises in Manufacturing in Selected  
Developing Countries

Appendix B: Selected Bibliography

Small Enterprises in Manufacturing:  
The Emerging Issues

I. Introduction

1. The Bank Group undertook very limited small scale financing in the past. An industrial estate, small scale industries loan to Pakistan (1962) was the only specific case until recently, although some of the development banks the Bank Group assists also lent marginally to small scale units. A sample of Bank Group financed DFC sub-projects for 1970 showed that only 4 per cent of commitments went to manufacturing enterprises employing fewer than 20 workers. The 1972 Industry Sector Paper drew attention to the role of small enterprises in balanced industrial development, and stressed its importance in relation to the social objectives of increased employment and more equitable income distribution. In the least developed countries, small enterprises are critical to the development of indigenous business (de Wilde, 1971). Small scale industries projects are being explored for several countries in each Region. Most of these projects are concerned predominantly with manufacturing enterprises, and the focus of this paper is therefore on small enterprises in manufacturing industries.
2. In both developed and developing countries a number of factors determines the size of the small scale sector in manufacturing and its potential developmental role. One is a country's historical evolution and the ensuing development of cottage industries, crafts and commerce. Thus in Europe, in the Mediterranean perimeter, and throughout most of Asia, such economic activity has been developing for more than a

thousand years. It reached a peak in East Asia in the late nineteenth century, but in other parts of Asia, notably in Southeast Asian countries, the colonial period saw the almost complete erosion of indigenous crafts and commerce. Most of the countries of the "new world" and Africa south of the Sahara, in comparison, have a narrow commercial and craft tradition. The historical base has to be taken as given. The size of a country's markets is also a key factor, and so is a country's level of economic development. The industrialization process, the characteristics of the industrial structure, the development of local and export markets, and the changing pattern of demand all bear on the size and the role of the small scale sector. These factors are discussed in Part II. The third principal factor determining the size of the small-scale sector is the policy framework in which industrial development occurs. Government policies are discussed in Part III. Direct efforts to encourage and assist small scale industries through specialized institutions are a fourth factor. This is the area most directly relevant to the Bank Group. It is discussed in Part IV of this paper.



## II. The Role of Small Enterprises in Industrial Growth

### A. Definition

3. All countries have a spectrum of "small" to "large" industrial establishments. It is generally agreed that units at the lowest end of the scale, say, with fewer than 20 workers or a total investment of \$100,000 are "small" enterprises. The upper limit of "small-scale" is more difficult to generalize. It depends on a country's size and level of economic development and, more specifically, on the purpose of making the distinction. A "large" factory in West Africa may be considered "small" in Brazil. Thus it is difficult to define "small" enterprises in statistical terms in a meaningful way for all developing countries. Small enterprises, however, are distinguished by certain features: there is relatively little specialization in management, and the contacts among management, workers, suppliers and customers usually are very personal. Thus, although "small-scale" includes a range of sizes rather than a precisely definable group, the characteristics of small-scale enterprises can be conceptualized, and the conceptualization to a significant degree is internationally transferable. This is borne out in the literature on small industries (Appendix B, Selected Bibliography). For practical policy purposes, "small" enterprises can be defined in the context of a country's economic structure and policy objectives in terms of employment, investment, or a combination of these criteria.

4. Enterprises with fewer than 20 workers are the most numerous, and appear to have the most potential for development in the majority of

developing countries. It is on these enterprises, therefore, that this paper concentrates its attention in the developing country context.

However, larger enterprises, employing up to 50 or as many as 100 workers, may fall into the "small-scale" category in some countries because their encouragement meets the policy objectives and requires the policy support that smaller enterprises need. In the issues that are raised, particularly those directly relevant to Bank Group lending, and in the research that is proposed the comparative analysis includes a range of enterprises extending to those employing 100 workers.

5. Cottage industries form a distinct group. They are household units generally employing traditional means of production, engaging family labor, producing for local markets, and often working on a seasonal or part-time basis determined by the demands of agricultural work. For the purposes of development policy the feature distinguishing small enterprises from cottage industries is the growth potential based on the development of entrepreneurial skills. Most programs of assistance to cottage industries focus on helping the cottage units by providing entrepreneurial/management functions through a centralized external source, such as a cooperative or a specialized government institution, that supplies raw materials, quality control, marketing and bookkeeping services. In India the highly successful Madras Leather Institute organized household production of leather goods on this pattern, and attempts are being made to duplicate this type of "putting out" of industrial work in other product lines. Although some cottage units may grow into small factories, and should be encouraged to do so where the initiative exists, cottage industries are not a direct concern of this paper.

6. Small enterprise programs focus on the entrepreneur who is assisted in obtaining finance and technical knowledge to improve production techniques and to upgrade management and entrepreneurial skills. The goal of such programs is to increase the number of entrepreneurs who in turn independently can manage the growth of their firms.

B. The Scope for Small Enterprise in Industrialization

7. Several studies indicate the economic feasibility of small-scale production in various industry groups (Florence, 1969, Staley and Morse, 1965). Absence of economies of scale is the critical factor, but comparative advantage may also be derived from processing of dispersed resources, for example, saw-milling; from servicing dispersed markets, for example, regional fertilizer mixing; and in service industries such as electroplating. Published information (ECAFE, ECLA and the Asian Productivity Organization) provides a list of industries suitable for efficient small-scale operations.



8. Data for developing countries usually make it impossible to separate cottage and other "unorganized" units from small scale enterprises in the "organized" industrial sector. Data are fragmentary so that it is not possible to construct meaningful time series. Where some comparative figures are available, the data (Appendix A) suggest that small industries in developing countries are large in number and contribute substantially to employment. Their productivity is low, however, implying they are on the whole struggling, relatively inefficient enterprises. This is borne out by research evidence. The problem in many countries is not so much to increase the number as to improve the performance of small enterprises. In some of the least developed countries, however, even their number is inadequate. In these countries top priority must be given to creation of a larger group of indigenous entrepreneurs, even at the cost of some trade-off in efficiency in the short-run. Policies for small scale enterprises, therefore, have to be

related to the stage of economic development and overall social objectives. Generally, an improved statistical base is needed before a better assessment of the existing and potential role of small enterprises in manufacturing can be made.

### C. The Developmental Role of Small Enterprises

9. The developmental function of small-scale enterprises has several facets. It is suggested that the promotion of small enterprises can be viewed generally as a means of employing existing resources more productively, and, at the same time, of meeting social objectives of increased employment, more equitable income distribution, and regional development. These hypotheses have yet to be tested in the field, for research on the role of small enterprises in developing countries so far has been limited.

### Entrepreneurship

10. Small enterprises can be regarded as a reservoir for nurturing and training entrepreneurs. In most developing countries entrepreneurship and associated management and technical skills are by far the scarcest production factor in development; the need to overcome this bottleneck is accentuated by the scarcity of capital and skilled labor. Foreign investment can replace local enterprise only in part. If it comes to dominate an economy, the political consequences lead to instability. Concentration of control of resources and benefits from economic development in a few hands, even if they are nationals, likewise is becoming increasingly unacceptable. In short, there are political, social, and economic reasons for encouraging widespread indigenous entrepreneurship.

11. A certain proportion of small-scale entrepreneurs must be expected to fail. Others will continue to successfully operate stable small units, and a small proportion may be expected to guide their small beginnings into medium- and large-scale operations. It is not known whether the wastefulness of failures can be reduced significantly without destroying the competitive toughness that leads to successful entrepreneurship. More investigation is required along the following lines: what accounts for business failures now occurring in a country? Does the fault lie with the entrepreneur who cannot manage his resources efficiently, and to what extent is this result of educational background and other social factors; is the lack of capital a critical factor, or are the failures largely due to exogenous forces such as government policy over which the small entrepreneur has little or no control? Answers to such questions could substantially improve the effectiveness of policy measures and direct assistance to small enterprises. However, the importance of stimulating entrepreneurship and the absence of alternatives to practical experience suggest that small enterprises should be encouraged even while the answers to these questions are being obtained.

#### Employment

12. It is generally assumed that small enterprises are more labor-intensive per se than large enterprises, and use capital more efficiently, because they tend to use techniques more appropriate to social factor costs in developing countries than do large firms. This hypothesis has been validated for at least the smallest firms in field studies in Colombia (Berry, 1972),



Pakistan (Ranis, 1961), India (Dhar and Lydall, 1961), and Kenya (ILO, 1972). A broader assumption, beyond what the findings show, is made often to the effect that "small-scale industries" across the board would provide more employment per unit of capital than would large industries at the same level of output. Without consideration of total factor productivities, of homogeneity of products and labor, and of a clear definition of what is meant by "small scale", such generalization can be dangerous. The same studies of India and Pakistan show that when broken down into various branches of manufacturing, firms just beyond the smallest size (i.e. those employing more than 10 workers) were not necessarily more labor-intensive or more efficient in their use of capital than larger firms. Further research is thus required before conclusions can be drawn about employment creation of enterprises in the various ranges of "small-scale". Research design has to ask whether small industries can combine factors of production in such a way as to have a comparative advantage based on labor intensity, under what conditions they are likely to do so, and whether the differences among various branches of industries are so outstanding as to be written into policy. In terms of practical policy, however, it has to be noted that the answers to these questions are not known in relation to large industries either.

13. The principal a priori reason for supposing that small industries are better suited to labor-intensive techniques than large industries is that there are diseconomies of scale in managing labor. There is no intrinsic difference, for example, between producing components in one large plant by a labor-intensive process and producing them on a sub-contracting basis in several small plants. Where there appear to be decreasing returns to scale

due to diseconomies on the labor management side, small enterprises may have an advantage; but an appropriate benefit/cost analysis would have to include external costs of producing in a number of small plants, for example, the increased costs of transport, delivery lags, and of quality control. The net results would vary from case to case, depending on the availabilities of foremen-managers (and entrepreneurs), infrastructure, and the ease of establishing linkages between industries. There may be cases where more employment would be created at lower costs by encouraging large-scale enterprises to use more labor-intensive techniques than by assisting small enterprises. Further research again is required before a substantial argument about labor intensity between small and large enterprises can be made.

14. Small-scale industries ceteris paribus will tend to be more labor-intensive than large ones only if factor proportions are flexible, and if the appropriate technology for labor-intensive production methods is accessible. Greater attention is now being paid to popularizing the availability of low-cost, simplified technologies to developing countries. Especially in the least developed countries where adaptive skills are lacking much remains to be done. The quality that would enable known technologies suitable for relatively labor-intensive, small-scale production to be introduced is again essentially entrepreneurship. Where not only wholesale adoption, but also adaption of outside ideas to local conditions is required, skills on the order of Schumpeter's classic innovator-entrepreneur are demanded.

Least Developed Countries and Regional Development

15. A major argument in favor of small enterprises is their ability to supply relatively small markets either in a small, least developed country, or in the backward region of a more developed country. The most notable advantage of small enterprises in these situations is the natural protection of transport barriers, either in the form of high costs or sheer lack of infrastructure. Also, the product mix in demand in these markets may be produced traditionally or, at least, with ease by use of techniques familiar in small units, e.g., household utensils, agricultural implements, small tools, wooden furniture, construction materials, and all sorts of services such as milling and repairs which normally locate as close to their customers as possible.

Income Distribution

16. More equitable distribution of income is another social objective often linked with small enterprise. It is argued that small enterprises may lead to a more equal distribution of incomes through the creation of (i) new entrepreneurs, (ii) additional employment and hence wage incomes which would not have been created otherwise, and (iii) better services to consumers. These hypotheses require careful formulation and study. The creation of a larger group of small entrepreneurs is likely to lead to broadening the middle class, both socially and economically. Access to entry into industry, financing, import licenses, and special incentives would be given to small enterprises as well as to the large firms that have



enjoyed these privileges in the past. This would mean that income that could be earned from the same total amount of resources would be distributed more widely among a large number of entrepreneurs. There could be a multiplier effect for enterprises who could not find customers among large firms but succeed in doing business with the small entrepreneurs. Enterprises that succeed in economic import substitution that otherwise would not take place would conserve foreign exchange for other income generating purposes.

17. If small-scale enterprises are able to bring more labor into employment, the benefits are clear. If small-scale enterprises are brought into the mainstream of production, laborers may benefit by having their real incomes improved either through increased productivity or through eligibility for legislated minimum wage without an increase in productivity. The latter would be at the expense of the entrepreneur, or the consumer if the costs are passed on. But workers in small factories frequently receive lower wages than those in large enterprises. This may reflect lower productivity; it may be due to lower prices to consumers; or, it may be the result of higher profits for entrepreneurs and thus lead to a greater concentration of relatively higher incomes.

#### The Distribution of Income and Demand

18. Income may be transferred to low-income groups in the form of low-cost consumer goods and services, especially in rural areas. The consumption patterns of different income groups affect the scope for small

industries' activity. Low-income groups tend to create a greater demand for the products of small industries than do high income groups because they require more of the cheaper, lower quality goods that can be produced in local small industries. Geographically, rural groups tend to have consumption patterns more favorable for small industries than urban groups. Also, as the standard of living improves for the lower income groups, they demand more of the services that small enterprises can provide. More equitable income distribution, therefore, is likely to stimulate the growth of small enterprises.

#### Savings

19. The effect of small enterprises on total savings is related to their impact on income distribution. To the extent that a higher proportion of value added created in the course of a given volume of output is distributed among wage earners (who tend to have a higher propensity to consume and a low, if not negligible, propensity to save) than would be the case in capital intensive large enterprises, consumption today takes place at the cost of savings, and hence investment, employment and consumption tomorrow. But it is also often persuasively argued that in countries that lack efficient financial intermediaries and rely largely on internal business accumulation for investment, the relatively high profits of small enterprises can be an important element in capital accumulation. Such contradictory hypotheses are held and, indeed, may be valid for different countries at the same time, or at different times. There is an almost total absence of reliable empirical information about the dynamic efficiency of enterprises on the basis of scale of production and labor/capital intensity. The data on household savings behaviour are also

spotty and contradictory. Two opposite propositions about high-income groups may be valid, i.e., they may save proportionally more or less than low-income groups. Further research must be done to determine under what conditions in developing countries it happens that savings of the rich (poor) are high and productively invested and under what conditions savings are low, or not invested to the social advantage of the country.

20. Even if small enterprises are less efficient than large ones, a country may wish to encourage them for social reasons. It may be prepared to pay a price for creation of employment and productive opportunities, particularly in a specific location. Regional development may be a strong argument, and the maintenance of rural incomes may be another. The growth of indigenous enterprises, wider participation in controlling "the commanding heights" of the economy, and decentralized decision-making in the market place may also be relevant. An infant industry or infant entrepreneur argument may apply. However, in meeting social objectives the magnitude of the costs has to be determined to ensure that the expected benefits of the trade-off would exceed the costs.

### III. Economic Policy

21. It is clear from IBRD Reports and other studies (Appendix C, Selected Bibliography), that the policy environment is critical to the small-scale industries' share in the manufacturing sector, to their productivity, and hence to their potential for growth and development. In most developing countries, however, the policy framework is biased in favor of large and capital-intensive enterprises.



A. The System of Protection

22.. The system of protection generally inhibits small enterprise development in the following ways:

- i) The product mix: The product mix encouraged by the structure of effective protection tends to be particularly favorable to high quality (non-durable and durable) consumer goods such as high-count, highly finished cotton and synthetic textiles, refrigerators, air conditioners, and motor cars. The choice of technique in manufacturing such products is relatively limited, and economies of scale are considerable. In contrast, in many consumer products, such as lower quality textiles, household utensils, bicycles and truck- and bus-body manufacturing, small-scale producers often have a comparative advantage, but production in these lines is discouraged. Furthermore, the protective system generally discriminates against domestic production of capital and intermediate goods. Yet, small enterprises frequently have a comparative advantage in these crucial manufacturing branches, e.g., in small machinery, implements, and tools, and, on a sub-contracting basis to larger enterprises, components (Iran 1972).
- ii) Duty exemptions: The manner in which high effective protection is often granted, that is, by exemptions of import duty on capital goods and raw materials, favors the large firm over the small firm. The large firm with duty exemption privileges reaps the monopolistic

profits such rights create. Small firms usually are not eligible for import privileges, nor the accompanying exemptions. Even if they are theoretically eligible, they are usually not able to obtain such privileges in practice. They purchase their capital goods and other inputs through commercial importers, paying full import duties and thus receiving much lower effective protection than the privileged firms (Iran, 1972; Ethiopia, 1972; and Bangladesh, 1973).

- iii) Import licensing: An import licensing system tends to create a bias against small enterprises because, unless special steps are taken, they tend to have less access to licenses than large firms. This is particularly true if import licenses are based on production capacity calculated in terms of fixed capital. The possession of a direct import license gives the large-scale producer a measure of monopoly profit; the small producer having to purchase through commercial importers (if the goods are available at all on the open market) has to pay high prices, that include a measure of monopoly profit for such imports (Lewis, 1970).
- iv) Export subsidies: Small firms usually are either not eligible for export subsidies or do not have access to them. In addition, some countries deliberately discriminate against small industries who want to export on the grounds that the quality of their product is low and discredits a country's exports. This allegation frequently is not true. In any case, if the products meet particular export market

requirements, they may make a substantial contribution to export income without damaging a country's export reputation. The role of small enterprises in exporting has important entrepreneurial and employment implications because of the growing importance of exports in industrialization strategies, and these implications have not been well explored. Research on manufacturing for exports should in the future take such implications into account.

B. Indirect Taxes

23. Indirect local sales and excise taxes may also discriminate against the small firm. If such taxes apply to all stages of production so that they have a cascading effect, the large, vertically integrated firm with its own tool shop, parts manufacturing, etc., will have a competitive advantage vis a vis the small firm which has to pay the tax on each input. For example, cascading sales taxes had an important effect in encouraging undue vertical integration in Brazil in the 1950s and 1960s until they were replaced by value added taxes (Brazil, 1970).

C. Direct Taxes

24. Income tax policies have mixed effects. Large firms frequently enjoy income tax exemptions for which small firms do not qualify. Insofar as exemptions are based on investment in fixed capital, they encourage small firms to become capital intensive to qualify for exemptions. It is often said that small firms can generally evade tax payments, both indirect and direct, more easily than large firms, but this allegation has not been substantiated. In fact, in some countries in which large firms enjoy tax exemptions, tax officers have been observed to concentrate their attention on small firms.



D. Credit Policies

25. In most developing countries, credit policies and institutional arrangements discriminate against the small entrepreneur. Interest rates frequently are kept artificially low, so that they fail to act as a rationing instrument; large established firms are the beneficiaries. Special concessional funds usually are available primarily for fixed capital; this discriminates against firms that have an advantage in labor-intensive techniques and require relatively large volumes of working capital for wage payments. Where foreign exchange restrictions exist, privileged access to foreign exchange (particularly if interest rates are unduly low) confers monopoly benefits on the recipient. It is the large firms which tend to benefit. This again leads to a tendency towards undue capital intensity and undue propensity to import capital goods, components and raw materials, thus discriminating against small-scale enterprises on all counts.<sup>1/</sup>

26. Some countries have attempted to offset the financial disabilities of small entrepreneurs. This is very difficult to accomplish if interest rates are not brought into line with the social costs of capital. Most commonly, special financial institutions have been established to provide small entrepreneurs with long-term finance at the same concessionary rates at which it is available to large entrepreneurs. This has had the following effects:

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<sup>1/</sup> These issues are discussed in greater detail in a parallel paper on development banking.

- i) Small-scale enterprises have tended to become relatively more capital-intensive, negating their comparative advantage in processes which do not have economies of scale. The results have been a loss of possible employment opportunities and low capacity utilization (Lewis, 1969; Winston, 1968).
- ii) Privileged access to foreign exchange funds, particularly if local funds are either tied to foreign exchange or not alternately available, in addition has encouraged small enterprises to use imported capital, raw materials and components unnecessarily, and has discouraged their use of local inputs. Thus the growth of other small enterprises has been discouraged as well (Bangladesh, 1973).

E. Production Licensing and Entry into Industry

27. A degree of protection to a developing country's manufacturing industries -- generally justifiable in terms of the imperfections in international trade and the infant industry argument-- generally means that some controls over entry into manufacturing are necessary to prevent the abuse of protection by manufacturers who establish inefficient firms and then demand sufficient protection to make them profitable. In industries with significant economies of scale, i.e., where large firms have a comparative advantage, such controls are frequently justifiable and necessary. However, in industries where economies of scale are not important, so that small-scale industries may have a comparative advantage, such controls are not necessary. Many developing countries, nonetheless, exercise some controls over entry into all industries in the form of production licensing. Such controls often discriminate against the small firm in the following ways:

- i) Small entrepreneurs are at a social as well as a practical disadvantage in submitting proposals for new enterprises.
  - ii) If licensing fees (formal or informal) are exacted, they tend to bear unduly heavily on the small firm.
  - iii) Government tends to be centralized. It has been shown that small enterprises have a special role to play in regional, decentralized development. The distance from the central government discriminates against the small firm (Indonesia, 1972; Bangladesh, 1973).
28. Some countries on the other hand, notably India, have sought to assist small industries by restricting expansion of large-scale firms in given product groups. Others, for example, Indonesia before 1965, provided small industries with heavily subsidized inputs. The results have not been very successful in terms of stimulating rapid development of competitive, highly productive small enterprises. This is due partly to the conflict between such specific policies designed to assist small enterprises and the overall weight of government policy, which has tended to discriminate against the small firms along the lines discussed above. In severely distorted markets privileged access to raw materials generally encourages blackmarketing, and restrictions on large firms' growth tend to create two tiers of protection. The small firm tends to become excessively capital-intensive, and the large firm reaps very high profits for it is freed from competition at home as well as from abroad. The extent to which it is possible to mitigate an overall bias in policy by specific policy measures to encourage small-scale industries and the costs these kinds of measures would entail require investigation.



F. The Role of Standards

29. Small entrepreneurs frequently find it difficult to meet standards laid down for industrial production, whether these apply to employment and production conditions or to the products as such. In industrialized countries improved standards evolved side by side with rising productivity so that the conflict between private and social interests inherent in the introduction of standards could be resolved relatively easily. Countries developing now are finding themselves in a much more difficult situation. The rigid application of production standards evolved in industrialized societies can lead to the elimination of small enterprises. In some industries, for example, in food canning, this may be advisable. In others, for example, in the manufacture of textiles and clothing, it is likely to be counterproductive, depriving consumers of low-cost goods and small producers of production opportunities. The nature of minimum employment conditions should similarly depend on the social and economic benefits and costs. Hard and fast rules are unlikely to be fruitful or, indeed, acceptable, in this area. Governments and firms have to proceed according to each given situation, with due regard to long-term social goals as well as to immediate welfare objectives.

G. Sub-Contracting

30. Small firms' sub-contracting to large firms has played an important role in the economic development of Japan and other East Asian countries. For the small firm it provides assured markets, access to technical assistance, and sometimes to working capital, and avoids some fixed capital commitment.

Sub-contracting has been particularly stimulated by the Japanese system of management of "permanent" labor in large enterprises; the fluctuations in demand, in fact, were largely borne by the sub-contractors with a "temporary" labor force. There has been some adaptation of the system in East Asia where sub-contracting, e.g., in the clothing industry in Hong Kong, is often undertaken to fulfill peaks in orders above a certain minimum which is handled by the parent company. Insofar, as not all principal clothing firms "peak" simultaneously, the sub-contractors and their labor force have a more regular work load than an individual producer.

31. Sub-contracting thus has advantages in addition to those inherent in small-scale industries. It appears that certain conditions have to be present, however, if it is to be introduced successfully as a substitute for vertical integration within a firm. There has to be an adequate supply of entrepreneurs with minimal technical and managerial skills to take advantage of sub-contracting possibilities. A good public utility and transport infrastructure is required. Sub-contracting firms have to be reasonably close geographically to the purchasing firms to avoid high transport costs. Raw material supplies have to be available. Given these conditions, sub-contracting has developed not only in East Asia, but also in countries such as India where it has been deliberately and carefully fostered by government policies and public enterprises. On the other hand, if conditions are not suitable or unfavorable policy measures such as cascading indirect taxes exist, mere exhortation is not sufficient to introduce sub-contracting practices. Policy adjustments, appropriate incentives, and direct institutional measures become necessary.

H. Conflicts Among Various Small-Scale Industries' Groups

32. Substitutability among small-scale activities may lead to conflicts of interest. The most clearly discernible conflicts tend to occur between very small, often rural, industries and small-scale industries in the modern sector, that are usually in urban areas. It is true that for some activities done on a very small scale, notably spinning and weaving, the principal source of competition tends to be medium-sized firms, and even large, mass-production enterprises. Over a wide range of activity, however, very small units compete with small-scale industrial production in the modern sector. This is true, e.g., for pottery-making versus plastic utensil production, traditional structural materials versus re-rolling mills, sun-dried brick-making versus kiln-dried brick production.
33. Firms of various sizes are affected differently by policies. As enterprises grow from small workshops and the smallest size factories, they become "eligible" for special fiscal and other incentives and for assistance from financing and specialized agencies, which usually offer subsidized credit. Where very small industries are a significant source of rural non-agricultural income, as for example, in many South and Southeast Asian countries, the encouragement of small-scale urban industries is likely to intensify competition with the rural sector and lead to its premature decline. If urban employment opportunities are not developing fast enough to absorb surplus rural labor, this is likely to cause serious rural income problems. The relationship between rural and urban small-scale sectors, therefore, has to be considered carefully before policy changes, or direct intervention, are decided.



I. A Policy Framework for Small Enterprises

34. Experience in developing countries in the 1950s and 1960s suggests that:

- i) existing industrial policy frameworks tend to discriminate against small enterprises, and
- ii) redressing the balance without a basic revision of policy tends to create new sources of inefficiency for the economy as a whole.

35. Some policy measures clearly would benefit not only small-scale industries, but also improve overall economic efficiency and lead to a better choice of techniques, thereby redressing the current bias against employment creation. The principal measures would include:

- i) lower, more even effective protection (where it is excessive) that, in particular, would avoid import quotas (or bans) and would phase out duty exemptions on capital goods and raw materials;
- ii) avoidance of cascading indirect taxes, and improved direct tax regimes coupled with the elimination of income tax exemptions based on capital intensity;
- iii) more realistic interest rates and a phasing out of concessional credit; and
- iv) the limitation of production licensing to industries with significant economies of scale or for regional zoning purposes.

36. Policy reforms cannot be achieved overnight. The political difficulties of even small changes must be recognized. More research is needed in several areas. Overall, however, there is the broad question of the extent to which it is possible to encourage small enterprises if the policy environment is hostile basically and what costs are entailed.

#### IV. Institutional Support for Small Enterprises

37. The encouragement of small entrepreneurs has social as well as economic parameters. Social mores and policies, therefore, cannot be ignored. The more mobile a society, for example, the easier is entry likely to be for new entrepreneurs. The education system is a critical factor in the supply of entrepreneurs versus that of civil servants, for example. It is also a factor in the entrepreneur's ability in technical adaptation and practical management. Such factors are even more intransigent than the reform of economic policy. In practice, immediate intervention usually is possible only through specialized institutions that seek to assist the small entrepreneur.

38. A variety of institutions, some assisted by bilateral and international aid agencies, is attempting at present to assist small enterprises in developing countries. A great deal of research is required to determine the nature of their impact and the costs at which such impact has been achieved. The extent to which successful experience is transferable and how it may be transferred is yet to be determined. At this point only a few generalizations can be made.

- i) Institutions serving small entrepreneurs are usually as underprivileged in terms of the civil service environment as their clients are in the business environment. They tend to pay relatively low salaries and to have little prestige; this usually means that they do not attract first quality staff.
  - ii) There is a tendency for such institutions to have ill-defined functions and to exceed their financial and human resources. They usually are overextended and consequently are not able to carry out any one of their functions well.
  - iii) There is a tendency toward a multiplicity of institutions, particularly in larger countries. This often results in a lack of coordination, duplication of effort, and even greater inefficiency. It must be noted, however, that there are some countries where this is not the case. Efficient small enterprise institutions exist, for example, in Singapore and Israel.
39. Small enterprises require various forms of assistance. Entrepreneurs who come to manufacturing as skilled workers or technicians require commercial and management skills; those with a background in commerce need technical skills. In any case, almost all require adequate credit on suitable terms. Moreover, if the policy framework is biased against small entrepreneurs, they require assistance to overcome such biases. The provision of access to capital on competitive terms is one aspect of overcoming such problems; the supply of infrastructure facilities through industrial estates is another; and, support by institutions specializing in technical assistance and training is yet another.



40. The degree to which the effectiveness of one type of assistance is interdependent with the provision of other assistance, and to which all aspects are collectively necessary, for a small enterprise development program to succeed is not known. This problem will be tested in the research project approved by the Research Committee on financing small industries in countries with varying social and economic levels of development. In the meantime, the discussion will be confined to the principal forms of institutional support relevant to the Bank Group's operations.

A. Financing Small Enterprises

41. Experience suggests that the success of special financial programs for small enterprises is dependent on the overall environment, and that without at least a moderately favorable environment financing schemes do not succeed. Given a moderately favorable environment, there is no unique way of assisting small enterprises financially. Successful institutional approaches vary from country to country, with the level of development and local conditions. Another hypothesis to be tested in the forthcoming research project is that the principal problem for small-scale industries is not the cost of capital at market, or even at what might be presumed to be "social", prices. Rather, the discrimination of existing institutions in favor of large enterprises means the major problem of the small entrepreneur is access to capital.

42. As extending credits to small enterprises involves higher administrative costs and as they are riskier, providing capital to small firms at the same rate as to large enterprises implies an element of subsidy. What appears

to be a high risk factor due to business failure, in fact, may be due to other conditions. Also, the reasons that a subsidy is necessary may be due to the nature of the financing institution's operations, and the level of development of the whole institutional network of a country, as well as the risky footing of small enterprises themselves. High administrative and risk costs can be lowered over time. For example, by routinizing the loan process and by increasing the volume of lending to small enterprises, the costs incurred will become proportionally less. However, until such time that costs can be brought down, subsidies may be justified by the importance of small enterprises in industrial development. Whether and how the subsidies can be gradually phased out is a matter for further investigation of efficient procedures for dealing with a large, and somewhat unwieldy, at least from a banking point of view, clientele.

43. Access to working capital is as important as access to long-term funds. The availability of local currency funds should not be tied administratively to foreign exchange availability. The issue is how to give access to a sufficient supply of various types of capital so that capital availability is not an undue constraint, and at the same time, to avoid the excessive use of capital, particularly of foreign exchange funds.

44. Experience suggests that a wide range of institutional forms, depending on a country's economic and social characteristics, is suitable to assisting small enterprise financially. These include:

- i) Hire-purchase schemes: In some countries some form of hire-purchase or leasing may be the best method for lending for fixed capital, particularly for small service or manufacturing enterprises requiring simple machines. The advantage of this method is that financial security is not required for a loan. On the other hand, administrative costs are high and this raises interest rates, though usually not above "street" rates. It is difficult to provide such a service in the countryside, except in well-populated countries with ample labor resources at the bank clerk level. Land ownership laws, and in Muslim countries, traditional laws and courts, make it difficult to repossess equipment when payments are not kept up. This system also may marginally tend to encourage undue use of fixed capital, unless working capital is readily available to the small entrepreneur.
- ii) Re-discounting facilities: Central bank rediscounting of commercial bank loans to small enterprises has the advantage of using a ready-made, competitive, nation-wide banking system which reaches into the countryside. Commercial banks can be stimulated to start such loans by using small proportions of their own funds, gradually increasing this proportion as they take on the more successful clients, so that the Central Bank resources can become a "roll-over" fund. The disadvantages lie in the traditional attitudes of most banks, and particularly of their officials in the countryside. They tend to lend on conventional collateral of land or buildings and they can rarely assist small entrepreneurs with project evaluation, setting up



accounts and so on. Rural bank managers tend to favor local "bigwigs" who are tempted to use the funds for real estate and similar speculation. In most countries such a scheme therefore requires special training for bank staffs, a Central Bank inspection service, and incentives for managers and banks to carry out the scheme vigorously.

- iii) Specialized Banks: Small enterprise banks, such as the Israel Artisan's Bank, cater specifically to the small-scale sector. Such institutions are usually not limited to industry, but specialize in financing all types of small enterprise including rural processing and services. They have the advantage of being able to train specialized staff, skilled in evaluating and encouraging potential entrepreneurs and in assisting them to improve their financial, and sometimes other, management. They have the drawback generally of being concentrated in main cities, and costs of establishing branches tend to be high.
- iv) Small enterprise "window" in development banks: Some development banks make loans to businesses with less than \$ 250,000 fixed capital. If this is the preferred instrument, a special "window" for small enterprises with a special concessionary source of finance to cushion the high cost of servicing small loans and of their special riskiness is likely to be advisable. On the other hand, profits made by the intermediary on other, large-scale business could be used to subsidize such lending.

v) Specialized agencies: A specialized institution can be established to bring together all types of expertise, thus ensuring that the small entrepreneur has access to assistance in whatever field he requires. Such an institution may merely be linked with a financial institution. For example, financing can be made dependent on a "bill of health" from a small-scale industries' agency, or the agency at least can provide a project preparation service. While this type of multipurpose organization may appear to be optimal, in practice it usually suffers from being too centralized. It cannot serve non-metropolitan and rural areas and may not be able to serve other urban areas, except the one where the head office is located. Another problem, as already indicated, is that of finding good staff. Where all the functions are in one specialized agency, the quality of lending may suffer: where the financial agency is separate relations between it and the specialized agency may be poor.

45. The experience of special funding for small entrepreneurs is limited, and except in a few instances, notably in Israel, not very encouraging. Funding programs have not been able to provide sufficient technical advice in keeping books, preparing projects and so on to enable the really small, risky entrepreneurs to benefit. They have functioned only rarely as venture capital funds; typically loans on conservative creditworthiness criteria have been offered. The more established clients in the "small-scale" sector have tended to benefit. The problems of providing finance for small industries therefore will be the focus of the proposed research project.

B. Industrial Estates

46. In some countries industrial estates for small-scale industries have been viewed as a means of overcoming poor infrastructure, particularly outside large cities, of providing concessional finance under carefully supervised conditions, and of making various types of technical and managerial services available. Sufficient experience has been accumulated to enable some general conclusions to be drawn:

- i) The location of an estate has to be decided in relation to supplies, including those of labor, and to markets including those for sub-contracting. Industrial estates in themselves are not sufficient to create a "growth pole". Industrial estates in rural areas have frequently been failures because neither supplies nor markets sufficed. Pakistan, India and Northeast Brazil all have examples of such costly failures. In contrast, Singapore's and Hong Kong's "flatted factories", situated in the midst of heavily populated industrial areas, have been very successful in stimulating small enterprises to become established and to grow. These estates illustrate that proximity of small, medium and large firms is necessary if sub-contracting is to take place. A mix of small and large firms creates some problems, but it can also mean that the larger firms to some degree can subsidize the small firms by paying higher rentals on estate properties.
- ii) The facilities provided should be suitable to local conditions. For some purposes rentals are suitable. However, many small entrepreneurs, at least in the early stages, prefer to continue



dwelling in a building with their workshop facilities and need to do so in practice because their dwelling is the principal form of collateral acceptable to lenders. They do not require de luxe factories. Low-cost rental space, as in "flatted factories", or dwelling/workshops built on the outskirts of industrial estates -- seen, for example, in Malaysia -- are two types of solution to this problem.

iii) Raw material supplies for rural agro-processing estates have to be available, and marketing channels have to be developed before such estates are established. If they are not, such estates fail to become established. This has been the case in the Philippines.

iv) Estates have to provide the utilities they promise at economic cost; and, they require good management. The technical and managerial services they provide must be relevant, particularly in taking into account factor prices.

47. At present, few industrial estates fulfill these conditions. Many ignore the practical needs of small enterprises. For example, exclusive large-scale industries' estates make sub-contracting by small entrepreneurs more difficult. If the estates did not exist, the large firms at least would remain spread throughout industrial areas. This, for example, is the case in the Bahia area in Northeast Brazil. On the other hand, specialized small industries estates fail to draw small entrepreneurs, even though they may provide good technical and management services, if they are not close to other

industries. Also, the facilities they provide often are too luxurious. This is the case in a small-scale industrial estate in Ahwaz in southern Iran. In general the cost of small scale industrial estates has been high; they have attracted few new or risky entrepreneurs; and, they have tended to encourage enterprises to become more capital-intensive with the inducement of concessionary credit and high-powered technical services. Thus while industrial estates may be useful in overcoming infrastructure bottlenecks in some situations, and while they may be useful for their demonstration effect in others, it must be recognized that they have a specialized use. They cannot provide the majority of small industries in a country with the services they require. The costs of industrial estates vis-a-vis alternative ways of assisting small entrepreneurs need to be examined to determine least cost methods of encouraging small enterprises.

The Share of Small Enterprises in Manufacturing  
in Selected Developing Countries  
(In percentages)

Size Firms by Full-time Employment

	0-4	5-9	10-19	20-49	50-99	100 plus
<u>Ethiopia, 1971</u>						
Number of Firms	→ 99	← *			1	←
Employment	→ 83	← *			17	←
Value Added	→ 46	← *			54	←
<u>Iran, 1967-68 (urban)</u>						
Number of Firms	→ 97	← *	2	← *	0.3	←
Employment	→ 67	← *	10	← *	23	←
Value Added	→ 36	← *	23	← *	41	←
<u>Colombia, 1964</u>						
Number of Firms(n.a)						
Employment	53	7	5	6	5	24
Value Added	17	5	5	7	9	57
<u>Malaysia, 1968</u>						
Number of Firms	68	10	8	8	3	3
Employment	8	6	9	18	15	45
Value Added	5	3	5	13	14	61
<u>Zambia, 1969</u>						
Number of Firms		→ 71	←		→ 29	
Employment		→ 20	←		→ 80	
Value Added		→ 15	←		→ 85	

Sources: Ethiopia, C.S.O., Statistical Abstract 1970 and Census of Cottage Industries 1971.

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Designing Rural Development Programs:  
Lessons from Past Experience in Africa

For Presentation at the Second International Seminar  
on Change in Agriculture, Organized by the University  
of Reading and the Overseas Development Institute,  
Reading, England, Sept. 9-19, 1974

by

Uma Lele

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Designing Rural Development Programs:  
Lessons from Past Experience in Africa<sup>\*</sup>

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1. The African Rural Development Study

The observations presented in this paper are based on the African Rural Development Study (ARDS) carried out in the IBRD during 1972-74. The study was prompted by the very substantial interest of the East and West Africa Regions of the IBRD in finding ways of designing rural development projects which will effectively "reach" large numbers of the low income rural people with the limited financial resources, and in particular, the scarce trained manpower available for rural development in Africa. The study had two components. The first consisted of a review of past projects in sub-Saharan Africa. The second involved rural sector surveys in Kenya and Tanzania.

For the comparative evaluations on which the major findings presented here are based, thirteen sets of rural development projects and programs, involving participation of a number of multilateral, bilateral and national agencies, were carefully selected from various parts of sub-Saharan Africa to represent diversity in design and implementation as well as in the environ-

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<sup>\*</sup> This paper was prepared for presentation at the Second International Seminar on Change in Agriculture, organized by the University of Reading and the Overseas Development Institute, Reading, England, September 9-19, 1974.

<sup>1</sup> The views expressed in this paper are those of the author and do not necessarily represent the views of the IBRD.



ment in which they are situated.<sup>1</sup> The reviews were carried out with a view to raising a consistent set of questions about these programs and projects, particularly in regard to their design and implementation so as to derive lessons for designing future rural development projects in Africa.<sup>2</sup>

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<sup>1</sup> See Table 1 for the list of the programs reviewed. Uma Lele, African Rural Development Study; a book forthcoming from the IBRD, includes the classification, detailed description and analyses of the programs.

<sup>2</sup> The terms projects and programs are used interchangeably. However, since the analysis has been carried out with the objective of providing guidelines for designing 'projects', the distinction between the two is worth noting at this stage. A project is generally understood to mean a well-defined range of activities which lend themselves to rather precise specification of objectives, to planning, financing and implementing within an organized unit and which have a clear beginning, a set of 'targets' by which to judge their performance and an orderly specified "end". A number of activities financed by donor agencies in the rural sector have usually been designed, appraised, implemented and evaluated in this context of a 'project' concept. On the other hand, the Ujamaa program and the cotton development in Sukumaland in Tanzania or the spontaneous squatter settlements in Kenya are not projects in this sense. They have been prompted by broader socio-political or administrative considerations which do not lend themselves to precise specification of objectives or to a precise set of targets by which to judge their performance. Therefore, although many of the issues are presented in terms of their implications for the 'project' design and implementation, the analysis deals with broader questions related to the development of the low income subsistence sector. As will be apparent from this paper, these broader questions have substantial implications for what constitutes a 'project'.

It should also be noted that, for the sake of brevity, despite their limitations, the terms 'low income' and 'subsistence' are used interchangeably to describe the target populations.

Table 1: Rural Development Programs Reviewed under the ARDS

<u>Country</u>	<u>Project</u>	<u>Project Financed</u> <u>by</u>	<u>Project Reviewed</u> <u>by</u>
1. Cameroon	French Technical Assistance (ZAPI & SODENKAM)	Govt. of Cameroon French Technical Assistance	G. Belloncle D. Gentil
2. Ethiopia	Rural Development Package Programs (CADU, WADU, and the MPP)	CADU: Eth. Govt. & SIDA WADU: Eth. Govt., British Govt., World Food Program & IDA MPP: Eth. Govt., SIDA, FAO & IDA	T. Tecle
3. Kenya	Range Development (KLDP)	Govt. of Kenya, SIDA & IDA	H. Jahnke
4. Kenya	Small Farmer Credit (AFC)	Govt. of Kenya, British Govt. (ODA), Govt. of Fed. Rep. of Germany, SIDA, USAID, & IDA	J.D. von Pischke
5. Kenya	Smallholder Tea Development (KTDA)	Govt. of Kenya, CDC, Govt. of Fed. Rep. of Germany, Commercial Tea Companies, & IDA	D. Sullivan
6. Kenya	Special Rural Development Program	Govt. of Kenya Dutch Govt., British Govt., NORAID, USAID, & FAO/SIDA	N. Bedi
7. Kenya	Spontaneous Land Settlement	Govt. of Kenya	P. Mbithi C. Barnes
8. Malawi	Lilongwe Land Development Program	Govt. of Malawi, British Govt., & IDA	B. H. Kinsey
9. Mali	French Technical Assistance (CFDT & BDPA)	Govt. of Mali & French Technical Assistance	W. Anderson



Rural Development Programs Reviewed ... (continued)

<u>Country</u>	<u>Project</u>	<u>Project Financed by</u>	<u>Project Reviewed by</u>
10. Nigeria	Small Scale Rural Industries	Govt. of Nigeria & USAID	H. Turner M. Shah
11. Tanzania	Smallholder Tobacco Development	Govt. of Tanzania, BAT, TAC & IDA	A. Agarwal D. Linsenmeyer
12. Tanzania	Sukamaland Cotton Development	Govt. of Tanzania & IDA	M. Collinson
13. Tanzania	Ujamaa	Govt. of Tanzania	R. Robinson P. Abraham

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2. The New Concept of Rural Development

In this paper rural development is defined as improving living standards of the mass of the low income population residing in rural areas and making the process of their development self-sustaining. This apparently simple definition has three important features which have very considerable implications for how rural development programs are designed and implemented.

(i) Improving living standards of the subsistence population involves setting priorities in the mobilization and allocation of resources, in order to reach a desirable balance over time between welfare and productive services available to the subsistence rural sector.

(ii) Mass participation requires assuring that resources are allocated to low income regions and classes, and through the choice of institutions, that the productive and social services actually reach the mass of the subsistence population.

(iii) Making the process self-sustaining requires development of appropriate skills and implementing capacity and the presence of



institutions at the local, regional and national level to ensure effective use of existing resources and to foster mobilization of additional financial and human resources for continued development of the subsistence sector. Self-sustenance thus means 'involving', as distinct from simply 'reaching', the subsistence populations through development programs.

The achievement of these aims requires consideration of interactions among three sets of factors and of these factors with the choice and performance of individual programs. These factors may be classified under:

- A. National policies, e.g. land tenure systems, pricing and marketing systems, wage structures, technology policies, etc.
- B. Administrative systems, the degree of centralization-decentralization in the governmental structure.
- C. Overall institutional development, including distribution of developmental responsibility among the regular governmental structures, the semi-autonomous structures, private commercial and traditional institutions and elective bodies.

The interactions among these various factors are complex and immensely diverse. The tools available for the analysis of achievement of these aims are, however, poor. They do not provide a single 'package' that is universally applicable, nor do they offer a systematic framework that can realistically be applied for planning rural development programs on a mass scale, given the paucity of information and, in particular, the lack of trained manpower and institutional capability that <sup>is</sup> are frequently encountered for planning rural development in Africa. There is only a catalogue of insights based on the analyses of the constraints and potentials encountered in designing and implementing the programs reviewed, of the mechanisms that have evolved

to deal with them and of the effectiveness of these mechanisms in improving the performance of the projects.

In summarizing the performance of the rural development programs reviewed under the ARDS and in drawing lessons for design and implementation of future programs, the discussion in this paper is focussed on five sets of interrelated questions, arising from these various interactions.

1. Were the programs reviewed directed towards low income populations?
2. To what extent have the programs been actually effective, or shown a potential to be effective, in improving living standards of the mass of the low income rural population?
3. What constraints have they faced in realizing this objective?
4. How have these constraints been ameliorated?
5. What are the implications of the performance of the past programs for choice of target groups, types of targets, ~~and for~~ policies and institutions, if the objectives of rural development are to be realized?

With the exception of the spontaneous rural squatter settlements in Kenya, the programs selected for analysis were at least partially directed to improvement of the living standards of ~~the~~ low income rural populations. For example, although the Agricultural Finance Corporation (AFC) and the livestock schemes in Kenya (KLDP) have aimed at development of both the existing commercial and the traditional subsistence sector, a certain portion of their resources have been allocated specifically to the development of the low income subsistence sector. Even the earlier export crop schemes, such as those sponsored by the Kenya Tea Development Authority (KTDA) in Kenya and the British American Tobacco Company (BAT) in Tanzania, were involved in the development of low income small holders. Although these programs represent a considerable step



towards realizing the objectives of rural development, on the whole they have been less than fully effective in making the process of development of the low income sector self-sustaining.

Their limited effectiveness cannot be attributed to inadequate or inappropriate specification of target groups, but rather to a combination of factors. First, the objectives of rural development have changed considerably over time. Many of the projects reviewed were designed with what now appear to be "limited" objectives, as for example, increasing only export crop production among smallholders. The projects were based on even more limited knowledge than is now available of the various interactions and in particular of the ways of bringing about changes to improve performance. For example, there are broad sector and policy questions and questions about their possible impact on the performance of the individual programs. Frequently, despite the fact that the likely impact of domestic policies and institutions was anticipated, national policies could not be changed to improve project performance. The programs were often also based on inadequate knowledge of technological possibilities and their suitability to small farm conditions. Experience with regard to the appropriate forms of administrative institutions and their transferability was limited when many of these programs were planned. They also suffered from poor knowledge of the socio-cultural and institutional environment in which they were to be implemented. Consequently, the programs were usually not designed either with a view to anticipate the effect of such factors on the popular response to interventions or with an intention to introduce modifications in plans in the course of implementation to achieve maximum effectiveness. Finally, and most importantly, the programs often experienced extreme scarcity of trained local manpower.

These various factors largely explain the limitations of the past programs and have important implications for future sectoral policies and for



the planning and implementation of future rural development programs. The solutions are, however, by no means always clear; but even where necessary changes in policies and institutions are apparent, frequently they have significant political and administrative implications and therefore may be by no means easy to implement. The past experience suggests that first, if the objective of participation of the lowest income groups is to be ensured, examination of the particular country's existing sectoral policies and plans, as well as the indigenous institutions available for rural development, has to be oriented explicitly to assessing the extent to which these effectively "reach" the lowest income groups in the rural areas. Such examination will allow explicit recognition of the existing government policies which are inconsistent with the goals of rural development. For example, if the land tenure situation precludes participation of the lowest income groups in rural development programs, land reform may be essential for realizing the full potential of a particular project. If the marketing boards have a vested interest in certain pricing policies which affect the distribution of benefits to the lowest income groups, perhaps a change in price policies is necessary for improving the benefits of a specific rural development program. Because such questions were not resolved prior to implementation, many of the programs reviewed under the study have had only a limited impact on low income groups. It must also be recognized, however, that in cases where the necessary changes in national policies are not easy to bring about, the choice may have to be between opting for only a limited impact and choosing not to undertake programs.

Second, the past programs indicate that substantially greater project preparation is necessary than was possible in most of the programs reviewed,

if effectiveness is to be maximized. To this end a number of pertinent questions must be resolved. For example, are technologies actually profitable at the farm level? Do existing marketing systems serve low income farmers effectively? Given the social ties that often exist between peasants and traders and given the extreme scarcity of trained manpower available to implement market interventions, will a new marketing system - which may seem desirable in principle - actually benefit the lowest income groups? Or will it only aggravate the tensions between the cultivators and the merchants, with adverse effects on the cultivators as has been the case in the Zones d'Action Prioritaires Integrees (ZAPI) in Cameroon? In sum, what really are the critical constraints to development in a specific situation? How feasible is it to remove these constraints given the existing manpower and institutional development? What steps are necessary to develop the necessary capability? And what is the time horizon implicit in the results to be expected from the program? To answer such questions project preparation will of course require considerably greater time and expenditure. Given the extreme scarcity of trained manpower to plan and implement rural development programs, one or a combination of the following alternatives usually has to be accepted:

(1) To use the existing scarce trained manpower to acquire all the necessary information to perfect the design of only a few rural development programs in the hope of maximizing their effectiveness. This may also mean a substantial time lag between planning and implementation. (2) Alternatively, to adopt an approach of learning by doing, i.e. undertaking programs with an explicit recognition that, if they are based on limited knowledge, performance may fall far short of expectations. Monitoring program performance and remaining flexible in program implementation will have to receive substantially greater



attention than generally given in the programs reviewed, so that programs may be modified during implementation to improve their effectiveness. Although the importance of such flexibility is recognized in principle, the ARDS analysis indicates that in practice numerous obstacles emerge which frustrate the capability of the programs to adapt to changing circumstances. (3) The third alternative, and the one recommended here, is to attempt to reconcile the desirable features of the first two approaches, namely planning based on the systematic acquisition of knowledge and flexibility in the course of implementation. However, this third approach differs from the first two in two important regards. First it can allow a broader geographical coverage than is implicit in the first two approaches. Second it places substantially greater emphasis on development of indigenous institutional capacity. It involves beginning programs with only the few simplest interventions to remove the most critical constraints, and allowing the programs to evolve in scope through time phasing of activities based on the specific knowledge which is required, the constraints which are identified, and the indigenous human, institutional and financial capability which is developed during the course of the earlier stages of program implementation. These various implications for design of future programs are best illustrated by summarizing the effect of the various factors listed earlier on the performance of the past programs.

### 3. The Effect of National Policy and Planning Decisions on Past Programs.

#### A. Land Policies:

The Ethiopian and the Kenyan experiences indicate that where acute inequity in the distribution of land rights exists, the full potential of the programs in improving benefits to the lowest income groups is not realized by simply



targeting programs towards low income groups and devising temporary tenurial arrangements, as has been done in the Ethiopian programs reviewed. In such circumstances more permanent change in the distribution of land rights should probably be an integral part of the rural development strategy.

In Ethiopia, exclusion of large farmers from the program's services both in the Chilalo Agricultural Development Unit (CADU) and in the Minimum Package Program (MPP) has had several positive effects on the lowest income groups.<sup>1</sup> This policy has arrested the widespread eviction of tenants that commenced with the introduction of new technologies in the CADU area. It has also facilitated the distribution of credit to small farmers and thus tilted the programs' benefits in favor of the low income rural populations. However, these steps have not ensured full participation in program activities by the lowest income groups, in particular the tenant farmers.<sup>2</sup> Recent figures indicate that in 1973 only 5 percent of the credit recipients in the MPP areas were tenants. Yet a land tenure survey conducted by the Ethiopian Government in 1969 found that tenants constituted between one and two thirds of the population in the various target areas.<sup>3</sup> The low participation of

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<sup>1</sup> In 1970, partially as a result of eviction of over 500 farmers in the program area, CADU excluded landowners cultivating over 25 hectares and tenants with more than 40 hectares from its credit program. In 1972 the limits were further lowered to 20 and 30 hectares respectively. A similar ceiling has been established in the Minimum Package Program.

<sup>2</sup> According to the background paper that Tecle prepared for the ARDS, in 1969/70, the last season before CADU established a ceiling on credit, landowners with less than ten hectares received only 29 percent of the program's credit, while tenants obtained less than 28 percent. During the next season, i.e. subsequent to imposition of the ceiling, the proportions increased to 53 percent and 40 percent.

<sup>3</sup> The proportion of tenant participation was 40 percent in CADU. However, this is because CADU's Swedish management introduced a policy of denying credit to landowners who would not sign the lease for the tenant. (See footnote 2, p. 12) The MPP has not had such 'muscle' to bring to bear. Still, the tenancy problem has created much tension in CADU, showing rather effectively the limits of rural development when overall policies cannot be changed.

the tenants results from insecurity of tenure and high and uncontrolled rents.<sup>1</sup> According to the ARDS background paper, for the tenants an innovation has to increase net yields by at least 30 percent to be profitable. Most tenants also encounter considerable difficulty in obtaining the yearly lease that is necessary to qualify for the program's credit.<sup>2</sup>

Are the incentive problems being dealt with more effectively through collectivization of cultivation? The Tanzanian experience indicates that if collectivization is to have a notable impact on the productivity and incomes of subsistence farmers and is to receive broad popular support, the critical organizational questions of who will do what, when, how and at what wage rate, faced in managing collective farms, need substantially greater attention than they have received so far. Also, if continued uncertainty of land rights is not to have a disincentive effect on production, decisions as to whether to introduce collectivization across the board and whether collectivization is possible only through persuasion cannot be postponed indefinitely.

In the absence of the resolution of these policy questions, the agricultural services provided to the collective farms and the managerial standards on the farms are generally poor. The incentive for the cultivator to allocate his scarce labor to collective cultivation seems to be low, and consequently the yields on collective plots are noted to have been generally lower than those on private plots. In addition there is some evidence that uncertainty regarding collectivization is affecting yields on private plots. The

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<sup>1</sup> Rents in the program areas in Ethiopia range from 1/3 to 1/2 of the tenant's produce. Landlords may, however, refuse to share the costs of innovations, and may evict the tenant without notice or compensation.

<sup>2</sup> In the absence of a land reform the programs have introduced temporary lease clauses to prevent eviction of tenants by landowners, at least during the period when tenants have received credit from the program.



resistance to collectivization has been substantial in Tanzania, particularly in the predominantly export crop growing regions, such as Tabora and Sukumaland, where the potential losses to commercial smallholders from joining Ujamaa villages<sup>1</sup> are considerably greater than in the case of subsistence farmers. In summary, despite the substantial donor assistance available for development of the low income agricultural population in Tanzania, effectiveness of the agricultural programs seems to be greatly limited by haphazard policies towards collectivization and by the neglect of critical organizational questions.

#### B. Technology

Where considerable effort has been made to adapt technology to suit small farm conditions, as in the KTDA in Kenya or CADU in Ethiopia, the response of small farmers to innovations has been truly dramatic. Even without such effort, where transplanted technologies have been responsive to local agronomic and climatic conditions, adoption of innovations has been rapid and has often surpassed projections, as in Ethiopia's Wolamo Agricultural Development Unit (WADU). However, in many other programs, such as the Ujamaa villages in Tanzania, ZAPI and the Societe pour le Developpement du Nkam (SODENKAM) in Cameroon, the Special Rural Development Program (SRDP) and the small farmer credit programs in Kenya, and to some extent the Lilongwe Land Development Program (LLDP) in Malawi, inadequate adaptive research appears to have been a major constraint to increasing productivity and incomes of low income farmers.

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<sup>1</sup> Ujamaa, literally "familyhood", is the basic ideology which underpins Tanzania's rural development policy. Implicit in this ideology is the preservation and extension of the communal and egalitarian practices traditional in Tanzania's extended families. To acquire a more complete understanding of Ujamaa it is necessary to examine political statements emanating from Tanzania, e.g. Julius K. Nyerere, Freedom and Unity (Dar es Salaam: Oxford University Press, 1966) and Socialism and Rural Development (Dar es Salaam: Government Printer, 1967)



The research gap has been particularly severe in the case of food crops. This is one of the reasons why in many earlier export crop schemes there existed considerable reluctance to introduce services for food crops. In these schemes promotion of the relatively more profitable export crops has led to a more rapid substitution of acreage from food to export crops. Such substitution has considerably increased cash incomes of the farmers who have taken to export crops. However, it has also reduced the overall off-seasonal food supplies available for domestic consumption in the predominantly export crop areas, as for instance in Sukumaland in Tanzania or in the groundnut operation in Mali. These shortages have not been corrected by marketing systems, which are of a fragmented nature. Excessive specialization in export crop production in early stages of development thus appears to have adversely affected rural welfare, particularly of the low income farmers, who are deficit in food but too poor to purchase food at high off-seasonal prices.

The neglect of technology for food crops has not only affected rural welfare, it has also arrested rural growth. For the need to grow the minimum supply of low productivity food crops for domestic consumption has restricted the supply of scarce labor for production of high value export crops.

The experience of the export crop schemes indicates that even if export crop development is highly justified, in most cases a mixed cash and food crop development may be essential if the objective is to increase cash incomes of participants as well as to improve general welfare in the program areas. Although this approach has been adopted in many recent programs, all too frequently its effectiveness seems to have been limited by the inadequate adaptive agricultural research. To be effective such research has to be

oriented to developing technological packages that are profitable not only on research stations and demonstration plots, but also on the small farmers' fields. The importance of such adaptive research and the present technological gap cannot be overstated.

If effective national research systems are to be developed along with national commitment to their continuation, substantial resources may have to be allocated specifically for this purpose.

### C. Pricing and Marketing Policies

Pricing and marketing policies, particularly towards food crops, have had a substantial adverse effect on the performance of rural development programs. They have often led to considerable income disparities among food and non-food crop producers even within program areas. In the LLDP gross return from an acre of tobacco is three times that from maize, despite the fact that new technologies exist for maize. Where no new technologies exist for food crops the incomes of food crop producers are even lower.

Low food crop prices have discouraged expansion of food crop production for the market. Often even when grain has had to be imported to meet national food deficits, as in Mali or Ethiopia, program managers have encountered considerable difficulty in convincing indigenous policy makers to establish prices high enough to ~~provide~~ an incentive for increasing domestic food production. When the programs have attempted to generate substantial marketed surpluses in the absence of coherent national price policies, their individual pricing and marketing efforts have become successive reactions to a series of unanticipated crises, arising from inconsistencies between program and national objectives. Such ad hoc price policies have not only arrested the rate of adoption of new technologies in the program areas, as for instance



in the case of wheat in Chilalo in 1972,<sup>1</sup> but have also required substantial subsidization of marketing operations in programs, as has occurred in WADU, CADU, the LLDP and ZAPI. But even more important, these price policies have resulted in the diversion of scarce administrative talent away from the problems of long-term development to the solution of the short-term crises that are caused by the problem of disposal of marketable surpluses.

The pricing and marketing problems seem to have been frequently aggravated by the excessive dependence of the programs on unwilling marketing boards and inadequate farmers organizations to handle the increased marketable surpluses. In many program areas, as for instance ZAPI, the LLDP, CADU and WADU, much of the marketed surplus is already handled by private trading channels. However, often due to the view of the private trading channels as being exploitative and anti-social, their development has received relatively little attention. The surpluses generated have therefore tended to outstrip the capacity of the 'organized' marketing channels.

Despite the considerable efforts devoted to correcting marketing problems much of the marketed surplus procured in integrated program areas has found its way to the capital city or has been exported. Due to the poor market development in the rural areas there has not been much increase in food availability in the non-program rural areas, except that which has frequently trickled through the traditional marketing channels.

But then why cannot the surpluses sold in the cities or exported abroad provide resources for development of other regions? To answer this question

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<sup>1</sup> Numbers of farmers borrowing credit in Chilalo declined from 14000 in 1971 to 12,500 in 1972. This decline in the demand for credit was largely attributed to the declining wheat prices and the marketing problems encountered in CADU in the previous year.



it is not enough merely to estimate the magnitude of the surplus; it is also necessary to examine who is likely to have control of the resources generated by these surpluses. In Malawi, the Agricultural Marketing and Development Corporation (ADMARC) has earned substantial profits from the high market margins in the export of the increased maize surpluses in the LLDP.<sup>1</sup> So far these profits have helped reduce the past deficits of ADMARC, which are said to have arisen from handling marketing operations of traditional export crop producers on low margins. These profits also seem to have led to substantial investments in large scale commercial enterprises. The maize surpluses in Lilongwe thus appear to have resulted in a substantial redistribution of income from small scale maize producers to traditionally commercial farmers. However, this phenomenon by no means is confined to Malawi. In Tanzania it is not rare to find that the resources generated by smallholders are lost to a few members or officials of the inefficient cooperative societies.

The experience of the past programs indicates that if the objective of rural development programs is not only to generate substantial marketed surpluses but also to ensure minimum availability of food and incomes to low income populations in rural areas, three steps are necessary in rural development programs: (1) broad geographical coverage of services in bringing about production increases, (2) a commensurate, simultaneous improvement of the marketing systems, including traditional trade channels where these already play an important role, and (3) development of the rural infrastructure, in particular of roads and storage facilities.

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<sup>1</sup> ADMARC earned as high as K. 6.6 per bag for the maize it exported in 1972, whereas the maize producers received only K. 2.5; this is a major source of contention between the program management and ADMARC.

D. Manpower Policies and Participation

Trained manpower poses a particularly severe constraint to expansion of the rural services in the African countries. Substantial investment in manpower training of field level and administrative staff is therefore necessary if rural development programs are to reach a mass of the low income rural population.

In the programs reviewed several interrelated factors have affected supply of trained manpower and thus limited the expansion of services to the target populations. The countries entered the post-independence period with a low base of trained manpower. Because of the considerable demand generated by a combination of increased development expenditure and indigenization of the existing positions, there has been a severe shortage of trained manpower in the early years of development. Investment in training of manpower also does not seem to have been commensurate with the substantial investment in rural development programs. Therefore, frequently employment of the trained indigenous manpower by the programs has meant depriving other regions and departments of their existing manpower, with adverse effects on their development. However, in other cases where the programs have been bound by the domestic public service commission rules regarding salaries, promotions, and benefits, both the programs and the normal administrative structures have lost manpower to private enterprises and parastatals. Although establishment of project authorities has temporarily bypassed several inefficiencies of the existing administrative structure, it has not resolved the difficult basic problem of wage disparities and administrative incentive systems that continue to deter manpower from serving the rural sector. This problem is, however, by no means easy to resolve. Frequently it is argued that higher salaries are necessary to attract



trained manpower to the rural sector. However, attempting to maintain parity with rising urban salaries, rather than controlling the latter, further increases the disparities between the educated and the uneducated. The constraints posed by these structural problems, however, usually receive little attention in policy making. Often ad hoc measures are adopted in programs, making the manpower problem more complex over time.

The administrative and technical quality of the available staff has also been poor, restricting the scope for expansion of services. The only Malawian who took over an administrative position from an expatriate in the LLDP in 1973 was ill-equipped to handle even the existing credit operations of the program. Quality of the indigenous manpower can, of course, be increased relatively quickly provided there are effective programs for their training.

Performance of the programs on this score has varied considerably. CADU, the KTDA, BAT, and ZAPI have played a very effective role in training of administrative staff. However most other programs reviewed have been deficient in this respect. While the LLDP, CADU, and the KTDA have carried out extensive programs for the field level staff, training offered by the remaining programs has been modest in scope and generally poor in quality. In Ethiopia even the substantial training of field staff being carried out by programs such as CADU and by the additional nationally run training centers has not been adequate relative to the need. The supply of trained extension staff remains one of the major constraints to expansion of even the very modest level of services that the MPP aims to provide. Low levels of technical competence among the field staff and poor incentive systems remain an equally severe constraint to improved performance in Kenya and



Tanzania, although in comparison with Ethiopia the latter two countries have been better endowed in terms of numbers of extension workers.<sup>1</sup>

This raises a question as to whether programs directed at low income target populations can indeed carry out training on the scale and of the quality which are essential for providing a guaranteed minimum level of services to all the low income rural populations in the foreseeable future. Substantial investment seems to be necessary in training programs to release this major constraint. To improve the content of training and to make it practically oriented, training programs can, of course, be linked to specific rural development programs.

Obviously the need for formally trained manpower is largely determined by how delivery of agricultural service is organized. Many programs follow conventional forms of credit administration, based on complex criteria of creditworthiness of the applicant which involve processing of a number of complicated forms. These administrative procedures are highly demanding of scarce trained manpower, a constraint which limits the number of small farmers that can be reached through credit. Similarly, the use of personal visits in the introduction of innovations, an approach employed in many programs, restricts the number of farmers that can be reached through extension services. All too often, the administrative systems used in the delivery of services and the manpower they require seem to be a far greater constraint to the expansion of coverage than are finances.

The manpower constraint also creates a conflict between realizing growth and achieving distribution, since reaching fewer, more responsive farmers within the target populations is the easier way to realize growth

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<sup>1</sup> It has been frequently observed that development of an effective network of field staff may be easier in Ethiopia, where the slate is clean, than in Kenya and Tanzania where administrative reform poses a major constraint, but is far more difficult to bring about.

in the short run. This tendency to concentrate on "progressive" or "innovative" farmers was frequently noted in the programs reviewed.

To alleviate this problem some of the programs, including the KTDA, ZAPI, CADU and WADU, have introduced a modest element of responsibility to the program participants in the provision of extension services, in the delivery of credit, and in the marketing of inputs and output. The experiences of these programs indicate that, if properly developed, there may be substantial potential for local participation in the delivery of services. However this potential has so far not been exploited sufficiently, primarily because the knowledge as to how to organize such services is limited. Whether the planners of the programs are expatriates or indigenous administrators, their understanding of the traditional rural people and of the local leadership patterns often seems poor. There also seems to have been little tendency to innovate in organizing services and little willingness to delegate responsibility to the rural people. Reviewers of the programs emphasize that the paternalism of program administrators is one of the severe constraints to development of strong viable local organizations. This attitude often tends to lead to excessive protection and subsidization of local organizations at the outset, resulting in the inefficiencies and lack of willingness on the part of the rural people to share responsibility along with the benefits.

#### E. Credit Policies

In the programs reviewed target populations have been eligible for short term institutional credit at an annual interest rate of 7 to 12 percent, provided they meet the criteria of creditworthiness. Although these criteria vary substantially between programs, they are generally cumbersome. In some cases the requirement of a downpayment - which the poorest farmers often cannot afford - excludes many farmers from credit services. Despite



this fact, the credit policies in the particular programs reviewed have generally not been discriminatory towards the low income groups. Nor has the amount of credit distributed in these particular programs been restricted by the supply of credit. Rather in most cases the availability of manpower to administer credit and the profitability of the innovations affecting the demand for credit seem to have been the critical limiting factors in reaching small farmers. Often during implementation, in the quest for measuring success of the programs by the number of farmers reached through credit, these constraints appear to have been overlooked and emphasis placed only on credit expansion. When innovations are profitable, however, the repayment rate of even the lowest income farmers can be as high as, if not higher than, that of the large farmers, as illustrated by the rural development programs in Ethiopia.

Since priorities must be established in the use of scarce administrative manpower, in the initial stages in many of the programs reviewed the development and extension of technology and the improvement of the marketing systems seem to have been far more critical before credit could become the central focus of the programs. When profitable innovations and markets for output exist, even small farmers are frequently noted to purchase inputs for cash or to organize themselves spontaneously to take advantage of group sales, as illustrated by the Modified Input Areas in Lilongwe. Where feasible, it therefore seems desirable to encourage such spontaneous group or cash sales of inputs. This approach has the advantage of minimizing complex credit administrations, of mobilizing rural savings and of developing viable farmer organizations. Alternative approaches to credit distribution, such as an input subsidy, also need to be explored more systematically. The programs reviewed have, however, rarely departed from the credit focus.



#### F. Interregional Allocation of Resources and Participation

There are several special features of the African countries which seem to require particular attention if mass participation of the lowest income groups is to be realized in the foreseeable future. A majority of the rural population in Africa earns low incomes. Although relative income disparities are substantial, with a few obvious exceptions, incomes of even the prosperous rural classes are generally low.<sup>1</sup> The low income population is not concentrated in a few regions, as is the case in some Latin American countries but encompasses the entire rural sector. The widespread incidence of low productivity and incomes means that in Africa potential target groups are large relative to the finances and in particular, to the trained manpower and institutional capability available for planning and implementing rural development programs. Therefore, if masses are to be 'reached' and if their development is to be viable in the long run, the primary emphasis in rural development programs has to be on establishing a few clear priorities such as increasing productivity, generating additional resources and equally important, augmenting indigenous institutional capability to undertake the more complex tasks of development over time. Consequently, the intensive development

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<sup>1</sup> Although a tea farmer in Kenya earns an annual cash income of \$40.00 compared to \$7.00 earned by a subsistence farmer, he can hardly be placed in the class of the Latin American latifundia. The relatively equal distribution of income in Africa is underlined by a comparison of the proportion of national income going to the lowest income groups in Africa and Latin America. For example, in Kenya and Tanzania the poorest twenty percent of the population earn 7.0 and 9.5 percent of the income respectively, while in Brazil and Columbia the poorest twenty percent earn 3.5 and 2.2 percent of the income. (See Irma Adelman and Cynthia Taft Morris, "Who benefits from Economic Development?", International Meeting of Directors of Research and Training, Belgrade: August 28-30, 1973 Appendix). The problem in Africa is, therefore, frequently one of fostering participation of the poor, rather than attempting an exclusion of the 'rich'.

of certain high value export crops or of high potential regions is often justified, not only because of its direct impact on the selected target populations, but also because of its potential to generate substantial additional resources for development elsewhere.

However, as has been pointed out earlier, emphasis on intensity of services in an early stage of development may also divert scarce manpower and financial resources away from other regions or activities. Further, even if it generates additional resources, the form in which the resources are generated or the institutions that control the resources may not in practice ensure the mobilization and allocation of these resources to other low income regions. This is only one of the many dilemmas faced in rural development. It would seem however, that in many cases the objective of mass participation of low income groups may be better served by a more equitable allocation of resources at the outset, to ensure a minimum level of institutional development for the removal of constraints, before a few regions benefit from substantially greater allocation. There are, of course, exceptions when unusually profitable opportunities may justify intensive development.

In several programs the argument against initial intensity can be made particularly strongly in the case of investments in social services. Social services are strongly in demand in most program areas, and can be frequently justified on the basis of 'need'. Consequently, both in 'top down' integrated programs such as the LLDP and SODENKAM and in 'bottom up' programs such as Ujamaa, many social services are provided often without instituting mechanisms for generating additional fiscal resources in the program areas, without examining economic ways of providing the services, without training



additional manpower, and without developing the necessary institutions to ensure their long term viability. These oversights may occur despite the fact that the intensive provision of productive services has led to considerable increases in incomes in some of the program areas, such as the LLDP or SODENKAM.

Particularly because many social services such as health facilities involve substantial recurrent budgetary resources, ensuring their continuity without additional resource mobilization means either continued reliance on foreign assistance or the diversion of resources from productive investments elsewhere. This diversion of resources may frequently affect long term growth as well as distribution, as is feared may be the case in Tanzania. The knowledge of the effect of social services on increasing productive capacity as distinct from improving welfare must, of course, be highly region - specific. Such knowledge is generally very poor. Where social services cannot be justified on the basis of extreme need on either productive or welfare grounds the question of their initial efficacy focuses on the interrelated considerations of long term feasibility and regional equity; e.g. why should people in Lilongwe benefit from substantial productive services, intensive land use planning, roads, soil conservation measures, water supply and health clinics, while several other regions in Malawi do not receive even the minimum level of agricultural services?

Through their visibility and their demonstration effect, integrated programs have undoubtedly helped to focus attention on problems of rural development, as is evident from the role of CADU in energizing the Ethiopian Ministry of Agriculture and in getting a massive rural development effort under way. However, where the peasantry is politically conscious, as in Kenya, a few regional programs can also generate substantial political



tensions. This partly explains the rather lukewarm enthusiasm of the Kenyan government towards 'regional' programs, so labeled, since the SRDP got under way.

#### 4. Institutional Development in the Past Programs

Constraints are also imposed by inadequate development of administrative, commercial and elective institutions which have had a profound effect on the scope for development of the subsistence sector. Institutional development takes time even if the commitment to its realization exists and the necessary decisions for their development are made. Frequently, however, the time required for institutional development and the changes in the distribution of political and administrative power that such development implies deter policy makers from taking the necessary steps, despite the attention that institutional reform may receive in policy pronouncements.

Besides, for political, administrative, psychological, and other conventional economic reasons success is easier to "measure" when it is in the form of an immediate increase in the amount of fertilizer distributed, number of health clinics established or the number of Ujamaa villages settled. For the same reasons it is much more difficult to gauge success when programs aim at bringing about participation more slowly and indirectly, as for instance by simultaneously increasing the administrative capacity of ADMARC to ensure that the fertilizer will be distributed in the program areas after the program phases out, or by developing viable local organizations in ZAPI that can plan and implement health clinics, or by improving the technical and administrative competence of the local leaders to organize and implement Ujamaa villages.

This is why it is important to examine the performance of the SRDP in Kenya and the decentralization of administration in Tanzania. For unlike the integrated programs, these two efforts have been undertaken with the objective of improving institutional capability and self reliance.

#### A. Decentralization of Administration

For several reasons the SRDP has had a rather limited success. It seems to have lacked the commitment of high level Kenyans necessary to bring prestige to the concept and to push the program through the many difficult domestic administrative obstacles, including obtaining funding from the influential but conservative Treasury. Such tasks could probably not be carried out by expatriate technical advisors, even with the greatest of will and commitment to the SRDP concept.

For short term political reasons far too many quick results seem to also have been expected of the SRDP, even though local administrators responsible for planning were inexperienced and lacked technical ability. In practice, the SRDP has therefore suffered from conflicting expectations: on the one hand it has been expected to serve a pilot function and thus be innovative in bringing about administrative innovations, while on the other hand it has been expected to show immediate visible results. There has also been considerable reluctance among the administrators in Nairobi to delegate authority to the provinces and districts and unwillingness in the individual ministries to coordinate their activities.

The SRDP has, nevertheless, made a modest beginning in improving district planning and implementing capacity and in institutionalizing an administrative system to improve interdepartmental coordination. The disappointment with



the program is not a result of the limitations of the SRDP as much as the fact that, in planning the overall district decentralization exercise in Kenya, many of the same mistakes seem to be repeated. Little appears to have been learned from experience.

#### B. Development Administration and the Role of Elective Bodies

The Tanzanian effort has benefitted from an immense national commitment to the idea of decentralized and participatory administration. This is already reflected in the greater delegation of authority to the regional administrations and the more explicit role given to the political party in rural development planning. The Tanzanian experience is too new to be able to assess its performance. Nevertheless its potential for accomplishments and its possible limitations are beginning to be apparent.

The Tanzanian emphasis on regional equity in the allocation of resources is worthy of emulation in other African countries. However, the increased role of the elective bodies in planning seems to have led to the allocation of far too high a proportion of the development expenditure to provision of social services, without a commensurate effort at resource mobilization. Paradoxically, welfare expenditures on such a scale appear to have been possible mainly because the emphasis on self-reliance has attracted donors to Tanzania, leading to a considerable increase over the short run in the availability of resources.

In the long run, increased competence of the regional administrators can exercise an important influence in bringing about a more rational allocation of resources and a more effective use of the resources allocated. This is why considerably greater attention needs to be devoted in donor assisted programs



to improving the indigenous planning and implementing capacity. In the programs reviewed, including those in Kenya and Tanzania, donors have frequently taken a short term view of aid. They have tended largely to design their own programs and to implement them mainly so as to avoid the risk of 'failure'. This attitude has of course been reinforced by the frequent lack of national will to make policy decisions that touch upon the existing distribution of political and administrative power. The role of technical assistance in improving the indigenous planning and implementing capacity has, therefore, been far short of its potential.

#### C. The Role of Semi-Autonomous Administrative Structures

As the time approaches for transferring administrative responsibility for some of the autonomous integrated rural development programs, such as the LLDP and WADU, from the project authorities to the indigenous administrations, the gap between the capability of the two administrative systems has become a subject of particular concern to persons involved in designing rural development programs.

Paradoxically, the institutional gap seems to have arisen because the integrated programs have accomplished far too many visible results in too short a time period and therefore have been able to allocate only a limited time and effort to development of institutional capability. The gap exists at three levels. First, the indigenous regional administrations do not have the capability to carry out the policy and coordinating functions at the regional headquarters. These are now being carried out by autonomous administrations. This capability is critical for administering complex integrated programs since they involve activities of a number of departments

and local governmental agencies, as for instance agriculture, transportation and health. Second, the institutions to handle the commercial aspects of the programs, such as the agricultural credit and input and output marketing, either do not exist -- since the programs have handled these functions -- or do not yet have the administrative capability to manage the activities on a scale on which the programs have carried them out. Third, the local organizations and local administrative units being developed by programs do not correspond to the existing local governmental institutions, raising difficult questions related to the maintenance and expansion of the various local services.

The LLDP is now faced with these complex problems. Although CADU and ZAPI have been more effective than the LLDP in training indigenous administrators, their progress in establishing liaison with the regional administrations, in developing commercial institutions, and in fostering vigorous local organizations seems to have been as limited.

The experience of the integrated programs indicates that if there is not to be a considerable "sag" in the program activities after expatriate managers have departed and project authorities have dissolved, programs may have to undertake only those activities on such a scale which, in the foreseeable future, can realistically be taken over and managed by indigenous manpower and institutions, even with ambitious assumptions about manpower training and institutional development.

##### 5. Implications of the findings of the ARDS for Designing Rural Development Programs

The past experience reiterates several special features of the African countries which need to be taken into account in designing future programs, if



the objectives of rural development are to be realized.

Because the bulk of the rural population is poor and because this poverty is spread over the entire rural sector, "target groups" in Africa are large relative to the financial resources and in particular the trained manpower and the institutional capability frequently available for development. Therefore, if the emphasis in rural development is to be on mass participation and on the viability of the process of rural development, it would seem necessary that rural development programs be viewed as part of a continuous, dynamic process, rather than as an 'extensive' vs. an 'intensive', or a 'maximum' vs. a 'minimum' effort. The emphasis on mass participation also means that a sequential approach may frequently be necessary in planning and implementing a rural development strategy, involving establishment of clear priorities and time phasing of activities.

Given the low productivity of the subsistence rural sector, for a variety of reasons discussed earlier, in many cases an initial emphasis on broadbased increase in productivity through a certain minimum level of institutional development, may well be a more effective way of ensuring viability of mass participation than the substantial initial concentration of resources in a few regions.

Some constraints to improvement of productivity, such as lack of a profitable technology, ineffective extension and inadequate fertilizer, may be common to all of the subsistence agriculture; whereas others, such as ill-health caused by malaria (in the squatter settlements in Kenya) or the inadequate incentive system and organization (in Ujamaa villages) may well be location specific. A single package is, therefore, not universally applicable. The establishment of priorities needs a combination of a few



critical general interventions applicable to several regions along with emphasis on development of capability of the regional administrations to identify and ameliorate additional constraints specific to individual regions.

However, in all cases, including the case of priorities that may be established at the national level, the effectiveness of implementation depends on the efficiency and the coordinating ability of the regional administrations and on the general institutional development at the regional and local level. This is why a regional focus in institutional development is necessary from the outset even when a broad coverage of services is being aimed at. This is particularly so if more complex programs involving a number of sectors are to be planned and implemented by regional administrations over time.

The first step may well be to improve regional administrative capability for effective planning and implementing of programs directed at only a few productive activities, including food crops. Attention to food crop production often seems critical since a majority of the low income population derives its livelihood from this activity. The results of the mixed crop approach are already noticeable in the more recent integrated rural development programs. However, these have been confined to a few regions.

The sequential approach implies efforts to improve indigenous institutional and technical capability in several regions. If per capita agricultural production is to increase, the first phase of sequential development may involve an objective of achieving an overall annual growth rate of 4 to 5 percent. The time required to achieve such an annual growth rate may, of course, vary between regions, depending on their potential and on the effectiveness with which the necessary steps are implemented. However the first phase of

development may be planned for 4 to 7 years. In a few cases, where an effective technical and institutional capability to coordinate and deliver the necessary services already exists, the first phase of development may be skipped.

Increased intensity in agricultural services of the type undertaken in integrated programs, including improvement of the overall farming systems through rotational improvement, integration of crop and livestock production, soil conservation and land registration, may constitute the second stage of development. Realistically, the overall growth rate of production may not exceed 4 to 5 percent per annum even during the second phase. However, consolidation of the growth rate through a more diversified agricultural productivity may require an intensive effort.

In this case, the bridge between the first and the second stages of development is land use planning. The intensive effort needs a considerable technical and administrative input both at the planning and implementing stages.

To plan a strategy for intensive agricultural development, data are needed on factors such as agroclimatic zones -- including soil conditions, rainfall patterns, present yields, existing farming systems, erosion and fertility problems, density of settlement, sociocultural factors and on opportunities for expansion of cultivated area and grazing land, required investments in road, and water development, soil conservation, and the optimal farming systems, (i.e. crops, management practices, rotations, etc.).

The data gathering and planning of this second phase may be combined with the implementation of the first phase. Phased planning has several advantages which were not derived in many of the programs reviewed. It



may allow greater first-hand knowledge of the specific technical, administrative and socio-cultural constraints. It may also permit greater indigenous participation in planning. Both these factors are important for improving effectiveness of strategy. The phased approach may also facilitate training of indigenous manpower geared specifically to planning and implementing regional programs. Equally important, it may allow a relatively balanced national coverage of services in the foreseeable future.

For a variety of reasons discussed earlier, planning and implementation of services such as community centers, drinking water supply, health clinics, promotion of smallscale processing and servicing, women's extension programs, etc., require considerations substantially different from those in agricultural planning. It seems necessary to allow greater scope for social choice and for local participation in the organization and delivery of these services. In many cases such planning may have to wait until the second phase, i.e. until income and demand for such services increase, local administrative capability for planning and coordinating such programs is developed, mechanisms for raising fiscal resources are instituted, and local institutional capability to plan and implement programs is fostered through an explicit emphasis on the necessary pre-planning in the first phase.

Given the substantial shortage of trained manpower and administrative capacity, in each phase only those components which are not likely to be undertaken without planned public intervention may be provided. These, of course, may vary substantially between regions, depending on what does and does not exist in the form of institutional development. Therefore no blueprint for planning is possible. However, in the first phase provision of technology,



extension, inputs, manpower training and a feeder roads network may be the most frequently needed components. A facilitative role may be provided in fostering other activities. For example, encouraging cash or group purchases of inputs may be desirable where the savings potential in the traditional society is demonstrated to be significant. Once intensity of cultivation increases and manpower and institutions are developed, credit may become the major thrust of the programs. Marketing services may also fall in the category of a facilitative development at an early stage. The initial emphasis may be on providing intermediate forms of interventions and on improving the bargaining position of the farmer, as for instance through construction of public facilities for seasonal storage, improvement of roads and market information systems, and standardization of weights and measures. Introduction of high cost administrative marketing monopolies or hurried development of farmers' marketing organizations should perhaps be avoided in the early stages. Such organizations are likely to develop more spontaneously once the preconditions for their development are established.

Given the extreme constraint of trained manpower, even with the establishment of priorities in provision of services, mass participation rarely seems feasible in the short run through delivery systems oriented towards individual farmers. Therefore, some delegation of responsibility to the rural people is necessary. Many recent programs have already made a beginning in this direction. They have shown a considerable potential for success, provided local involvement is promoted gradually and is accompanied by a genuine delegation of responsibility to the rural people.

Considerable emphasis is needed on the training of field and administrative staff so that the intensity of services and the number of services may

be increased gradually over time. Manpower training is critical to achieve production targets, as well as to broaden participation.

Finally and importantly, the past programs indicate that if the process of rural development is to be viable there is not only the need for expansion of administrative coverage but also for emphasis on improvement in the performance of the indigenous administrative systems. Technical assistance may be needed not mainly to manage projects, but to assist in developing local, regional and national capability to plan and implement rural development programs. To realize this objective it seems necessary that nationals be actively involved from early stages of project formulation and implementation. It also seems desirable that expatriates not be highly concentrated in project authorities in which effective interaction with local staff and indigenous administrative institutions is frequently inhibited, hampering the development of the latter.

Wherever possible technical assistance needs to be provided to develop administrative systems which incorporate clear definitions of objectives and targets, ways of implementing and evaluating these targets, and incentive systems which will encourage improved administrative performance as measured by the realization of these targets.

The sequential approach attempts to reconcile several desirable features from among the programs reviewed. First, it points out the frequent need for broadbased development of the subsistence sector. Second, it underscores the crucial role of indigenous manpower and institutional capability, not only in the effectiveness with which interventions are implemented, but in planning rural development programs to take account of variability. It therefore points out the need for emphasis on manpower and institutional development in the early stages of program implementation so as to evolve

programs in scope over time. Third it views increase in productivity of the subsistence sector as frequently constituting a major, but only the first, step in improvement of the welfare of subsistence rural populations.



This paper is prepared for staff use and is not for publication. The views are those of the author and not necessarily those of the Bank.

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AFRICAN EXPERIENCES WITH RURAL DEVELOPMENT: A DIGEST REPORT

ON THE AFRICA RURAL DEVELOPMENT STUDY

This digest report on the ARDS has been prepared by Ms. Rachel Weaving drawing from the substantially longer and more extensive main report by Ms. Uma Lele which is to be published by the Bank as a book in late 1975. Condensation of a study concerned with programs and projects of great diversity and complexity inevitably requires a high degree of selectivity. This digest report, therefore, is not intended to and cannot serve as a substitute for the full report. Its purpose is simply to give wider distribution to certain salient aspects and results of the ARDS pending the publication of Ms. Lele's monograph.

Employment and Rural Development Division  
Development Economics Department  
Development Policy Staff  
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AFRICAN EXPERIENCES WITH RURAL DEVELOPMENT: A DIGEST REPORT  
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French Technical Assistance in Cameroon: A Review of the Zones d'Action Prioritaires Intégrées (ZAPI) and the Société du Développement du Nkam (SODENKAM), by G. Belloncle and D. Gentil. Studies in Employment and Rural Development No. 2.

Rural Development Programs in Ethiopia: A Review of the Chilalo Agricultural Development Unit, The Wolamo Agricultural Development Unit and The Minimum Package Program, by T. Tecle. Studies in Employment and Rural Development No. 3.

Range Development in Kenya: A Review of Commercial, Company, Individual and Group Ranches, by H. Jahnke, H. Ruthenberg, H. Thimm. Studies in Employment and Rural Development No. 4.

Small Farmer Credit in Kenya: A Review of Major Credit Schemes, by J. D. von Pischke. Studies in Employment and Rural Development No. 5.

Smallholder Tea Project in Kenya: A Review of Kenya Tea Development Authority, by D. Sullivan. Studies in Employment and Rural Development No. 6.

Rural Development in Kenya: A Review of Special Rural Development Program, by N. Bedi. Studies in Employment and Rural Development No. 7.

Land Settlement in Kenya: A Review of the Squatter Problem, by P. Mbithi and C. Barnes. Studies in Employment and Rural Development No. 8.

Rural Development in Malawi: A Review of the Lilongwe Land Development Program, by B. H. Kinsey. Studies in Employment and Rural Development No. 9.

French Technical Assistance in Mali: A Review of Groundnut Operation and Cotton Scheme, by G. Anderson. Studies in Employment and Rural Development No. 10.

Small Scale Rural Industries in Nigeria: A Review of Industrial Development Centers, by H. Turner. Studies in Employment and Rural Development No. 11.

Smallholder Tobacco Development in Tanzania: A Review of Urambo and Tumbi Schemes, by M. Agarwal and D. Linsenmeyer. Studies in Employment and Rural Development No. 12.

Cotton Development in Tanzania: A Review of Cotton Program in Sukumaland, by M. Collinson. Studies in Employment and Rural Development No. 13.

Rural Development in Tanzania: A Review of Ujamaa, by P. Abraham and F. Robinson. Studies in Employment and Rural Development No. 14.

ABBREVIATIONS AND ACRONYMS USED IN THE ARDS

ADMARC	Agriculture Marketing and Development Corporation (Malawi)
AFC	Agricultural Finance Corporation (Kenya)
AID	Agency for International Development
AIDB	Agricultural and Industrial Development Bank (Ethiopia)
ARDS	African Rural Development Study
BAT	British American Tobacco Company
BDPA	Bureau pour le Developpement de Production Agricole (France)
CADU	Chilalo Agricultural Development Unit (Ethiopia)
CDC	Commonwealth Development Corporation (United Kingdom)
CFDT	Compagnie Francaise pour le Developpement des Fibres Textiles (France)
CINAM	Compagnie d'Etudes Industrielles et d'Aménagement du Territoire (France)
CPA	Central Personnel Agency (Ethiopia)
CTS	Cooperative Thrift Scheme (Kenya)
CUT	Cooperative Union of Tanganyika, Ltd. (Tanzania)
DDC	District Development Committee (Kenya)
DDPC	District Development and Planning Committee (Tanzania)
EPID	Extension and Project Implementation Department (Ethiopia)
EPL	Local Progress Enterprise (Cameroon)
ERB	Economic Research Bureau (Dar es Salaam)
FAC	Le Fonds d'Aid et de Coopération (France)
FAO	Food and Agriculture Organization of the United Nations
IBRD	International Bank for Reconstruction and Development (the World Bank)

IDA	International Development Association
IDC	Industrial Development Center (Nigeria)
IDS	Institute for Development Studies (Nairobi)
IRAM	Institut des Recherches et d'Applications des Methodes de Développement (France)
IRAT	Institut de Recherches pour Agronomie Tropicale (France)
KLDP	Kenya Livestock Development Project
KTDA	Kenya Tea Development Authority
LLDP	Lilongwe Land Development Program (Malawi)
LSMB	Lint Seed and Marketing Board (Tanzania)
MCC Division	Marketing, Credit, & Cooperative Division (WADU, Ethiopia)
MFEP	Ministry of Finance and Economic Planning (Kenya)
MIA	Modified Input Area (LLDP, Malawi)
MPP	Minimum Package Program (Ethiopia)
NORAIID	Norwegian Agency for International Development (Norway)
NRDC	National Rural Development Committee (Kenya)
OPAM	Office des Produits Agricoles du Mali
PDC	Provincial Development Committee (Kenya)
PIM	Programming and Implementation Management System (SRDP, Kenya)
PPO	Provincial Planning Officer (Kenya)
PSC	Public Service Commission (Malawi)
RDC	Regional Development Committee (Tanzania)
RDF	Regional Development Fund (Tanzania)
RMEA	Resident Mission in East Africa (Nairobi)
ACAER	Service du Crédit et d'Equipement Rural (Mali)



SCDA	Special Crops Development Authority (Kenya)
SCET Cooperation	Société Centrale pour les Etudes du Territoire-Cooperation (France)
SEDES	Société d'Etudes du Développement-Economique et Sociale (France)
SIDA	Swedish International Development Authority
SIP	Sequential Implementation Program (SRDP, Kenya)
SODENKAM	Société pour le Développement du Nkam (Cameroon)
SRDP	Special Rural Development Program (Kenya)
TAC	Tanganyika Agricultural Corporation (Tanzania)
TANU	Tanzania Africa National Union
TTA	Tanzania Tobacco Authority
TTB	Tanzania Tobacco Board
USAID	United States Agency for International Development
VSC	Village Settlement Commission (Tanzania)
VSD	Village Settlement Division (Tanzania)
WADU	Wolamo Agricultural Development Unit (Ethiopia)
WGMO	WADU Group Marketing Organization (Ethiopia)
WHO	World Health Organization
ZAPI	Zones d'Action Prioritaires Intégrées (Cameroon)

AFRICAN EXPERIENCES WITH RURAL DEVELOPMENT; A DIGEST REPORT  
ON THE AFRICA RURAL DEVELOPMENT STUDY

I. THE SCOPE OF THE STUDY

Rural Poverty in Africa and the Constraints on Intervention

1. Recent years have seen a growing awareness in development literature and in the programs of national governments and aid agencies of the need to focus attention on the raising of living standards in the rural areas of less developed countries. Despite these advances in theory and the accumulation of practical experience, the mass of the world's rural population remains in poverty, the proximate causes of their poverty remain diverse and, which is barely surprising, no blue-prints for success have been made available to planners of rural development strategy. Where, as in most sub-Saharan African countries, 1/ the proportion of the population living in rural poverty and dependent on agriculture is very large, development of the rural sector is particularly urgent. Neither can it be approached merely as a "holding operation" until industrial and urban growth can absorb large numbers of marginal rural people; rather, it has to be adopted as the most efficient means of stimulating overall development.

2. Of the 310 million or so people of sub-Saharan Africa, it is estimated that approximately nine out of ten live in rural areas, with average per capita annual incomes of under US\$100, derived largely from low productivity agriculture and livestock. Although the statistics in Table 1 are for a small group of countries they help illustrate some broadly typical characteristics. Agricultural production is mainly subsistence oriented and the proportion of the rural population engaged in commercial farming is extremely small. Moreover, such increases in productivity as have occurred in the commercial sub-sector have not had a significant effect on rural incomes at large, and within the rural sector even incomes from commercial crops tend to be low. In general, the distribution of income in most of these countries is in fact relatively equitable. 2/ Per capita cultivable land is higher in most

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1/ South Africa, Rhodesia, Mozambique and Angola do not come within the province of this paper.

2/ See Adelman, I and Morris, C. T., "Who Benefits from Economic Development?" Appendix; Paper presented to the International Meeting of Directors of Development Research and Training, Belgrade, 1973.

Table 1: SOME AGGREGATE STATISTICS FOR THE COUNTRIES IN WHICH THE PROJECTS  
REVIEWED ARE LOCATED

Country	Total pop. (millions) mid-1972	Rural pop. as % of total	Annual pop. growth rate 1965-71	Per capita agricultural land (acres)	Per capita GNP (1971) US \$	% of GDP orig. in agriculture, forestry, and fishing	Index of per capita food production in 1972 Base 1961-1965 100
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Cameroon	5.78	80%	2.1%	6.5	200	40%	114
2. Ethiopia	25.25	91%	2.4%	7.0	80	54%	109
3. Kenya	11.67	89%	3.3%	1.1	160	34%	105
4. Malawi	4.55	94%	2.5%	N/A	90	52%	122
5. Mali	5.12	88%	2.1%	19.0	70	43%	85
6. Nigeria	56.51	76%	2.5%	2.0	140	50%	86
7. Tanzania	13.21	92%	2.8	10.0	110	40%	140 /a

Sources: Columns 1, 3, 5 - World Bank Atlas, Washington, D.C., IBRD 1973;  
Columns 2, 4, 6 - AID Economic Data Book, Washington, D.C., Department of State, AID Division of  
Statistics and Reports (year varies 1970-1974);  
Column 7 - FAO Production Year Book, Vol. 26, FAO, Rome, 1972.

/a Estimates made by the Agricultural and Rural Development Sector Study of Tanzania, based on production statistics provided by the Government of Tanzania, indicate a much smaller growth rate of agricultural production than implied in FAO data. According to the survey's estimates, increases in agricultural production from 1968-1972 have barely kept pace with the rate of growth of the rural population. The annual growth of agricultural production measured in constant prices slowed from 3.9 percent over the period 1964-1968, to an annual rate of 2.4 percent from 1968-1972. At the same time the annual rate of growth of total GDP decreased from 6.3 percent to 4.3 percent over comparable periods. These figures indicate that virtually no gains in agricultural productivity were achieved.



of Africa than in the more densely populated parts of Asia (for example, an average of 7.0 acres in Ethiopia compared with 0.7 in India) and there are of course far greater areas as yet unadapted to cultivation, but soils are in general poorer and average yields of principal crops lower than in Asia. <sup>1/</sup> With population growing at rates of 2-3.5 percent per year, pressure on land has been rising rapidly. Nor has there been much relief from efforts to industrialize; urban employment opportunities in sectors of high labor productivity have not been increasing as fast as might be hoped. Industrial production in these countries has traditionally been capital intensive and reliant on imported inputs; there have been relatively few indigenous entrepreneurs and manufacturing industry has had few linkages to domestic resources or to rural demand. In fact, without a significant rise in incomes in the rural sector there can be little scope for demand-led growth in industry.

3. The immediate objectives of rural development projects of course vary, as do approaches to strategy, but the basic goal which underlies the argument of this paper embraces both long-term economic growth and the equitable distribution of benefits accruing from growth. Such an ideal implies that interventions should not aim only to raise income levels, but also to ensure that the poorest sections of the community have access to services which will enhance their productivity and their social welfare.

4. Interventions which seek to break the cycle of low productivity-poverty-low productivity in rural areas need if they are to be guaranteed any measure of success to be based on an identification of its contributory causes and an understanding of the processes of interaction between them. The sources of constraints on agricultural productivity are in essence familiar. But planning for rural development in Africa has been, and continues to be, hampered by lack of data and the lack of a framework of analysis which provides for the clear-cut identification of those constraints on productivity which pertain in specific areas, or for the prediction of responses to intervention. In the belief that an examination of past experience could be helpful, the Africa Rural Development Study undertook a series of reviews of rural development projects in African countries, with a view to evaluating the potential of different types of strategy under different conditions, describing the typical operating problems they may face, and providing some tentative guidelines for future planning.

5. Lack of data and of a framework of analysis are not of course the only constraints on the success of interventions: planning for rural development has very often to be reconciled to the existence of government policies and social institutions which have, on balance, an adverse effect

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<sup>1/</sup> Lawrence D. Stamp and W.T.W. Morgan, Africa: A Study in Tropical Development, 3rd edn.; New York, Wiley, 1972.

on rural welfare. In addition to shortages of fiscal resources, there are two other binding and more peculiarly African constraints on the scope of interventions: the scarcity of trained manpower available to rural areas, and the weakness in most of these countries of local government administration. By examining the administrative forms adopted for the implementation of different types of projects some conclusions can be drawn as to how to tackle such latter obstacles in future.

6. Twelve reviews of rural development projects 1/ in sub-Saharan Africa and a review of spontaneous squatter settlement in Kenya were undertaken 2/ for analysis by the ARDS, which drew in addition on the rural sector surveys of Kenya and Tanzania carried out by IBRD, in Fall 1972 and Fall 1973, respectively. All the project reviews were based largely on data collected previously by project authorities and other agencies. In some cases, the information available was very limited: even responses normally considered quantifiable, such as increases in agricultural production, could not (as for the Ujamaa program in Tanzania or the French Technical Assistance Programs in Mali) always be assessed with any accuracy.

7. The projects are most easily introduced if classified into four broad types, according to their immediate objectives:

#### The Projects Reviewed

- (a) Commodity, or "export crop" projects. The earliest interventions in the low income agricultural sector aimed to increase the production of export crops by smallholders, and were financed by European commercial companies, development corporations or national governments. Four sets of such projects were reviewed. The Kenya Tea Development Authority (KTDA) was established in 1960 by the Kenya Government, assisted by foreign loans. By 1972, KTDA had brought 61,500 acres in ten districts of the country under tea cultivation by approximately 66,500 smallholders, giving an average tea holding of 0.93 acres. Smallholders presently account for approximately 21 percent of the country's total tea production. The development of smallholder tobacco production was undertaken in Urambo, Tanzania, by the Tanzanian Agricultural Corporation in 1951, and in Tumbi, nearby, by the British and American Tobacco Company, in 1954. Both

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1/ For ease of exposition the term project will be used to define the rather diverse group of rural development ventures under consideration. While it will be clear that many of them do constitute "projects" in the accepted sense, others such as the Kenya SRDP and the Ujamaa movement in Tanzania are much broader in scope.

2/ Reviews were produced between Fall 1972 and December 1973.



these schemes are now managed by cooperative societies. By 1970 the Urambo scheme involved over 2,400 farmers with an average of 2.9 acres under tobacco, and the Tumbi scheme 4,600 farmers with an average tobacco acreage of 1.7. In Mali, development of cotton production was undertaken in 1952 by the government with assistance from the Campagne Francaise pour le Developpement des Fibres et Textiles (CFDT), and a rather similar scheme for groundnut production, Operation Arachide, was started in 1967 by the Bureau pour le Developpement de Production Agricole (BDPA). Both received assistance from the Fonds d'Aide et de Cooperation. By 1972, the CFDT scheme involved a population of one million, who accounted for virtually all Mali's cotton production, and that of the BDPA, covering about 750,000 people, accounted for about half of the country's total groundnut production. The expansion of cotton production in Sukumaland (population 2.5 million) in North West Tanzania, was initially stimulated by the government in the late 1940s. The number of farmers producing cotton increased from 203,000 in 1948 to 315,000 in 1967, and while the average size of operational household holding remained constant at 6.6 acres, acreage under cotton per farm increased from 0.67 acres in 1948 to 3.36 acres in 1967. Total cotton production in the area increased from 40,000 bales in 1950 to 405,000 bales in 1970. In all of the commodity projects, except that in Sukumaland, agricultural services have been provided by parastatal bodies or project authorities which are to a large extent autonomous, even though ministries of agriculture may nominally have jurisdiction over them. Such externally assisted projects are generally characterized by higher resource costs, better administrative coordination and higher density of field staff than those, like the Sukumaland scheme, which have not been so assisted.

- (b) Integrated Development Projects. Projects which aim to raise living standards through the introduction of diverse services fall into two types: regional projects financed principally by donor agencies and planned and implemented to a large extent by expatriates; and those undertaken by national governments and implemented largely through their existing administrative structures. The first type is represented in the study by the Chilalo Agricultural Development Unit (CADU), and the Wolamo Agricultural Development Unit (WADU) in Ethiopia, the Lilongwe Land Development Program (LLDP) in Malawi, and the seven Zones d'Action Prioritaires Integrees (ZAPI) and Société de Developpement de Nkam (SODENKAM) settlement scheme, both in Cameroon. Kenya's Special Rural Development Program and the Tanzania Ujamaa movement represent the second. The donor-aided integrated projects have introduced productive and social services simultaneously in the belief that a critical minimum effort is



needed to make a noticeable impact on the welfare of the target population in a relatively short period, and are dependent on a high concentration of trained manpower and of fiscal resources within their limited areas of operation. The LLDP was begun in 1967, financed by IDA, and covers an area of 1.15 million acres and a population of about 550,000. Total project cost for its first two phases (1967-1975) was estimated at US\$10.5 million. CADU was established in the same year, financed by the Swedish International Development Agency (SIDA), and covers a population of 400,000. Total project cost up to 1975 was estimated at US\$17.7 million. LLDP and CADU each employed over 30 expatriates during their first years of operation. WADU was established in 1970, financed by IDA, and is relatively more modest, covering a population of about 240,000. Total project cost for WADU's first four and one-half years has been about US\$4.7 million. Development in the seven ZAPIs, four in South Central and three in Eastern Province of Cameroon, began in 1967 and was planned by a private French company. Each ZAPI has a population of between 2,500 and 4,000 and is managed by a Local Progress Enterprise (EPL) company. The EPLs were originally subsidized by the Cameroon Government but are now financially independent. Total combined operating costs of the four ZAPIs in South Central Province, up to 1972, were about US\$750,000. The SODENKAM settlement in Western Cameroon was designed as an experimental integrated low cost scheme potentially transferable to other areas. It began operations in 1966, and by 1972 had settled 1,180 pioneers. Its annual budget for 1972/73 was approximately US\$467,000, of which US\$130,000 was for personnel. None of these projects has relied on the existing government administration for its implementation.

By contrast, the Kenyan SRDP and the Ujamaa movement in Tanzania are designed to improve the capacity of the existing rural administration and have to a large extent relied on government agencies for the planning and implementation of their component projects. Phase I of the SRDP began in 1971, involving a large number of projects in six districts of Kenya, covering about eight percent of the country's population. For this phase, Kenya has received financial and technical assistance from a large number of donor agencies. Its second phase was initiated in 1972 and involves the countrywide devolution of responsibility for planning and implementation of development projects on to the district administrations. Tanzania's Ujamaa strategy, as announced in the Arusha Declaration of 1967, seeks to bring about a transformation of rural areas through the creation of communally organized self-help villages throughout the country. Between 1967 and 1973, the number of Ujamaa villages increased from 48 to

5,631, covering over two million people, or about 15 percent of the country's rural population. The strategy seeks also to decentralize the administration of rural areas and explicitly to foster the participation of locally elected representatives in the planning and implementation of projects which will affect them. Since 1972, the ultimate authority for development projects and for the allocation of fiscal resources in rural areas has been vested in regional administrations, rather than in the central ministries.

- (c) Functional Projects. While the regional projects are multifaceted, functional projects aim to remove single, critical obstacles to development. Such projects have clear and limited objectives and they do not generally require complex administrative forms for their implementation. The smallholder credit projects of the Kenyan Agricultural Finance Corporation (AFC) exemplify such a "functional" approach to development. The AFC was established in 1963 with donor assistance and has financed a large number of rural sector activities throughout the country, benefiting both large and small-scale farmers. As of March 1971, its assets totalled US\$33 million, of which US\$28 million were financed by the government. Through 1972, the Corporation defined "small" farmers as those earning under US\$1,400 per annum, but several of its smallholder credit projects have been directed at groups earning substantially less than this. During FY70/71, it loaned a total of US\$4.3 million, of which about 30 percent went to smallholders. It is generally believed that its interest rates of 7.5-8.0 percent per annum on smallholder credit are substantially lower than those charged by traditional sources.
- (d) Subsectoral Projects. Such projects as the Kenya Livestock Development Project (KLDP), the Industrial Development Centers in Nigeria and the Ethiopian Minimum Package Program (MPP) aim to stimulate the development of specific subsectors, usually over wide geographical areas, by the delivery of basic services. The KLDP began operations in 1970 assisted by IDA and SIDA, which together have loaned it US\$11.4 million for the period 1970-74, and, through its lending scheme, it has developed company, individual and group owned ranches in the Central, Eastern and Rift Valley provinces. Its development of grazing blocks in Northeast province involves direct grants and is assisted by USAID. Total cost for the grazing block scheme is expected to be US\$1.5 million. Industrial development centers were established with USAID assistance in Zaria in 1962 and in Owerri the following year, working in conjunction with the Nigerian Government's Small Industry Credit Schemes.



Between 1969 and 1972, loans worth US\$2.7 million were granted under the centers' auspices to 194 small-scale businessmen in such industries as baking, sawmilling, printing and vehicle repair, 64 percent of whom were resident in rural areas. The MPP was undertaken by the Ethiopian Government to deliver critical services to agriculture on a wider geographical basis than the operations of the two integrated regional projects CADU and WADU. Assisted by SIDA and IDA, it provides for agricultural extension, the issue of inputs on credit, cooperative development and the construction of feeder roads. Total project cost to 1976 is estimated as US\$28 million, and by 1981 coverage will extend to the country's entire agricultural population, excluding the nomadic tribes.

8. In the absence of intervention, considerable improvements in living standards can be brought about through community-initiated "self-help" schemes. As a result of landlessness and lack of employment opportunities, about 300,000 Kenyans of various tribal origins from the Central, Western and Eastern Provinces have established squatter settlements in the Coast and Rift Valley Provinces. While they receive few, if any, government services, they have nevertheless established schools and health clinics. Data on three such sites were collected for the ARDS.

9. The group of projects reviewed represents a diversity of immediate objectives and of methods for achieving them, though with the exception of the commodity projects, all were designed with the underlying objective of improving rural welfare. Their immediate aims notwithstanding, all have brought about increases in productivity and have raised aggregate income levels within their target areas, though with varying degrees of success and with varying degrees of equity. The ensuing sections of this paper focus on the choice of services to be delivered to rural communities and the choice of methods for their delivery under given conditions. The principle underlying the argument is a concept of rural development which involves both growth and the equitable distribution of the benefits of growth.

## II. DEVELOPMENT OF THE FARMING SYSTEMS

10. The low income rural sector in African countries is commonly characterized by fragmented markets and low and fluctuating agricultural yields which together make for a high degree of uncertainty as to incomes, agricultural prices and the availability of food in the off-season. Where people are near the margin of subsistence and where markets are fragmented, the promotion of crop specialization in the early years of development may



under certain conditions be harmful, even though regional specialization may evolve as a longer term consequence of development. But successful efforts to raise food production through the introduction of technical innovations are by no means a simple matter either; they must be accompanied by the organization of integrated markets so that marketable surpluses can be disposed of and deficits in bad years supplied.

11. The development of new farming systems for poor cultivators and the organization of integrated markets will not necessarily reduce income disparities, to which insufficient attention has been paid in past projects. Raising aggregate levels of production and income in project areas can in fact exacerbate income inequalities if the new farming system favors one ecological zone over another, or is particularly suited to certain size classes of farms.

#### The Need for Balanced Farming Systems

12. While the export oriented commodity projects studied raised the cash incomes of the smallholders they affected, they were characterized by a general reluctance to provide services for the production of food crops or livestock; and although they introduced efficient marketing systems for the export crops they promoted, they gave little or no attention to developing trade in food crops. The exclusive production of export crops may not be optimal in terms of long-term economic growth. Furthermore, where food markets are fragmented, such monocultural systems may also have an adverse effect on welfare. An examination of trends in agricultural production in the cotton growing area of Sukumaland in Tanzania will help illustrate the complex interrelationships which exist between production of food and non-food crops, and will give weight to the argument that, optimally, services should be provided to facilitate both. Agricultural policy in Sukumaland since the late 1940s has been oriented towards cotton production and, from 1950 to the mid-1960s, annual income from cotton on an average sized family farm of 6.6 acres increased from US\$6 to US\$100. During this period, foodgrain production shifted from sorghum to high yielding maize, and more recently, from maize to rice. Meanwhile, the volume of total foodgrain production dropped and purchases of food increased. Much of the acreage previously under foodgrains was shifted to cotton: during the period 1948 to 1967, the area per farm allotted to cotton increased from 0.67 acres to 3.36 acres. However, farmers still wanted to maintain minimum levels of food production for domestic use; in such cases labor and other on-farm resources may be diverted away from production of the export crop to food crops, to satisfy the household's consumption needs, resulting in lower levels of productivity of the export crop than might be expected from a given technical package. Evidence suggests that in Sukumaland, labor is a crucial constraint on the adoption of innovative practices in cash crop production. For example, although weeding cotton in January could substantially increase their cash returns, farmers continued to



allocate their scarce labor to the planting of maize. <sup>1/</sup> Such may be the case either because the innovations themselves appear relatively unprofitable in the context of local resource endowments, or because farmers are averse to risking shortages of food in the market during the off-season. Where farmers wish to maintain minimum levels of subsistence production, productivity in the cash crop has to be high for increases in cash crop output to occur at the intensive rather than the extensive margin.

13. Farmers' concern to maintain food supplies may affect factor productivity in cash crops adversely even if they do not attempt to be self-sufficient in food production. For example, as was observed in the early years of the Urambo tobacco scheme, food shortages in the off-season may force them to sell inputs purchased for cash crop production to buy food, thus affecting yields and also the repayment rate of credit.

14. If farmers with bigger holdings are more able to assume the risks of specialization, the promotion of the cash crop alone may lead to greater inequality.

#### Increasing Production in Multiple Cropping Systems

15. In contrast to the commodity projects, which as originally conceived were characteristic of the colonial phase of rural development, the more recent integrated rural development projects have been designed to increase overall production while maintaining a diverse pattern of agriculture. Their experience shows that similar rates of success for different crops or in areas with differing resource endowments may be difficult to achieve. CADU's major impact on levels of production has been on wheat, <sup>2/</sup> despite efforts to the contrary and despite the fact that the acreage under barley has remained greater; there appears to have been a decline in recent years in the production of milk, attributed to the substitution for wheat cultivation of former grazing land. Large surpluses of wheat have built up over a period of only three to four years, and have led to problems in marketing and the fixing of prices. To take another example, while the LLDP in Malawi aimed to increase yields of all the principal crops grown in the project area, it intended to obtain its major economic return from high value groundnuts. However, its efforts to stimulate groundnut production have been conspicuously unsuccessful: yields declined consistently over the Project's first four years (to 1972/73) to a level substantially below those outside the project area. LLDP's main success has been in the production of improved maize:

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<sup>1/</sup> See H. Ruthenberg, ed., Smallholder Farming and Smallholder Development in Tanzania: Ten Case Studies, Afrika-Studien No. 24, Munich: Weltforum Verlag, 1968.

<sup>2/</sup> Output of wheat in the project area increased from 32,000 tons in 1966 to about 102,000 tons in 1971.

Table 2: PROJECTED AND ACTUAL YIELDS OF MAIZE AND GROUNDNUT  
LILONGWE LAND DEVELOPMENT PROGRAM, MALAWI  
1969/70 - 1972/73

Season	Maize Yield (lb/ac)		Groundnut Yield (lb/ac)	
	Projected	Actual	Projected	Actual
1969/70	1,263	1,028	531	553
1970/71	1,322	1,210	541	494
1971/72	1,384	1,714	552	468
1972/73	1,449	1,455	563	N.A. <u>/a</u>

Source: Based on the Phase I Appraisal of the LLDP and the data collected by LLDP's evaluation unit.

/a Preliminary results indicate that average yield is below that of the preceding season.

average yields for the same four years conformed to projections despite their annual variability which was due mainly to weather conditions, and the acreage under maize more than doubled during this period.

16. WADU's projected targets for virtually all the principal crops grown in the project area have been rapidly surpassed. Interestingly, its research component has been far more limited than that of either CADU or the LLDP and has been largely confined to fertilizer trials. Observers attribute the project's success in this sphere to the area's very fertile soils and to the Wolamo farmers' willingness to adopt innovations, combined with an efficient extension service.

#### The Role of Adaptive Research

17. Although it is unlikely that research can ever guarantee the success of interventions in rural areas, such divergences between projected production targets and the actual results of intervention as those experienced in CADU and the LLDP might possibly be reduced if project authorities could achieve a greater understanding of the interactions of social, economic and ecological variables in existing farming systems, or of the changes in these relationships that are generated by the introduction of innovations. Many of the projects reviewed by the ARDS have not been well equipped to develop such an understanding during the course of implementation, or to adapt their activities in the light



of new information. Project-linked research often needs to encompass more than agronomic trials, and should attach importance to the adaptation of technology for the particular conditions in which it is to be used, taking into account social and economic as well as ecological factors. Adaptive research in multiple cropping systems is undoubtedly complex and demanding as is the establishment of an effective link between research workers and extension staff, who can prove invaluable in feeding back their observations. Nevertheless it can help to indicate appropriate remedies where adverse responses have been unanticipated. For example, the decline in groundnut yields in the LLDP area has not yet been satisfactorily explained. Possibly the application of sulphur, introduced in small amounts as part of the credit package in the 1970/71 season and thereafter used in drastically increased quantities, has adversely affected the soil pH value. However, groundnut production has a very high labor requirement and it may be that, as in other central African countries also experiencing declines in groundnut yields, an increasing proportion of scarce farm labor is being allocated away from groundnuts to the production of high yielding maize. Until research can reveal whether changes in the soil pH, the pattern of labor allocation, relative prices or some other factor is at work, it will be impossible to select an intelligent course of action in the light of this trend.

#### Intra-Regional Income Disparities

18. Growth need not make for a more even distribution of income, and it may be relatively easy to raise aggregate incomes or levels of production within a given region through concentrating services on one well endowed geographical area or class of farmer, or by promoting one particularly profitable crop, while bypassing a substantial section of the population.

19. Planning for the reduction of intra-regional income disparities is demanding. Given the limitations imposed by the scarcity of trained manpower, the limited choice of available technologies and the paucity of information, future rural development projects in Africa may be forced to concentrate their initial activities around the introduction of simple agricultural innovations which, with only slight local modification, can be effective throughout the target area. The alternative of designing different farming systems appropriate to different districts within the target area, while a better recipe for intra-regional equity, may prove so costly that other parts of the country may be commensurately deprived of attention.

### III. AGRICULTURAL EXTENSION

20. Agricultural extension services in the developing world have traditionally suffered from shortages of field staff, and such staff as they employ are often ill-paid, ill-trained and ill-equipped to identify and solve problems at the small-farm level. The extension services of many of the projects reviewed have been designed to provide intensive coverage (i.e., a high ratio of extension agents to farmers) in the belief that high staff density is likely to produce high rates of adoption of agricultural innovations. 1/

#### Intensive Coverage and the Constraints on Agricultural Innovation

21. The financial costs of different extension systems vary according to what is spent on training, facilities and staff salaries, in addition to the size of the population served; highly intensive extension systems involving large recurrent budgetary expenditures have to justify themselves against other alternative investments. In LLDP the cost of extension is relatively low. The original project plans called for a staff/farmer ratio of 1:200, to be reduced after the first 2-1/2 years to 1:400 and subsequently stabilized at 1:600 or 1:800. Over the project's 13 years of operation its planned expenditure per family on extension, excluding the cost of training, is US90 cents per annum. Indications that the spread of innovations in the project area has been rather slow suggest that such a low investment per farmer in extension may have been insufficient; the replication of such investment on a nationwide scale would involve an annual expenditure of nearly US\$0.9 million, or over 1.5 percent of the Malawi Government's total outlay of \$58.2 million for 1972. The KTDA's investment in extension has been much higher: if the costs of executive and field staff plus that of the input package are included, the total cost per farmer since the project's inception has been US\$200, or US\$18 per annum. In this case the recurrent costs of a countrywide service on this scale would be crippling.

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1/ The following estimates of extension agent to farmer ratios are drawn from the project reviews:

(1968) Tanzania	1:1,500	.	Sukumaland	1:1,020
(1968) Kenya	1:500	.	KTDA	1:120
(1968) Malawi	1:1,200			
	or 1,300	.	LLDP (projected)	<u>/a</u> 1:200

In 1968, Ethiopia, with a rural population of 22 million, employed only 124 extension agents. 1972/73 ratios in CADU and WADU were 1:470 and 1:335, respectively.

/a Not realized until Phase II.



22. Measuring the effectiveness of agricultural extension is fraught with methodological problems, some of which arise from the interactions of extension activities with those of other services, while others may be introduced by the physical variations (for instance in soil and rainfall patterns) between farms receiving the same treatment. The degree of social cohesion within the target community has also to be taken into account since it of course influences the communication of new ideas. In agro-industrial enterprises including cash crops it is often relatively easy to measure adoption rates, since farmers' acceptance of new inputs and innovative practices can usually be gauged by their use of other services, such as institutional credit and marketing facilities, for which statistics may be easier to obtain. In the case of food crops, however, farmers may actually adopt innovative practices promoted by the extension service, such as row planting, or close weeding, without necessarily using a project's services. Suppositions about the effectiveness of intensive coverage may be modified further if agents' levels of training are considered. In Kenya, for example, most of the Junior Agricultural Assistants in the government's extension service have undergone only a one-week course at a farmer training center, whereas junior staff in the LLDP in Malawi have been given a period of pre-training and practical experience in addition to an intensive course in practical agriculture. Transportation may be another limitation on effectiveness where farms are scattered or country difficult to travel, even if staff/farmer ratios are high.

23. Intensification in itself will of course be futile if the innovations to be promoted are not inherently profitable; its payoff may be substantially reduced if the extension staff are unable to identify and solve problems at the farm level. It may, however, often be the case that regardless of the density of coverage, the profitability of new techniques and inputs, the level of project investment in training of extension agents, or the type of staff incentive schemes adopted, the success of an extension service in promoting innovations will remain quite dependent on the attitudes of the target population to project activities at large and by their ability to bear risk.

24. Data from a survey taken in the LLDP in 1970/71 suggest that where a profitable technical package is being promoted, yields will be positively correlated with the number of extension visits, but that if the technical package is not inherently profitable this need not be the case. While maize yields were positively correlated with extension visits, the data exhibit a curious relationship between numbers of visits and yields of groundnuts. The groundnut package promoted by the project was made widely available before it had been sufficiently tested, and as has already been observed, the use of sulphur as part of the package may directly account for the declining groundnut yields in the area. Farmers receiving no extension visits during the year had mean yields of 440 lbs/acre, while those receiving five visits averaged 365 lbs/acre, and those visited between 11 and 20 times averaged only 312 lbs/acre. Only where over 20 visits were made was there a positive correlation between intensity of extension and groundnut yield.



25. The following two examples suggest that an extension service, however densely it covers the population, may be unable to induce increases in productivity if its agents are insufficiently aware of technical problems and practical difficulties at the farm level. Tobacco yields in the Urambo scheme in Tanzania in the late 1960s were lower than those in Tumbi, and this has frequently been attributed to a shortage of extension staff in the former area. The review undertaken for ARDS points out that agent/farmer ratios actually declined in both schemes <sup>1/</sup> during this period, but productivity in Tumbi nevertheless increased. Urambo farmers tended to overcultivate and thus to exhaust the soil, and the existing extension staff could very possibly have averted this had they devised suitable crop rotations. The extension services of both ZAPI and SODENKAM in Cameroon work on the assumption that the primary causes of resistance to innovation are psychological, and that only through personal contact with the agent, or vulgarisateur, can the farmer be convinced of the usefulness of new techniques. Meanwhile, many practical difficulties which hinder their use remain largely unsolved. A survey undertaken in the ZAPI revealed that although large numbers of farmers were convinced of the value of copper spraying to combat brown rot in cacao buds, one in four did not have treatment equipment, two in four who had the equipment had difficulty in using it, one in three had difficulty in obtaining the necessary water, one in three could not command sufficient labor, and one in two had received the equipment only later than the date they wished to begin the treatment.

#### Alternative Approaches to Extension

26. Several projects have sought to promote agricultural innovations using members of their target communities, rather than by relying entirely on farm visits by extension staff. Under certain conditions it is possible that popular interest in innovation may be generated on a large scale, if the profitability of new techniques and inputs can be readily observed. WADU has achieved higher rates of adoption than were projected, and its extension service has used "demonstrator fields" to popularize innovations, generally borrowing the fields of different farmers, or "demonstrators," for different crops simultaneously. The cohesiveness of Wolamo society and the traditionally equitable distribution of land are said to have contributed in large part to the wide success of WADU's extension service.

27. CADU and ZAPI both use a rather different technique, that of on-farm demonstrations of innovative practices by "model farmers" or "farmer leaders" who are members of the target communities chosen by the extension service. However, there are more constraints on innovation than

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<sup>1/</sup> Between 1965 and 1970, the agent/farmer ratio in Urambo declined from 1:323 to 1:802, and in Tumbi from 1:116 to 1:575.



the lack of information, and a danger exists where this approach is relied on heavily that the non-innovatory attitudes of the poorer sections of the community may remain unchanged; such farmer leaders may often be relatively well favored both socially and economically, and in their ability and willingness to innovate may be atypical of the population as a whole. Most of the ZAPIs' farmer leaders were found to be young, all were literate (Cameroon's male literacy rate is about 57%) and 47 percent of them could be classified as "large scale planters" whereas only 17 percent of other farmers in the ZAPI areas fell in the same size class. It is important to recognize too that those selected as farmer leaders by extension agents may not necessarily have respected status within the community, but may instead have been chosen for such other attributes as an ability to speak the language used by the extension service. Their usefulness in popularizing innovations within the community may thus be limited.

28. Leonard's data <sup>1/</sup> show that in Kenya's Western Province the average extension agent makes 57 percent of his visits to progressive farmers, who constitute only 10 percent of the region's total farming population. That extension agents are apt to focus attention on those farmers (usually the richer ones) who show most aptitude for progress is noted in several of the project reviews and has been widely observed in the literature on extension. Such a tendency might have less serious long-term consequences for equity if rural society were perfectly cohesive. Unfortunately, class and other social barriers may limit the spread of new knowledge. Moreover, it is unrealistic to assume that all sections of a farming community will be able to bear risk equally easily or that all (including tenants under sharecropping agreements) will have comparable incentives to increase production. The behavior of farmers who do not adopt innovations, even after seeing the results obtainable under particular conditions, has in the past been too often dismissed by extension agents as curmudgeonly and unprogressive. If income disparities between the educated and the uneducated in rural areas or between different classes of farmers are not to be exacerbated, it will be mandatory in future for extension services to devise operating methods which ensure that the poorest and the least able to bear risk are given the chance to raise their productivity.

29. The type of incentives or sanctions that should be built into extension systems to bring about this ideal state of affairs has of course long been a vexed question. While it seems reasonably clear that extension agents' conditions of service should provide for promotion on grounds of

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<sup>1/</sup> David K. Leonard, Some Hypotheses Concerning the Impact of Kenya Government Agricultural Extension on Small Farmers, Institute of Development Studies, Nairobi, 1972.



ability rather than on length of tenure, it is by no means so certain that paying them high salaries is always desirable. Good rates of pay for extension staff in a given area will no doubt attract larger numbers of staff to work there (with potential adverse consequences for inter-regional equity), but a large income gap between them and the small farmers they are to serve may not be conducive to good working relationships. Whether staff who are resident within their areas of work will give more of their time to small farmers than those who are not housed locally is another open question: the literature reviewed appears to be divided here. The setting of quantity targets is not always a good method for guaranteeing the poor a fair share of agents' attention. For instance, the use of acreage targets can be counterproductive where land distribution is skewed: the transaction cost to the extension agent of one interview with a farmer owning fifty acres is far smaller than that of fifty interviews with individuals each holding one acre, who may in any case be far less receptive to his recommendations. An extension system that requires agents to maintain "husbandry ratings," or records of progress, for individual farmers does have a better potential for success, but may (as LLDP's experience suggests) fail where each agent has a large target population and is pressed for time, or if supervisory staff are less than conscientious or again have a large work load. Finally, it is important to recognize that the performance of an extension service often reflects that of the project or local government administration at large. Where the latter does not withstand pressures from local vested interest, the extension service can hardly be expected to operate on a radically different basis. Planning for effective agricultural extension to reach the poor over wide areas can thus only be undertaken in the context of wider administrative reform.

#### IV. AGRICULTURAL CREDIT

30. Most of the institutional credit available to the agricultural sector in African countries has been directed at the development of large scale commercial farms, and subsistence farmers have had until recently to rely on non-institutional credit generated within the rural areas. There is normally assumed to be a positive correlation between access to institutional credit and the adoption of agricultural innovations, although that this is so cannot be established with certainty. Since incomes in the traditional rural sector are low and thus, intuitively, saving potential appears to be small, most projects aiming to stimulate agricultural production have made the delivery of seasonal credit (usually

in the form of material inputs) a central focus of their activities. <sup>1/</sup> The credit delivery systems of the integrated projects reviewed are cumbersome, expensive and highly demanding of trained manpower, and although they have sought to change existing patterns of credit distribution in favor of the small farmer, many have been unable to ensure equality of access or satisfactory repayment rates.

#### Saving in the Traditional Rural Sector

31. The rural poor may have a far greater capacity to generate savings than has been commonly assumed. The review of smallholder credit in Kenya undertaken for the ARDS points out, for instance, that deposits by small farmers under the Cooperative Thrift Scheme reached the quite unanticipated figure of US\$2 million by 1973, the scheme's third year of operation. Small mutual savings societies, whereby each member contributes a fixed amount of cash at regular group meetings and the totals thus accumulated are distributed to each member on a rotation basis, have been observed by reviewers in Kenya and in Cameroon. A survey taken by CADU in two districts of Chilalo, prior to the intensification of the project's credit scheme, gives some insight into traditional rural credit patterns. Its findings are corroborated by observers in other parts of Chilalo, but insufficient data are available from elsewhere in Africa to establish how widely typical they are. Of the 109 farmers interviewed, 41.3 percent were owner-cultivators and 58.7 percent tenants. Fifty-one percent had some debt. It is significant to note that of the loans, 54 percent were used for on-farm investment, for instance the purchase of a new plow, or the hiring of extra labor for weeding. The other 46 percent were used to finance consumption which included feast expenses, tax payments and court case expenses. The major sources of credit were not traders or moneylenders but relatives and friends (only six percent of the loans were from the former), and as many as 27 percent of the total number of loans were granted without collateral or security. Where interest was charged (on 46 percent of the loans from relatives and friends, and on 95 percent of those from traders and moneylenders) the average annual rate ranged from 34 percent to about 110 percent. For loans of cash the most common interest rate was 10 percent per month.

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<sup>1/</sup> The following figures give a rough indication of the scope of the integrated projects' seasonal lending:

<u>Year</u>	<u>Project</u>	<u>No. of loans</u>	<u>Total value (US\$)</u>	<u>Population of project area</u>
1971/72	CADU	14,000	560,000	400,000
1972	ZAPI	--	373,500	23,000
1972/73	WADU	7,400	121,000	240,000
1972/73	LLDP	23,000	469,000	550,000



32. A survey taken by WADU of 33,000 households in areas of Wolamo Awraja not covered by the project again shows other farmers as the major source of credit; 66 percent of the households borrowed from other farmers, and only ten percent borrowed from traders. Almost 40 percent of the households were paying interest as high as 100 percent per annum. Borrowing in these areas was largely to finance pre-harvest feasts, and 95 percent of loans were of cash.

33. Such potential for mobilizing cash savings has also been observed in Malawi, where group purchases of fertilizer for cash have quite frequently been observed in areas bordering that of the LLDP and not covered by its credit scheme. The planners of LLDP in fact envisaged that the cash purchase of agricultural inputs promoted by the project would assume increasing importance over the distribution of inputs on credit, but this was not to be so. In 1970-71 project farmers were expected to purchase about 3,000 tons of fertilizer, 1,756 of which would be paid for in cash, the remainder being purchased with credit advanced by the LLDP, but the amount actually issued was found to be 4,000 tons, of which only 58 tons had been purchased with cash. It appears that where farmers have relatively easy access to institutional credit they will prefer to take advantage of it, and may meanwhile hoard quite large cash savings in tin cans and under mattresses. It is worth noting here that the interest rates on seasonal credit charged by the projects under discussion are very much lower than those traditionally charged in Chilalo and Wolamo: Kenya's Agricultural Finance Corporation charges smallholders an annual rate of 7.5 to 8 percent, LLDP's annual rate is 10 percent and that charged by CADU and WADU is 12 percent. None of the projects have devised satisfactory methods of ensuring the repayment of the loans they issue. It is not clear, given our current understanding, whether the delivery of institutional credit in the early stages of rural development is profitable use of scarce resources or not.

#### Access to Institutional Credit

34. It is axiomatic that those who receive credit are often not those who most need it. In the attempt to ensure high rates of repayment, the credit schemes of the integrated projects reviewed have adopted stringent criteria of eligibility and elaborate procedures for the selection of applicants, which are costly and highly demanding of trained manpower. Clearly, both the criteria used to determine applicants' eligibility and the level of security on loans are crucial determinants of access to credit. In the early years of CADU, it became apparent that large landowners were receiving the bulk of project loans, and that the easy availability of credit, compounded with the absence of taxes on tractors and fuel, was resulting in evictions of tenants on a large scale. In 1970, use of the project's credit scheme was restricted to landowning.



cultivators with under 62 acres and tenants farming under 100 acres, 1/ and two years later further restrictions were imposed, the new upper limits being 50 acres for owner-cultivators and 75 acres for tenants. Use of the MPP's credit scheme was similarly restricted from its inception, but landowners, who constitute less than 50 percent of the rural population, have received the bulk of the loans. It is estimated that in 1973, tenants accounted for only five percent of the total credit issued under the Program. The follow-up study of LLDP also indicates a skewed distribution of credit: farmers in receipt of project loans had higher than average socio-economic status, cultivated up to one-third more land than average, and had average incomes up to 84 percent higher than those not using the scheme.

35. Where the security requirements on loans are stringent, the poorest sections of the population may effectively be denied access to credit. It will be remembered that 27 percent of loans from non-institutional sources in Chilalo were granted without security. The credit schemes of both CADU and MPP require downpayments, signed one year lease agreements 2/ and two acceptable guarantors, one of whom must be the landlord if the applicant is a tenant. Interviews with field agents and with project staff have suggested that poorer farmers have often been unable to afford the necessary downpayment or to get their landlords to sign a lease agreement. WADU's requirements are less demanding, and applicants have only to present two guarantors, but interviews have nevertheless indicated that poorer tenants applying for loans often have difficulty in finding guarantors acceptable to the screening committee. These are thus grounds for believing that such credit schemes are not always of net benefit to the poorest parts of the rural community and may even worsen the existing patterns of income distribution in project areas.

#### Repayment of Institutional Credit

36. Many hypotheses have been put forward to explain low repayment rates of production credit, all of which may have substantial elements of validity. Poor yields or lower harvest prices than expected may result in low repayment rates regardless of the efficiency of local agencies for the enforcement of law. The use of elaborate procedures for selecting applicants who are sufficiently "credit worthy" has not guaranteed satisfactory repayment rates in many of the projects reviewed. ZAPI achieved a 90 percent repayment of loans issued in 1972, CADU achieved repayment rates of 90 percent, 85 percent and 92 percent during its first three years; that in MPP was 90 percent in the Program's first year. WADU, however, achieved rates of 98 percent and 95 percent in its first two years.

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1/ The average size of family holding in the project area is 7.5 acres.

2/ These lease agreements are required as a guarantee against eviction.



Analysis of repayment figures in all three Ethiopian projects raises doubts as to the general contention that smaller farmers are a greater credit risk than large (because they divert production credit or, alternatively, use their increased incomes for consumption rather than repaying their debts). Large farmers in the CADU project area, possibly because they can exert more influence than smaller ones, have felt able to renege on their debts, and because of the inefficiency of the courts, the lack of cooperation from the local government administration and campaigning against the project authorities by local interest groups, it proved impossible to take legal action against them. The refusal of large farmers to honor their debts may well have influenced other borrowers. As use of the project's credit scheme expanded, due date repayment rates declined. Goading defaulters is an unpleasant task, demanding of time and money and may be by no means conducive to good relations between project authorities and the communities they serve. LLDP has consistently faced low rates of repayment, and the inability or unwillingness of the courts to force defaulters to meet their debts has been growing. Without the cooperation of strong local institutions and local government administrations, projects may continue to face such problems of recovery regardless of the selection procedures they employ in the distribution of credit.

37. WADU until recently required no downpayments on the loans it issued, but adopted the strategy of holding all farmers within a given area jointly responsible for the total credit extended: if the repayment rate for the area fell below 95 percent in a given year it would be denied access to credit in future. It is possible that this explains the higher repayment rates achieved by the project, and CADU and MPP have recently resorted to the same strategy. However, Wolamo society is observed to be a good deal more homogeneous than in the areas under CADU. Land distribution is more even and average holdings (1.25 acres) are smaller than in Chilalo (7.5 acres). Whether group responsibility for the repayment of externally injected credit is a viable proposition where the group contains widely varying size classes of farmers remains to be seen.

#### Institutional Credit and the Promotion of Innovations

38. On the basis of available information it cannot be stated whether access to institutional credit does or does not crucially determine the rate of adoption of new agricultural inputs. Experience in the early years of SRDP's Vihiga Maize Credit Scheme suggests at least that if credit is to be used by rural development projects as a major vehicle for enhancing productivity, credit schemes need to be carefully designed with local socio-economic conditions in view, otherwise they may risk being irrelevant. Of the 600 farmers selected at random to participate in the scheme when it started in 1971, only 63 finally used its services, and their rate of repayment was only 80.7 percent. In 1972 the expanded scheme



was only used by 383 farmers. The poor repayment rate may be attributed to the low profitability of maize production in the area: Bedi's review of the scheme indicates that the net income to repayment ratio was around 3:1. It appears that advances of cash for the hiring of labor would have been far more productive than the material inputs which the scheme did provide. Because there are opportunities in off-farm employment there is substantial outmigration, which, despite the area's high population density, has frequently resulted in shortages of family labor during peak farming periods. Of 22 farmers who did not reapply for credit after the 1972 harvest, 10 indicated that this was mainly because loans under the scheme could not be used for land preparation expenses.

#### Future Approaches to Agricultural Credit

39. The reviews indicate with remarkable consistency that the credit delivery systems used by rural development projects are elaborate and highly demanding of the very limited trained manpower available. Even so, as the numbers of applicants for loans increase, the repayment rates slide, and accordingly the cost of distribution and recovery rise. A genuine doubt already exists as to whether and how poorer farmers can be benefited by current institutional credit schemes.

40. If credit delivery is to form part of future rural development project activities, new approaches based on community participation may be an economic necessity. Wherever the existing structure of society permits them to do so, projects might fruitfully try to organize credit delivery through community groups, so as to reduce operating costs and to assure repayments. Whatever the future status of externally injected credit in rural development projects, ways must certainly be found to mobilize rural savings. (The traveling savings banks tried out by the LLDP have not yet been very successful since people do not trust vans which "go away" with their money.) One approach worth trying may be the introduction of credit grants in proportion to the volume of savings mobilized by local groups. Adoption of such a strategy would entail the use of trained manpower initially for the development of local community groups, and where they exist, for institutionalizing self-help savings groups, rather than for the rapid expansion of a distribution system imposed from above. This approach differs in principle from that presently used (in different forms) in CADU, WADU and LLDP, of using local committees to distribute externally injected credit and to bring pressure on borrowers to repay. Involving rural communities in saving as well as in receiving credit should lead to a more direct interest in ensuring repayment. Building local institutions which are both efficient and genuinely representative of the communities they are to serve is a task neither easy nor without risks of failure, but it seems clear that in the long run only a participatory as distinct from a paternalistic approach to credit distribution in rural areas will be economically viable or assured of benefiting the poor.



## V. MARKETING OF AGRICULTURAL OUTPUT

41. Fragmented markets, limited marketing infrastructure, inadequate communications and transport facilities, and crop prices which are low and unpredictable are all characteristic obstacles to rural development in Africa.

42. Although the barriers to the development of integrated markets can be identified with some degree of accuracy, evidence from the project reviews gives rise to doubts as to the efficacy of existing attempts to remove them. The marketing services introduced by the integrated projects have faced a number of complicated operating problems, do not ensure that food crops grown in their target areas will continue to be marketed beyond the stage of donor involvement, have high recurrent costs, and of course serve relatively small numbers of people.

### Output Price Supports in the Integrated Projects

43. Several of the integrated projects have introduced output price supports as a method of maintaining production incentives. (The problem of price decline is of course apt to be particularly severe where rapid increases in output are induced in small geographical areas before countrywide marketing networks are sufficiently developed to handle them.) CADU and LLDP have introduced guaranteed minimum prices for certain crops grown by project farmers, to reduce seasonal and year to year price fluctuations. It is thereby intended to stabilize income levels and to give farmers an incentive to accept innovations. It has not, however, been established whether such a price support system actually does provide incentives to increased production: gross returns to the farmer depend on a combination of factors, and input costs and the physical returns to inputs are as significant for him in deciding whether to innovate as the output price he expects. It has already been argued that although rural development programs cannot influence the weather they would do well to pay more attention, in promoting the use of new inputs, to the on-farm factors (such as the availability of the most suitable inputs at the right time) which affect yields, for as long as yields vary substantially from year to year, stabilization of harvest prices will aggravate income fluctuations. The extent to which farmers respond to fluctuations in income rather than fluctuations in output prices is so far only a matter for conjecture. However, evidence from LLDP and the Ethiopian projects suggests that the primary cause of small farmers' and tenants' aversion to innovations is the unpredictability of yields, rather than considerations of harvest prices, which makes them afraid of incurring debts for new inputs. A survey taken in 1972 in the LLDP area, though the validity of its terms of reference has been questioned by the program management, suggests that farmers' awareness even of current crop purchase prices may be very low.



44. Whatever the grounds for supporting output prices in project areas, such a policy may in practice be extremely difficult to implement: it is unlikely that project authorities will be the sole marketers of output in their target areas and they may find themselves in conflict with existing marketing boards and with the private trading sector. Marketing boards have traditionally handled only export crops, produced largely by commercial farmers, and lack the administrative capacity and the staff to handle food crops for domestic consumption. Commercial crops are relatively easy to procure: such marketing infrastructure as exists in rural areas is usually geared to them. By contrast, surpluses of food are usually extremely scattered and difficult of access. Where rapid increases in the production of food crops are being induced, projects may see no alternative but the development of their own autonomous marketing services in the interests of immediate welfare or short term efficiency. An example from the LLDP illustrates the type of pricing problems that can occur in such a situation. The National Agricultural Marketing and Development Corporation has overall jurisdiction over input and output marketing in the LLDP area. However, it has so far been reluctant to purchase maize from project farmers, believing that levels of production are not yet sufficient to make its involvement commercially viable, and the project authorities accordingly undertook to purchase maize in the villages for resale in bulk to the Corporation. LLDP's maize purchase price is higher than that offered by the Corporation in other areas, which has had bad consequences for regional equity and has understandably led to trouble: maize growers in these latter areas tried (unsuccessfully) to make the Corporation raise its price. LLDP staff did not feel able to reduce the project's purchase price, fearing the consequences for project farmers' welfare, unless a substantial volume of production were to be shifted away from maize.

45. There is too little data available to estimate with any accuracy what proportion of the marketed surplus of food crops in project areas is handled by traditional traders, but evidence from LLDP and from CADU suggests that it remains very large. In 1972 LLDP's marketing service found itself in difficulties. Since the export price of maize was high, private traders were offering farmers much higher prices than those fixed by the project and by ADMARC, and when farmers realized this, stones began to be thrown at some of the LLDP marketing centers. The fixing of guaranteed minimum prices for grain can indeed be fraught with difficulties, given the fragmented nature of domestic food markets and the unpredictability with which national grain boards may export, import and distribute grain. CADU incurred heavy financial losses in 1970/71 and 1971/72 as the result of grain purchases from project farmers at prices (often substantially above those of private traders) based on forecasts which turned out to be unrealistic. For the 1972/73 harvest a two-payment system was proposed, whereby farmers would initially be paid 90 percent of the prevailing local market price. Since the local traders were prepared to pay farmers the full market price the latter of course refused to sell to CADU, which was thus forced into buying at the market price after all.



CADU's management has observed that the subsequent drop in applications for credit may have reflected farmers' dissatisfaction, since they had accused the project of trying to make a profit at their cost. Experience in WADU also lends weight to the suggestion that where private traders are operating projects' attempts to stabilize output prices may be counterproductive in that they generate farmers' mistrust.

46. The operating costs of the marketing services in the integrated projects are extremely high. CADU's unit costs (excluding overheads) of marketing wheat between Asella in Chilalo and Addis Ababa are double those of private traders. Such high costs raise questions as to how these marketing services are to continue to function in the long run: so far the marketing charges levied on farmers have not included any allotment for the staff salaries or such other costs as the depreciation of equipment.

#### Marketing Cooperatives

47. A number of the projects reviewed have established marketing cooperatives, as an alternative or a complement to more centrally administered systems. Marketing of food crops is not an easy sphere in which to encourage successful community participation in the early stages of development. Developing the local organizational and entrepreneurial abilities necessary for the success of cooperatives in this sphere is a lengthy task, and training for cooperative development has often, as in CADU, failed to take sufficient account of its trading and speculative aspects. Cooperative marketing of export crops has traditionally been less demanding of entrepreneurial skills, its function being primarily to procure standard graded crops at prices already fixed by marketing boards, for further processing or direct export. Cooperatives set up to deal with foodgrains have to be able to compete successfully with private traders in their ability to speculate and to operate at relatively low cost in domestic markets which are as yet highly fragmented, and trading can be particularly difficult for inexperienced people when confronted by illiteracy, poor transport and communication facilities and the virtual absence of financial institutions. There is evidence too that fraud, as well as inexperience and lack of competence, can be an extensive problem, even in Tanzania, which has one of the most highly developed cooperative networks in Africa. Despite such operating difficulties, a paternalistic attitude on the part of project authorities can be counterproductive. The reviews indicate consistently how such attitudes have effectively discouraged rural people from giving their energies to make project-initiated institutions work. To some extent the measure of such paternalism is the degree of dependency of the cooperatives being fostered on fiscal resources and skills not generated locally. Since marketing can be costly and is so demanding of skills, it might be argued that cooperatives to handle food crops should not be set up until the communities they are to serve can provide people with sufficient skills to take genuine responsibility. Furthermore, in the



early stages of development, marketing cooperatives may be more susceptible to pressure from interest groups. Membership of cooperatives in five districts under CADU was found to be over representative of landlords: although the membership requirements do not discriminate against tenants, many of the latter class have not joined because they fear losing their tenure.

#### Alternative Approaches to Marketing

48. The experience of marketing intervention in the integrated projects thus raises some disturbing questions. It is clear that if serious bottlenecks in the disposal of marketable surpluses are to be avoided in the future and if deficit areas are to be efficiently supplied, increases in food production need to be induced gradually and over wide geographical areas. Increases in output need to be commensurate with the development of institutions capable of handling them. There is no guarantee that once such projects as these cease to exist in their original form, marketing boards will spontaneously develop the capacity and the willingness to handle food crops produced by small farmers. There is surely a need for projects to devote their prior attention to removing the most basic constraints on long run development, by encouraging the growth of viable local institutions and by the provision of communications and transport facilities. Only then can the more immediately apparent constraints such as low levels of productivity and lack of fertilizer be effectively tackled. Purposive action to encourage the growth of traditional trading networks has not figured among the marketing interventions of the projects under discussion, which have to a large extent aimed to replace them within the target areas (as we have seen with not unmitigated success). Arguably this is their most significant shortcoming. The existing documentation, 1/ though mostly on West African countries,

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1/ See Hodder and Ukwu, M. P. Miracle, "Market Structures in the Tribal Economies of West Africa" and K. R. Anschel, "Agricultural Marketing in the Former British West Africa" in K. R. Anschel, R. H. Brannon and E. D. Smith, eds., Agricultural Cooperative and Markets in Developing Countries, New York: Fredrick A. Praeger, 1969; and Miracle, "Market Structure in Commodity Trade and Capital Accumulation in West Africa" in Moyer and Hollander, eds., Markets and Marketing in Developing Economies, Homewood, Ill., Richard D. Irwin, 1968.

Good, Rural Markets and Trade in East Africa: A Study of the Functions and Development of Exchange Institutions in Ankole, Uganda, Chicago: University of Chicago, Department of Geography, Research Paper No. 128, 1970.

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indicates that in many areas traditional traders are highly skilled and their systems are efficient. Where means of communication and transportation are well developed, regional price movements are observed to be well coordinated. Rural development projects could, if they elect to encourage the activities of traditional traders, introduce a number of relatively low cost and simple measures to increase producers' bargaining power and range of choice. Studies conducted by CADU's evaluation unit and by Manig and Thoday (see footnote 1, below) note that most of the price exploitation observed in Ethiopian markets is covert, through the use of false weights and measures, rather than overt. If true weights and measures are made available for use, no matter who the partners in transaction (as has been done in CADU), the welfare gains can be substantial. Information on current prices obtainable from different sources usually travels fast where communications are relatively well developed, but especially where this is not the case, the dissemination of such information by extension agents may be a venture well worth undertaking. The introduction of group storage facilities, possibly combined with seasonal advances of cash from project authorities, can allow farmers the choice of selling in the immediate post-harvest period or gambling for higher prices later.

49. Initially at least, where most farmers do not have trading and accounting skills, it may be wisest to leave the marketing of their output to "experts." Since experts in the shape of traditional traders are likely of their own accord to move into areas which are accessible, there does not appear to be an overwhelming justification for high cost marketing services which by their very nature benefit relatively limited numbers of rural people.

## VI. SOCIAL SERVICES

50. That very many rural communities in Africa suffer the debilitating effects of local food shortages, staple diets with low nutritional content, contaminated drinking water and low resistance to disease is an understatement. The casual relationships between physical welfare and productivity are not well documented, and the extent to which

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W. Manig, "Marketing of Selected Agricultural Commodities in Bako area, Ethiopia," occasional paper no. 66, Ithaca: Department of Agricultural Economics, Cornell University, Dec. 1973.

A. R. Thoday, Marketing of Grains and Pulses in Ethiopia, Stanford: Stanford Research Institute, April 1969.

rural development projects can expect to raise agricultural output and hence incomes where the majority of the population have traditionally been in bad health remains an open question. Health may nevertheless be seen as a good in its own right and it is obvious that living conditions in many rural areas can be significantly improved even by such relatively simple measures as the introduction of facilities for clean drinking water, or the provision of quinine to reduce the incidence of malaria, to say nothing of the control of disease vectors or the introduction of health education and clinics.

#### Economic and Social Costs of Sophisticated Social Services

51. Although both the need and the demand for social services, in particular for health and education, are substantial in most rural areas of Africa, the planning of delivery needs to take account of several complex questions. LLDP's experience illustrates a typical difficulty: the project management was forced by popular demand into providing health clinics, contrary to its original plans, and although villagers did contribute their labor enthusiastically for the construction of the new clinic buildings, it has been necessary to make ad hoc and temporary arrangements, through missionary and other voluntary bodies, to provide staff. So far the Malawi Government has not committed itself to supplying either fiscal resources or trained manpower to ensure the clinics' continued operation. The recurrent costs of social services are often very high. Tables 3 and 4 help illustrate their magnitude relative to capital investment.

Table 3: ESTIMATED CAPITAL/RECURRENT EXPENDITURE RATIOS FOR EDUCATION AND HEALTH, TANZANIA /a

Year	Education	Health
1973	1:10	1:5
1974	1:8	1:5
1975	1:7	1:6
1976	1:8	1:6
1977	1:8	1:6
1978	1:7	1:6
1979	1:7	1:5
1980	1:7	1:5

Source: Annual Manpower Report to the President, 1971, and working figures of the Ministry of Health.

/a Based on proposed capital and recurrent expenditures.



Table 4: PLANNED DEVELOPMENT/RECURRENT EXPENDITURE  
RATIOS, KENYA 1966-70

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Roads	10:2
Waterways	10:2
Agriculture	8:4
Education	1:3
Health	1:3

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Source: Republic of Kenya, Development Plan 1966-70, Nairobi:  
Government Printer, 1966, p. 40.

52. The low tax base in most African countries, the size of the rural sector and the scarcity of trained manpower all give grounds for believing that in view of their high recurrent costs, the delivery of sophisticated social services in the early stages of development may for two reasons be misguided: firstly in its consequences for equity and secondly in that resources may be thereby diverted away from productive investment. The government of Tanzania has put a heavy emphasis in recent years on the provision of social services in rural areas, partly to answer popular demand for them and thus elicit more support for its Ujamaa policy. Care must be taken that this course of action not have a net detrimental effect on the overall development of backward rural areas by channeling the fiscal resources needed to meet the recurrent costs of social services away from directly productive investment.

53. Approximately 60 percent of the country's regional development budget for 1974/75 has been allocated to health, education and water supply schemes. Well intentioned donors who offer to introduce sophisticated social services need to bear in mind that the recurrent costs have eventually to be borne by national governments. Tanzania's expenditure on non-externally aided schemes has fallen, both absolutely and in relation to total development expenditure.

54. That the provision of sophisticated social services may have adverse consequences for regional equity can be illustrated by an example from the SODENKAM settlement project. Medical facilities for the 3,500 settlers were provided in the shape of six dispensaries, a hospital, an "advanced health center," a testing laboratory, 14 medical attendants and mobile clinics. The imbalance thus created between conditions in the project area and the bordering arrondissement Nkondjok, with a population of 16,000, were striking: the latter is served only by one state medical attendant and three dispensary attendants. In addition, the settlement area had 26 primary school teachers and Nkondjok

**Table 5: TANZANIA: SHARE OF MAJOR SECTORS IN REGIONAL BUDGET  
(EXCLUDING PARASTATALS) 1972/73-1973/74**

Broad sectors	(Percentages)			
	Regional Development budget		Regional recurrent budget	
	1972/73	1973/74	1972/73	1973/74
Agriculture as % of total development budget	6.8	23.3	4.4	12.9
Education and health and water as % of total development budget	63.2	52.5	57.3	51.9
Other as % of total development budget	<u>30.0</u>	<u>24.2</u>	<u>38.3</u>	<u>35.2</u>
Total	100.0	100.0	100.0	100.0

Source: Figures compiled by the Tanzanian Agriculture and Rural Development Sector Survey, based on regional budgets of Tanzania.

only nine. Such obvious disparities made for much unrest in Nkondjok, and provided in the words of an early observer, "an ideal opportunity for what might well develop into serious friction."

#### Alternative Approaches to Social Service Delivery

55. Both inter-regional equity and the long-term viability of social services suggest that rural communities be involved in planning and delivery from the outset and that wherever possible local savings be mobilized. Since in many communities popular interest is initially much greater in visibly beneficial activities, such as the provision of convenient and unpolluted supplies of drinking water or the building of schools, than in the adoption of "strange" new farming techniques, the development of social services can provide an ideal focus for the stimulation of local groups and a participatory approach to development. It has been argued that a "grass root" approach to social service delivery where this involves the use of local savings can reinforce regional disparities, since more advanced areas are able to generate more resources. While sometimes this may indeed be the case, and a



critical minimum input of productive investments may be essential to the development of social services by local people, evidence from the squatter settlements in Kenya gives grounds for optimism. In the Ngwata area in 1973, local community groups were attempting to raise K Sh 180,000 from residents to fund both a medical center and a secondary school. In Ngoliba, primary schools have been built with voluntary labor and at one school built in 1970 local residents were combining to pay teachers' salaries. Mbithi and Barnes in their review attribute such spontaneous initiatives to the very lack of government intervention in these areas, which has forced the squatters to collaborate to improve their living standards.

56. Evidence from elsewhere in Kenya and from ZAPI and SODENKAM emphasizes that using a participatory approach calls for a great deal of sensitivity. Where self-help projects already exist, clumsy intervention may be self-defeating. In Tetu district, which has a long tradition of local initiative, the number of registered self-help projects declined drastically following the introduction of SRDP activities in 1970. Mbithi comments: "Field workers report that there are in fact a number of new self-help groups forming in (Tetu), but they are avoiding registration so that their project is not expanded by politicians and administrators beyond what they can afford."

57. Evidence suggests that intervention in the field of social services should be directed towards assisting community organizations to identify their needs and to delineate the major constraints on their fulfillment, and on this basis providing limited technical and other forms of assistance. A number of broad questions will need to be borne in mind in deciding what commitments to social service development is necessary in given areas:

- (a) the likely effects of the introduction of social services on labor productivity;
- (b) existing social structures and patterns of leadership, and local propensity for 'self-help' schemes; and
- (c) the technical skills and financial investment necessary for the delivery of social services of different degrees of sophistication, and hence the degree to which local resources can be relied upon.

VII. RURAL DEVELOPMENT ADMINISTRATION AND  
INSTITUTIONAL DEVELOPMENT

58. This section will discuss aspects of rural development administration, drawing on the experience of the integrated regional projects, highly dependent on foreign resources, and of Kenya's Special Rural Development Program and the Ujamaa movement in Tanzania. Different immediate objectives indicate the use of different administrative forms, but too often the activities of the integrated projects and the forms they have adopted for the delivery of services are so highly demanding of skilled manpower as to limit their replicability elsewhere in African countries, even were there to be no shortage of fiscal resources. It will be argued that if the processes of growth stimulated by rural development projects are to be sustained over the long run, more emphasis will need to be given in future planning to the training of indigenous administrative staff, and to the development of strong permanent institutions. Furthermore, equity will demand the adoption of administrative systems which incorporate a high degree of voluntary participation by rural communities, both in local planning and in project implementation.

Administrative Autonomy in the Integrated Regional Projects

59. The integrated regional development projects, CADU, WADU and LLDP, share the same broad objective of accelerating economic growth within a limited geographical area and within a limited time frame, and need to ensure that their interventions in different spheres of activity are well coordinated. In Ethiopia and Malawi, the government administration in rural areas was ill-equipped to handle the operations that such an objective implies. In the interests of efficiency, therefore, all three projects have been administered by authorities independent of the regular governmental structure. This emphasis on maximising efficiency in the short term, involving a concentration of high cost resources for a limited time, has engendered an approach to development administration quite different from those adopted by the Kenyan government for the SRDP and by the Tanzanian Ujamaa movement. Both of these latter approaches to rural development are designed to provide wide geographical coverage over a longer time period and have, though to different degrees, a more specific ideological content than does the regional projects' goal of providing access to services for the rural poor. That these regional projects have put relatively little emphasis in the course of implementation on improving the administrative capacity of local government is partly due to the low level of Africanization of the public services in Ethiopia and Malawi.

60. Clearly though, administrative responsibility for such regional donor-aided projects has eventually to be assumed by governments. In this context, it is unfortunate that the "success" of investment in



such projects is generally judged according to their financial rates of return: since there are no obvious criteria on which to judge, in the short term, the profitability of investment in manpower development or the improvement of local administrative capacity, there is a risk that they will emphasize the achievement of ambitious targets of agricultural production, to the detriment of efforts to encourage community participation or to acquire and train indigenous managerial staff. Similarly, project staff may neglect the design of procedures that will be lastingly efficient, regardless of particular personalities, and the fostering of good relations with the existing government administration. The short term advantages of the integrated regional projects' administrative autonomy, over implementation through the structures of government, are manifest: the management has clearly defined overall responsibility for project activities, and has the necessary authority to supervise and coordinate the work of the component departments. Moreover, the objectives of such projects are in general more narrowly defined than those of local government, and the financial and technical resources to realize them are far less limited. Given such advantages, if efficiency is not to be seriously compromised in the long run, there is a need to address from the outset of project planning the problems attendant on the transfer of responsibility. If regional development is to be initiated in this way in the future, greater attention is called for than was given in the design of these three projects to the likely availability of qualified indigenous manpower, willing to work in rural areas, to the degree of local level coordination between government departments that can be expected in the foreseeable future, and to the steps that can be taken to improve the performance of the local administration. There will be an equal need for strong commitment on the part of national governments to the development of effective rural administrations and to investment in training indigenous manpower.

61. In that the autonomous projects cover a range of different activities, their continued operation beyond the stage of donor involvement will necessarily involve the devolution of responsibility in different spheres onto separate government or commercial agencies. The logistics of such a transfer of responsibility have obviously to be considered at an early stage, with regard both to the future overall coordination of activities and to the question of which agency can most aptly assume which function. The LLDP is entering a transitional phase, and difficult problems are arising in the transfer of responsibility since the relevant units of local government, namely the regional and district level administrations, and the much larger agricultural divisions administered by the Ministry of Agriculture, do not correspond to the "units" and "sectors" of the project. There is no obvious choice as to which levels should be strengthened to take over responsibility for coordinating activities: the regional and district level administrations have traditionally coordinated the work at the local level of a number of technical and social service ministries, and may by virtue of this be most suitably equipped for ensuring coordination in Lilongwe in future. By contrast, however, since services to agriculture have



been the central focus of LLDP activities, it may instead be more appropriate to strengthen the agricultural divisions to perform the main coordinating role. More problems arise in the transfer of responsibility for specific elements of the project, especially where more than one ministry should logically be involved. For instance, continuing the road construction in the area begun by the LLDP will jointly involve the Ministry of Agriculture and the Ministry of Public Works, while responsibility for upkeep of major roads will rest with the Ministry of Public Works, but of minor roads with the district and village councils. In such cases, questions arise as to which ministry or department should be assigned responsibility for the coordination of joint activities, which should pay staff salaries and which supervise field staff. The transfer of responsibility for LLDP's commercial services is even more problematical: there exists as yet no obviously suitable agency to take over the delivery of agricultural credit, and ADMARC is unlikely to wish to assume the complete burden of input delivery or marketing of output in the area. The role of the various committees created under the project and their future relationship with the district councils raises another set of questions, and whether they will survive as genuinely participatory bodies in the long run remains to be seen.

62. Further to this last point, doubts can well be raised as to the continuing status of such community participation as has been engendered by these projects, once the presence of donors is phased out. Fostering the participation in decision-making of the lowest income groups in the community can be a means of ensuring that the benefits of growth do not accrue only to the relatively rich, although local interest groups are normally observed to try to influence community bodies and to exert pressure on development authorities. Paradoxically, regional development projects with a large proportion of expatriates in their administrative staff may be more successful in distributing benefits evenly and ensuring fair access to services than those administered by indigenous staff, in that they are less susceptible to such pressures. CADU's management was able successfully to restrict very large farmers' access to its credit scheme and to introduce standard weights and measures despite the vociferous complaints of landowners and traders. The existing government administration in rural areas will often be far more aware of local vested interests and more susceptible to their influence. WADU's difficulty in establishing rapport with the government administration in Wolamo might be attributed not only to the fact that the project's management was "foreign" but that its objectives conflicted with those of local landowners and traders, who had exerted influence on the administration. A member of an IBRD supervision mission to a locally managed Tanzanian project relates an amusing but sad incident: a road reported to have been constructed within the specified project area was found by the mission not to exist. After further enquiries, it was revealed to have been built after all, but outside the project area. Local staff explained that there must have been a "misunderstanding" as to the project area's boundaries.



63. In the long run, given their familiarity with local needs and local characteristics, nationals can be far more effective than expatriates in the planning and administration of projects for rural development. A much greater commitment is necessary in future on the part of government and donor-aided rural development projects to the training and encouragement of indigenous manpower to take on these roles, and as much in the interests of the fair distribution of resources as of efficiency it will be necessary to build up the administrative and technical capacity at the regional and lower levels of government as well as at the top. Local government administrators and rural communities can play a vital role in identifying needs and helping to meet them, and should be given more encouragement to do so than was possible in the integrated projects reviewed here. We turn now to a brief examination of the problems faced by Kenya's SRDP, which was originally designed by the government with such needs centrally in view.

#### Administrative Decentralization:

##### (a) The Kenya SRDP

64. Until quite recently rural administration in Kenya has been highly centralized, and as a result development plans have often been based on inadequate knowledge of the conditions under which they were to be implemented. Further, as a result of poor inter-ministerial coordination, some services have been duplicated in certain areas and the provision of others totally omitted.

65. The SRDP was conceived in 1967, as a means of bringing the oft-articulated goal of "participation of all people in the task of nation-building as well as the enjoyment of the fruits of progress" nearer realization. It aimed to devolve responsibility for the planning and implementation of rural development onto lower levels of government, while coordinating the component projects from the top. All the projects in Phase I, beginning in 1971, were to be undertaken with a view to their future replicability elsewhere in Kenya, and thus the assistance of donors was to be kept to a minimum and the allocation of all resources controlled by the government. The original design of the Program tried to combine two aims, that of experimentation in project design and in methods of implementation with a view to their transferability, and that of achieving rapid and visible increases in rural welfare. Needless to say, these may not always be compatible, and in the compromises that had to be made in the course of the Program's history, the former has perhaps suffered more than the latter.

66. The Program's departure from its original objectives stemmed to a large extent from its initial difficulties over finance. To coordinate its activities at the top, the National Rural Development Committee was set up in 1969, comprising the secretaries of the Ministry of Finance and Economic Planning, which held overall operational



responsibility for the Program, of the Treasury and of the other ministries involved in rural development. The NRDC initially lacked adequate staff, and its recommendations carried insufficient weight with the Treasury, which was unconvinced either of the novelty of the Program's content or the validity of its purpose, and accordingly in June 1970 blocked the release of funds to set it under way. The Committee was now forced to accept the offers of different foreign donors to finance the development of different geographical units, rather than itself retaining control of all disbursements. As a precondition of their support, many of the donors demanded alterations of the regional plans that had already been drawn up, and several also offered to provide staff under technical assistance, thus effectively compromising the aim of experimentation and the possibility of replicating the projects in future. After the Treasury had been amalgamated with the Ministry of Economic Planning, six months later, government funds for the Program were released, by which time the foreign donors were heavily involved.

67. Delays had already arisen in preliminary planning through a failure to delineate specific responsibilities for the gathering of necessary data and the actual design of strategy. The IDS Nairobi carried out baseline surveys of the six original target districts, but aroused the indignation of Program staff in Nairobi in that the surveys did not set priorities or lay down the content of individual plans. The process would have been more efficient had the objectives of the surveys been more clearly specified from the outset, and had the time necessary for conducting them been more realistically assessed. The planning of projects also suffered from the fact that insufficient attention was given to improving the planning capacity of administrators at the local level. Each Provincial Planning Officer was supposed, in consultation with the department heads of technical ministries in his area, to draw up an area project strategy, to be evaluated by the NRDC. This would then be forwarded for their comments to the Provincial and District Development Committees, on which latter the rural community was ostensibly represented. Once the general strategy had been approved, detailed project plans were to be drawn up for the approval of the NRDC and the central staff of the ministries to be involved in their implementation. However, the efficiency of the system suffered badly from the shortage of qualified personnel in the regional administration, and also from the lack of a precise division of responsibility between the PPOs and the district departmental heads of technical ministries.

68. The participation of local people was to have been of major importance in planning, and the District Development Committees were set up to ensure this. However, in practice the DDCs have been relegated to a subordinate position, and merely "approve" project strategy rather than influencing it. Local communities in some areas under the SRDP have neither been consulted during planning nor even informed in advance of project implementation. Neither has their participation in



implementation always been skillfully fostered. The SRDP Cotton Block scheme in Mbere district ran into labor difficulties over the laying of an 88 km water pipe: planning had assumed the use of voluntary labor, which was not forthcoming, and so work had to be begun with contract labor, but could not be continued because of its cost. In Kwale district the Sequential Implementation Procedure attempted to avoid such problems, by concentrating attention initially on projects with visible and immediately beneficial results, to overcome popular resistance to intervention. The SIP approach has apparently worked well, and in the Kikoneni Water Project, public support was such that voluntary labor could be relied on entirely.

67. It has frequently been observed that had there been less non-Kenyan involvement in the SRDP many of its operating problems could have been avoided. Apart from the additional delays in planning that occurred as a result of the donor agencies' demands, their presence has led to the design of plans too ambitious for local administrators to handle efficiently. Allied to this problem are the discontinuities that arise where projects rely on expatriate staff in the initial stages of implementation, as in the donor-aided integrated programs. In addition, while the initial conception of the SRDP laid stress on the overall coordination of strategy, the "adoption" of different districts as discrete units by different donors has made for considerable fragmentation and regional imbalances.

70. Phase II of the SRDP, begun in 1972, involves extending administrative decentralization to all districts of Kenya, providing for integrated planning by the lower levels of government. The center of administrative authority for rural development has been shifted from Nairobi to the technical staff in the regions, working through the Provincial Development Committees, on which the provincial heads of all ministerial departments are represented. How far the experience of the first phase of SRDP has provided lessons and guidelines for the country-wide decentralization of development planning and administration is an open question, but observers express disappointment that there has not been more specific attention to remedying the deficiencies it brought to light.

(b) The Ujamaa Movement in Tanzania

71. Tanzania's Ujamaa movement is unique among strategies for the development of rural areas in Africa in that it focuses centrally on community participation. Ujamaa entails enabling the rural population to participate in and eventually be responsible for planning and decision making in production, marketing and the distribution of services, and for defining the quality of their own social and political lives. Social equality and self-reliance are among its informing principles. As we have seen, the pursuit of rapid and spectacular economic growth in rural



areas may imply the neglect of efforts to foster genuine participation and may also do little to remedy income disparities within the rural community. TANU's policy statement of 1971 <sup>1/</sup> advocates the sacrificing of rapid growth in favor of guaranteeing a minimum standard of living to the poorer sections of the population and rendering rural society more homogeneous. However, the budgetary resources available for rural sector development are limited and concentration on the rehabilitation of the lowest income groups has led to cuts in the delivery of services to small commercial farmers, who are themselves often only just above the margin of subsistence. The recent emphasis of the Ujamaa movement on the delivery of welfare rather than of productive services could have an adverse effect not only on wide support for the movement but on the long-term growth of the rural sector.

72. TANU is of course the motivating force of Ujamaa and its policies have not been unopposed by the civil service, in particular by the technical ministries, and by the commercial farmer lobby. In 1971 TANU moved to decentralize the administration of rural areas both to rationalize its structure and increase its efficiency, and to reinforce the party's own influence within it. Previously the structure was highly centralized and its procedures cumbersome: projects for Ujamaa village development were prepared, budgets for rural areas allocated and personnel deployed by the central ministries in Dar es Salaam. Field staff, responsible to their separate agencies, rarely regarded themselves as members of a local development team, and in the absence of a framework for the horizontal coordination of activities, local initiatives were stifled. Under the new system the lowest level administrative units are the Ujamaa Village Development Committees on which villagers are represented, which replace the old Ward Development Committees. Above these, the District Development Councils, now chaired by the local party representatives, replace the District Councils, and although the District Development and Planning Committees linked to them remain, these have a reduced proportion of elected farmers in their membership. The Regional Development Committees, to which the regional heads of technical ministries are now responsible, coordinate plans and have direct control over ministry expenditures in their areas. TANU's influence on the planning process is assured not only by its representation on the committees at all three levels, but also through the vetting of all plans made at each level by the corresponding party council. The new administrative structure affords a far greater autonomy to the lower levels of government than does the Kenyan system; and is ostensibly in line with TANU's aims of shifting the balance of political power in favor of the poorest classes in rural areas and of raising their political consciousness.

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<sup>1/</sup> Tanzania African National Union, "Mwongozo," February 1971.



73. There is some evidence to suggest that the heavy emphasis of the Ujamaa movement on collectivization may in practice run counter to TANU's avowed objective, that "the leaders and the experts (should) implement the plans that have been agreed upon by the people themselves." Ujamaa villages have usually been formed either through transforming existing traditional villages, or by moving scattered people voluntarily from within a five to ten kilometer range into a central area, creating a new community. Some at least of their land is farmed communally, as a step towards full communal ownership and production. The movement has had most impact in the least productive areas of Tanzania, where living conditions were traditionally worst: Robinson and Abraham in their review note that of the total Ujamaa village population, 70 percent resides in five less developed regions (which together contributed less than 25 percent of the 1967 GDP) and 10 percent in six more productive regions (together accounting for over 55 percent of the 1967 GDP). Small scale commercial farmers have resisted collectivization. Lionell Cliffe <sup>1/</sup> points out an increasing tendency on the part of government authority to use coercion in the development of collectivized farming, which if smallholders are to be seen as members of the low income rural community, clearly runs counter to the objective of community participation in planning for development. Coercion may also have an adverse effect on agricultural productivity: sources within government report that in the Ismani area, where force was used to collectivize maize growing, the volume of production fell by 70 percent in two years. Whether justified or not, popular resistance to Ujamaa from those living just above subsistence levels could lead to prolonged civil unrest, with adverse social and economic consequences. The Ismani episode ended in the murder by a farmer of the District Commissioner responsible for the enforcement of collectivization. Recently it has been observed that collectivization is being stressed rather less in areas where agriculture is more developed, and in some new villages only the change to community living rather than to communal working is being promoted.

74. The Ujamaa strategy thus raises questions as to the value for the long-term overall development of the rural sector, and for self-reliance, of an exclusive concentration on the lowest stratum of society in the provision of services and the fostering of community participation in government, since the dictates of such an approach may restrict the potential for growth of those who, while marginally better off, are still in conditions of rural poverty.

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<sup>1/</sup> Cliffe: "The Policy of Ujamaa Vijijini and the Class Struggle in Tanzania," Rural Africana No. 13, Winter 1971, pp. 5-27.



75. A consideration of the decentralized administrative system adopted for its implementation gives rise to more immediate questions of efficiency, as to its own performance and to the deployment of available resources. Not all of the problems the movement faces are engendered by class conflict. As yet it is too early to judge whether the new committee structure facilitates rapid action or whether its elaborateness makes for delays in planning and in implementing decisions. However, since all communication between the central offices of the technical ministries and their staff in the regions now takes place through the regional administration, and not directly, it is feared that, although the technical staff in the regions are highly competent, their effective use may not be guaranteed. Ujamaa has also encountered opposition from the civil service, which may be attributed partly to the class background of many government officers, which encourages them to ally with the interests of the commercial sector, and partly to institutional biases in favor of allocating resources to productive services rather than investing in the welfare of the subsistence population. Ministry staff are deployed equitably throughout the country, but while this may have nominal political advantages and helps to counteract regional imbalances, the shortage of manpower has in fact resulted in lower expenditure on rural development than was projected. Another effect of the shortage of skilled manpower at lower levels of government is that a high proportion of expenditure has been on relatively large infrastructural projects rather than on less elaborate and cheaper ones of benefit to small communities. Thus although the new system was designed to enable development planning to take account of local variability, both ecological and social, the shortage of trained staff has significantly hampered its chances of success. Development of Ujamaa villages has often taken place in the absence of adequate information, and people have on occasion been persuaded or forced to move into new areas of which the authorities had no knowledge of soil characteristics, average rainfall, or the incidence of disease vectors, and sometimes there was no provision made for food in the initial period. Village development has also been hampered by the inability of the local administration to give new communities advice on the types of committees they should establish, or on the optimum numbers for work groups or the relative sizes of communal and private plots. The drive towards "villagization" has also, in the absence of adequate local information, tended to disrupt relatively more developed areas before production increases have occurred in those least developed, causing shortages of food. Although regional crop specialization is one of the movement's avowed aims, there has been little achieved in this direction, mainly because the requisite technical knowledge has been lacking. There has been little significant improvement of the agricultural extension service or related training, neither have there been systematic attempts to assess the performance of the delivery system. Very little is known so far of the effects of collectivization on production incentives, although as noted earlier, evidence exists to suggest that in certain conditions these may be adverse. In the absence



of impressive economic achievements in the rural sector, the social gains of the poorest section of society from their adoption by the movement are clearly substantial, and their level of awareness of TANU's aims is generally very high.

76. It is not the province of outsiders to advise that the Ujamaa strategy be reshaped in view of its long term economic or political implications. In conclusion of this section it need only be said that the evidence from the projects reviewed suggests that a competent, adequately staffed administration familiar with local conditions, and meaningful community participation in the planning and implementation of local projects, are no substitute for each other, and that both are necessary for the effective development of rural areas. We now turn to a brief examination of the issues faced in the training and orientation of both staff and rural communities.

#### VIII. TRAINING FOR RURAL DEVELOPMENT

77. The experience of most of the projects reviewed highlights the need not only for the development of indigenous administrative manpower for the future development of rural areas, but also emphasizes that greater government investment is called for than has so far been possible in the development of technical manpower and in vocational training for field staff, with closer attention to the relevance of training to the field conditions in which such staff are to operate. The issues of access to formal education and the relevance of its content to its recipients are not discussed in this paper, but it is clear that rural development projects can significantly augment both economic growth and welfare by providing training facilities for their target communities in a range of fields in addition to agriculture.

##### Non-formal Education in Rural Communities

78. The main educational emphasis of most rural development projects has indeed traditionally been on the development of skills directly related to agricultural production, although the training schemes run by the integrated regional projects reviewed are much wider in scope. Apart from on-farm advice from extension agents, several provide farmer-training courses, but there is a danger here that the disutilities of the selective "model farmer" approach will be reinforced, in that those who participate in them are selected not by village committees but by the extension service and are very often observed to come mainly from "progressive" villages. The format of such courses is also less than satisfactory in many cases: use of the formal "school" approach, complete with printed handouts which many recipients may be

unable to read, is scarcely calculated to achieve maximum impact on the farming habits of the population at large. Evidence from several projects also supports the view that short intensive courses for farmers can be much more effective than longer ones, since they will only emphasize a small number of points at a time, and more farmers are likely to have time to attend them. Local one-day courses like those offered to farmers at LLDP's unit centers also have the advantage of being able to disseminate very specific advice, since the farming conditions of those attending them will be similar.

79. Adult literacy rates in most rural areas of Africa are very low, and it is observed in several of the project reviews that members of the target communities who are illiterate are frequently exploited by the literate, but none of the projects reviewed has included a functional literacy scheme of any significance among its activities. Nevertheless, the provision of such schemes may be of critical importance for the viability of development projects in future: literacy is a major determinant of the extent to which groups or individuals representative of the rural community can contribute to the planning and delivery of services.

80. Small scale vocational training schemes undertaken by rural development projects can be a valuable means of diversifying sources of income and of stimulating the production of non-agricultural goods within the target area, quite apart from helping to raise the incomes of those trained. Where population pressure on land is high such schemes can be especially valuable to marginal people. CFDT in Mali undertook a training scheme for blacksmiths, in response to difficulties in obtaining spare parts for agricultural implements. After the 23 smiths had completed the course they were each granted an interest-free loan for the purchase of equipment and assigned a village from which to draw business. In addition to solving supply difficulties, the scheme seems to have raised the blacksmiths' incomes and their productivity. LLDP has recently undertaken a training scheme for the manufacture of bullock carts since demand for them is rising rapidly, and CADU aims in its next phase to promote training in a variety of small scale industries. With this in mind, it has undertaken a consumption survey of households in the target area to identify manufactured goods for which there is heavy demand.

#### Training of Staff for Rural Development

81. The training of both field and administrative staff is an important feature of many of the projects reviewed. Aggregate expenditure on all training activities (of which staff training represents a high proportion) in LLDP during its first two phases will be of the order of US\$542,000, or 3.5 percent of total project expenditure. In 1971-72, 48 LLDP staff training courses, involving 920 participants,



were given. CADU, as well as training administrative staff to take over its managerial positions, trains its own field staff and some of those needed by the MPP.

82. Training in rural communities will only achieve maximum effect if field staff are technically competent and have some familiarity with the environment in which they operate. It is also clearly essential that they be able to communicate effectively with the target community. Unfortunately, the training of field staff by most of the projects reviewed does not guarantee the achievement of such ideals, neither has there been in most of them a sufficient attempt to evaluate staff performance systematically, with a view to modifying future staff training. Belloncle and Gentil's comments on the performance of extension agents in ZAPI highlight some of these problems: staff generally went into the field with inadequate technical knowledge and, in addition, although great efforts were made to give them some basic training in economics, very little was done to develop their understanding of social customs in the communities in which they were to work, or even to understand local languages, let alone cope with the problems of translating into it "alien" technical concepts.

83. The design of training programs for field staff to combine the development of technical competence and adaptability with effective methods of communication is by no means easy. The SRDP's Tetu training scheme is an interesting and relatively successful attempt to do this. Information was gathered on 354 randomly selected farmers in the region, to assess levels of adoption of particular inputs and practices in different locations, and the implications of the findings were built in to the curriculum for extension staff in training. The selected farmers were ranked in different categories according to their progressiveness, and then offered intensive three-day courses at the corresponding level, from which they could subsequently progress upwards. Perhaps the most promising achievement of the Tetu scheme is that both the local administrative officers who initiated it, and the extension staff in their design of the farmers' courses, showed such responsiveness to local variations in field conditions. Where it is possible to train members of the local community as extension workers, there is a chance that staff-farmer communication will be easier than where staff are from an alien background, and if they can bring their knowledge of existing local farming conditions to bear it is likely that the innovations they are trained to promote will have a better chance of successful adoption.

84. The training of indigenous managerial and administrative staff has been a central concern in the donor-aided integrated projects reviewed, to ensure their continued operation beyond the stage of expatriate-dominated administration and as a prerequisite for the eventual management of their activities by local government. Many of them have experienced difficulties in Africanising their high-level staff: although CADU has been comparatively successful, WADU and LLDP in particular have



had problems for a variety of reasons in recruiting and in training nationals. It was originally proposed that a qualified Malawian be appointed as Deputy Manager of the LLDP, and that supernumerary training posts be created for some 40 professional and technical positions that were initially to be filled by expatriates. However, the difficulties in engaging qualified nationals were such that even six years after LLDP's inception none of these proposals was operational: only one candidate had proved qualified for a management position, and he had subsequently left the project's staff. WADU has experienced similar difficulties in hiring Ethiopian managerial and technical staff, and by the project's fourth year none of its nine expatriate staff posts had been filled by nationals. Neither was WADU very successful in retaining such Ethiopian staff as it did engage, and by the end of 1972 twelve graduates, including the Deputy Director, had resigned. WADU's management has apparently suffered from a lack of disciplined working conditions, incompetence, and an autocratic approach to managerial decision making. Its rapid turnover of staff may also be attributed to the remoteness of Wolamo, and their ability to find more attractive positions elsewhere which also had better long-term career prospects. It might be suggested here that if the proportion of indigenous staff is small, the achievement of good working relations in project management may be more difficult, especially if expatriate "experts" adopt a working style that is alien to their counterparts in training.

85. It is true that by paying their indigenous staff much higher salaries than those they would command in government administration, autonomous development projects may jeopardize good relations between them and their government counterparts. Nevertheless, salary scales and conditions of service for managerial staff have to provide incentives for qualified nationals which are sufficient to counteract the disadvantages of living in remote rural areas. LLDP has to abide by government salary scales and terms of service in employing indigenous staff, and promotions cannot recognize ability but only the length of time served. The regulations also preclude the payment of salaries to those holding positions in an acting capacity, unless they have worked for the requisite period at the level immediately below. Neither is it possible to pay two people simultaneously for the same job, and hence there can be no overlap between old staff and new, nor can staff in training be paid salaries. CADU and WADU are not bound by the regulations that still apply to regular government service in Ethiopia, since they are administered (as in MPP) under the auspices of the Extension and Project Implementation Department of the Ministry of Agriculture, set up in 1971, which provides for contract employment, and for promotions and salary increases on merit rather than on tenure. CADU has been much more successful than either LLDP or WADU in engaging and retaining Ethiopian managerial staff, and of its 40 expatriate staff posts, 16 had been taken over by nationals within its first 4 years. The project's management



training strategy involved the recruitment of Ethiopians for a wide variety of jobs, not on a specific counterpart basis. Those who did well advanced rapidly, sometimes becoming the superiors of expatriates.

86. If the staff training activities of these donor-aided projects are seen in a wide perspective it is of course apparent that such successes as they have achieved will not go far towards remedying either the nationwide shortages of skilled manpower or the low levels of institutional development which are so characteristic of most African countries. The removal of these crucial constraints on long term rural development over wide areas will require a far greater allocation of fiscal resources, and a far greater commitment on the part of national governments both to expanding their formal education facilities, and to rationalizing the structure of local administrations and to augmenting their capacity. There is also an obvious need for national governments to devise employment incentives for qualified nationals both to remain in their own countries and to work in rural areas. Although donor agencies may be tempted to invest in regional projects which can achieve rapidly visible results and realize a high internal rate of return, their most effective contribution to rural development might in fact be the provision of fiscal resources and technical assistance to education and in particular to the institutions, among them local government administrations, on which the ultimate responsibility for inducing economic growth and for enhancing rural welfare will rest.

#### IX. IMPLICATIONS OF THE FINDINGS OF THE ARDS FOR DESIGNING RURAL DEVELOPMENT PROGRAMS 1/

87. The past experience reiterates several special features of the African Countries which need to be taken into account in designing future programs, if the objectives of rural development are to be realized.

88. Because the bulk of the rural population is poor and because this poverty is spread over the entire rural sector, "target groups" in Africa are large relative to the financial resources and in particular the trained manpower and the institutional capability frequently available for development. Therefore, if the emphasis in rural development is to be on mass participation and on the viability of the process of rural development, it would seem necessary that rural development programs be viewed as part of a continuous, dynamic process, rather than as an

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1/ This section is taken from Ms. Lele's "Designing Rural Development Programs: Lessons from Past Experience in Africa," paper presented at the Second International Seminar on Change in Agriculture, University of Reading, Reading, England, September 1974.

"extensive" vs. an "intensive," or a "maximum" vs. a "minimum" effort. The emphasis on mass participation also means that a sequential approach may frequently be necessary in planning and implementing a rural development strategy, involving establishment of clear priorities and time phasing of activities.

89. Given the low productivity of the subsistence rural sector, for a variety of reasons discussed earlier, in many cases an initial emphasis on broadbased increase in productivity through a certain minimum level of institutional development, may well be a more effective way of ensuring viability of mass participation than the substantial initial concentration of resources in a few regions.

90. Some constraints to improvement of productivity, such as lack of a profitable technology, ineffective extension and inadequate fertilizer, may be common to all of the subsistence agriculture; whereas others, such as ill-health caused by malaria (in the squatter settlements in Kenya), or the inadequate incentive system and organization (in Ujamaa villages) may well be location specific. A single package is, therefore, not universally applicable. The establishment of priorities needs a combination of a few critical general interventions applicable to several regions along with emphasis on development of capability of the regional administrations to identify and ameliorate additional constraints specific to individual regions. However, in all cases, including the case of priorities that may be established at the national level, the effectiveness of implementation depends on the efficiency and the coordinating ability of the regional administrations and on the general institutional development at the regional and local level. This is why a regional focus in institutional development is necessary from the outset even when a broad coverage of services is being aimed at. This is particularly so if more complex programs involving a number of sectors are to be planned and implemented by regional administrations over time.

91. The first step may well be to improve regional administrative capability for effective planning and implementing of programs directed at only a few productive activities, including food crops. Attention to food crop production often seems critical since a majority of the low income population derives its livelihood from this activity. The results of the mixed crop approach are already noticeable in the more recent integrated rural development programs. However, these have been confined to a few regions.

92. The sequential approach implies efforts to improve indigenous institutional and technical capability in several regions. If per capita agricultural production is to increase, the first phase of sequential development may involve an objective of achieving an overall annual growth rate of four to five percent. The time required to achieve such



an annual growth rate may of course, vary between regions, depending on their potential and on the effectiveness with which the necessary steps are implemented. However, the first phase of development may be planned for four to seven years. In a few cases, where an effective technical and institutional capability to coordinate and deliver the necessary services already exists, the first phase of development may be skipped.

93. Increased intensity in agricultural services of the type undertaken in integrated programs, including improvement of the overall farming systems through rotational improvement, integration of crop and livestock production, soil conservation and land registration, may constitute the second stage of development. Realistically, the overall growth rate of production may not exceed four to five percent per annum even during the second phase. However, consolidation of the growth rate through a more diversified agricultural productivity may require an intensive effort.

94. In this case, the bridge between the first and the second stages of development is land use planning. The intensive effort needs a considerable technical and administrative input both at the planning and implementing stages.

95. To plan a strategy for intensive agricultural development, data are needed on factors such as agroclimatic zones--including soil conditions, rainfall patterns, present yields, existing farming systems, erosion and fertility problems, density of settlement, sociocultural factors and on opportunities for expansion of cultivated area and grazing land, required investments in road, and water development, soil conservation, and the optimal farming systems, (i.e., crops, management practices, rotations, etc.).

96. The data gathering and planning of this second phase may be combined with the implementation of the first phase. Phased planning has several advantages which were not derived in many of the programs reviewed. It may also allow greater first-hand knowledge of the specific technical, administrative and socio-cultural constraints. It may also permit greater indigenous participation in planning. Both these factors are important for improving effectiveness of strategy. The phased approach may also facilitate training of indigenous manpower geared specifically to planning and implementing regional programs. Equally important, it may allow a relatively balanced national coverage of services in the foreseeable future.

97. For a variety of reasons discussed earlier, planning and implementation of services such as community centers, drinking water supply, health clinics, promotion of small scale processing and servicing, women's extension programs, etc., require considerations substantially different from those in agricultural planning. It seems necessary to



allow greater scope for social choice and for local participation in the organization and delivery of these services. In many cases such planning may have to wait until the second phase, i.e., until income and demand for such services increase, local administrative capability for planning and coordinating such programs is developed, mechanisms for raising fiscal resources are instituted, and local institutional capability to plan and implement programs is fostered through an explicit emphasis on the necessary pre-planning in the first phase.

98. Given the substantial shortage of trained manpower and administrative capacity, in each phase only those components which are not likely to be undertaken without planned public intervention may be provided. These, of course, may vary substantially between regions, depending on what does and does not exist in the form of institutional development. Therefore no blueprint for planning is possible. However, in the first phase provision of technology, extension, inputs, manpower training and a feeder roads network may be the most frequently needed components. A facilitative role may be provided in fostering other activities. For example, encouraging cash or group purchases of inputs may be desirable where the savings potential in the traditional society is demonstrated to be significant. Once intensity of cultivation increases and manpower and institutions are developed, credit may become the major thrust of the programs. Marketing services may also fall in the category of a facilitative development at an early stage. The initial emphasis may be on providing intermediate forms of interventions and on improving the bargaining position of the farmer, as for instance through construction of public facilities for seasonal storage, improvement of roads and market information systems, and standardization of weights and measures. Introduction of high cost administrative marketing monopolies or hurried development of farmers' marketing organizations should perhaps be avoided in the early stages. Such organizations are likely to develop more spontaneously once the preconditions for their development are established.

99. Given the extreme constraint of trained manpower, even with the establishment of priorities in provision of services, mass participation rarely seems feasible in the short run through delivery systems oriented towards individual farmers. Therefore, some delegation of responsibility to the rural people is necessary. Many recent programs have already made a beginning in this direction. They have shown a considerable potential for success, provided local involvement is promoted gradually and is accompanied by a genuine delegation of responsibility to the rural people.

100. Considerable emphasis is needed on the training of field and administrative staff so that the intensity of services and the number of services may be increased gradually over time. Manpower training is critical to achieve production targets, as well as to broaden participation.



101. Finally and importantly, the past programs indicate that if the process of rural development is to be viable there is not only the need for expansion of administrative coverage but also for emphasis on improvement in the performance of the indigenous administrative systems. Technical assistance may be needed not mainly to manage projects, but to assist in developing local, regional and national capability to plan and implement rural development programs. To realize this objective it seems necessary that nationals be actively involved from early stages of project formulation and implementation. It also seems desirable that expatriates not be highly concentrated in project authorities in which effective interaction with local staff and indigenous administrative institutions is frequently inhibited, hampering the development of the latter.

102. Wherever possible, technical assistance needs to be provided to develop administrative systems which incorporate clear definitions of objectives and targets, ways of implementing and evaluating these targets, and incentive systems which will encourage improved administrative performance as measured by the realization of these targets.

103. The sequential approach attempts to reconcile several desirable features from among the programs reviewed. First, it points out the frequent need for broadbased development of the subsistence sector. Second, it underscores the crucial role of indigenous manpower and institutional capability, not only in the effectiveness with which interventions are implemented, but in planning rural development programs to take account of variability. It therefore points out the need for emphasis on manpower and institutional development in the early stages of program implementation so as to evolve programs in scope over time. Third, it views increase in productivity of the subsistence sector as frequently constituting a major, but only the first, step in improvement of the welfare of subsistence rural populations.

FPI/75/1

May 15, 1975

FROM: The Secretary

CONSULTATIVE GROUP ON FOOD PRODUCTION  
AND INVESTMENT IN DEVELOPING COUNTRIES

1. Attached for information are documents on arrangements for the first meeting of the Consultative Group on Food Production and Investment in Developing Countries.
2. It would be appreciated if you would send copies of these documents to the Governments of the countries you represent.

For Distribution:

Executive Directors and Alternates

For Information:

President  
Senior Vice President, Operations  
Executive Vice President and  
Vice President, IFC  
President's Council



Arrangements for First Meeting of the  
Consultative Group on Food Production  
and Investment in Developing Countries

The three sponsoring agencies of the Consultative Group on Food Production and Investment in Developing Countries have been requested by the Chairman of the Group to circulate this note to their member governments.

In response to a request received from the FAO Council for more time for consultations on the selection of its developing country representatives, it has been decided that the first meeting should be postponed from May to July. It is proposed to make available the full documentation for that meeting in the appropriate languages to all participants as soon as the selection of the developing country participants shall have been completed. It is hoped that this would be around June 15. On this basis it is suggested that the first meeting start July 21 and continue for three days, but not excluding the possibility of a fourth.

The Chairman will be available to discuss informally the organization and work of the CGFPI with government representatives during at least a portion of the June FAO Council meeting. If this proposed schedule can be met, he will then be able to report to the World Food Council, meeting the week of June 23, 1975, on the plans for the first meeting of the CGFPI in July, together with a list of the principal items most likely to be discussed and the expected participation. This would also be an occasion for receiving suggestions from the Council or its members on ways in which the work of the CGFPI can be most effectively carried out.

For the first meeting of the CGFPI, a proposed agenda (Attachment I) has been drawn up. This has been done in order to ensure that well-staffed documentation would be available. However, it is of course up to the participants in the first meeting to decide on the final content of the agenda.

The agendas of future meetings will be a major subject for discussion at the first meeting under Item 7 of the proposed agenda. In order to facilitate consideration of the subjects to be included, the Chairman has indicated in Attachment II recurring items which might appear from time to time on future agendas to enable the Consultative Group to carry out the mandate given it in paragraph 15 of Resolution XXII of the World Food Conference, "(a) to encourage a larger flow of external resources for food production, (b) to improve the coordination of activities of different multilateral and bilateral donors providing finance and technical assistance for food production, and (c) to ensure a more effective use of available resources." Attachment II also contains a list of special subjects which could usefully be taken up at an early meeting. An indication from the CGFPI at its first meeting of the degree of interest of the participants in these or other subjects, together with a time schedule for their inclusion in an agenda, will permit an orderly preparation of background studies and other documentation.

AGENDA

FIRST MEETING OF CGFPI

1. Approval of Agenda.

The following annotated agenda will be proposed to the Group by the Chairman.

2. Scope and Organization of Work of CGFPI.

Background Document A will contain the suggestions of the Chairman, taking account, as requested, of the discussion at the FAO Council meeting in March.

3. Investment Needs Related to the General World Food Situation.

Background Document B will be the Report prepared for the June meeting of the WFC, updating the assessment of the World Food Situation prepared for the World Food Conference, accompanied if necessary by comments made at the World Food Conference meeting on the Assessment.

The Representative of the World Bank will make an oral report on a major, recently initiated Bank project involving projections of grain production, input requirements and investment needs for a number of the larger developing countries.

4. Analysis of Resource Transfer for Investment in Food Production in Developing Countries.

Background Document C will contain such information, as is available on food production, or if not available on agricultural production, analyzed by categories such as recipient country, type of input, kind of crop to be grown, size of farm, etc., in order to be able to relate current funding to objectives and priorities established by the World Food Conference as they may be amended or elaborated by the World Food Council.



5. Projected Resource Allocations to Food Production in the Period 1975-80 and Review of Obstacles in Donor and Recipient Countries to Greater Expansion of Such Flows and to Improvements in their Effectiveness.

Background Document D will contain such limited data on future commitments as are available.

Participants, both donors and recipients, are invited to inform the Consultative Group on the obstacles or constraints that they foresee to a more rapid increase in their resource availability for investment in food production systems and to improved efficiency in resource use.

6. Investment needs for Fertilizer Production and Distribution Systems in Developing Countries which will meet their Requirements.

In addition to Background Document E, containing agreed demand and supply estimates and suggesting types and sizes of investment programs needed for production and distribution facilities, there will be oral reports on the discussion in the FAO Fertilizer Commission meeting of June 3-7, 1975 and the World Food Council meeting of June 23, 1975, insofar as relevant to the CGFPI concern with investment needs.

7. Work Program of CGFPI for 1975-76.

Background Document F will contain a list of subjects that may be worth continued review and therefore might appear on the CGFPI agenda at regular intervals and a list of special topics that seem to be of high priority and could be prepared for discussion in the course of 1975-76. Time limits will be suggested but should not be seen as binding. (Annex II of this set of papers is the present draft of Background Document F.) On the basis of the discussion of these lists and of any other suggestions that may be put forward,

an agenda for a Second meeting before the end of 1975 will be presented to the CGFPI before the First meeting concludes.

8. Time and Place of Next Meeting.
9. Other Business.

April 22, 1975



Future Agenda Suggestions<sup>1/</sup>

A. Recurrent Items

1. Analysis of Resource Transfer for Investment in Food Production in Developing Countries;
2. Projected Resource Allocations to Food Production in Developing Countries and Review of Obstacles in Donor and Recipient Countries to their Increase and to Improvements in their Effectiveness.
3. Investment and Technical Assistance Opportunities in Integrated Rural Development Programs;
4. Investment Needs for Fertilizer Production and Distribution Systems to meet Requirements of Developing Countries;
5. Major Projects Requiring Investment Consortia for Execution.

B. One-time Items, at least over next 3 years

1. Investment Needs for Seed Production and Distribution;
2. Evaluation of Soil and Water Resources available for Future Use;
3. Investment Opportunities in Arid and Semi-arid Zones;
4. Fisheries Investment Needs, Ocean and Freshwater;
5. Investment in Rural Credit Programs;
6. Investment Requirements of Sub-Sahara Trypanosomiasis Program;
7. Investment Requirements for Pesticide Production and Distribution.

Of the Recurrent Items an initial discussion of 1, 2 and 4 is proposed in the Agenda for the first meeting. Discussion of 3 and 5 can be started at the second meeting.

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<sup>1/</sup> The listings are not in order of priority.

Of the one-time items, 1, 2, 6 and 7 can be discussed at the second meeting. Three and 5 can be ready for the third meeting and 4 for the fourth meeting. The third meeting might be largely devoted to Recurrent Items. The fourth meeting agenda might also include one or two of these as well as new problems that may arise as the work of CGFPI proceeds.

April 22, 1975



BACKGROUND PAPER A

CONSULTATIVE GROUP ON FOOD PRODUCTION AND INVESTMENT

I. ORGANIZATION AND PRINCIPLES OF OPERATION

1. The intent of the World Food Conference in recommending the establishment of the Consultative Group on Food Production and Investment was that it pursue a program of activities which would promote an expansion of food production in developing countries. Resolution XXII of the World Food Conference, approved by the General Assembly, describes its general functions as to encourage larger external resource flows for this purpose, to coordinate the activities of the various donors and to ensure more effective use of available resources.

Participation

2. "Membership" of donors is by self-selection. It is expected that participation by donors will be an indication of their willingness to share knowledge and experience, to consider seriously making larger financial and technical assistance contributions to the solution of the problems discussed, and to cooperate more closely with other donors in joint attacks on these problems. They should benefit from an increased understanding of the food policies and food production needs of the developing countries and of the means by which increased food production can be achieved most efficiently. Participation would thus improve our ability to bring the world food problem under better control.

3. Donor participation in the Consultative Group is expected to include governments and international bodies which have or intend to

have important programs of assistance to the food systems of developing countries. Among the donor participants would be (a) traditional bilateral donors, (b) traditional multilateral aid institutions, (c) 'new donors', namely, OPEC members and multilateral aid institutions organized by some or all of them, (d) the proposed International Agricultural Development Fund, and (e) ex officio, the sponsoring agencies.

4. Bilateral and multilateral donors will be free, of course, to choose the most appropriate persons to represent them. It is hoped, however, that the work of the Consultative Group will attract delegations composed of senior officials with policy-making authority from aid agencies directly involved in working with the developing countries as well as persons with first-hand knowledge of the problems of increasing food production in these countries.

5. Representation by developing countries would be based, as provided in the World Food Conference resolution, on the FAO system of five Regional Conferences, which would each nominate two of their member-countries to represent the regions as members of the Consultative Group. The Representatives of the developing countries thus nominated will have the opportunity to explain to participants representing a wide range of active donors what the needs of each region~~s~~ are for external assistance in increasing their food production and how such resource transfers can be combined with policy and investment measures taken by the recipient countries to insure the most efficient use of such transfers. The key



advantage to the developing countries is to have a large number of donors with whom to discuss the nature and size of their needs.

6. Participation by other UN agencies, non-UN intergovernmental agencies (such as OECD, OAS, OAU, Arab League, etc.), NGO's, etc., as observers or in an 'expert capacity', will be ad hoc, i.e., on the basis of invitation, at the discretion of the Chairman, depending on specific items on the agenda. Similarly, when subjects are to be discussed which are especially applicable to developing countries not nominated by the FAO Regional Conferences, the Chairman, in consultation with the representatives of their region, may also invite these countries to attend. Representatives from industry may be invited in an 'expert capacity' from time to time, preferably through the Industry Cooperative Program of the FAO.

#### Relations to Other Organizations

7. The Consultative Group will normally rely in preparing for its meetings largely on the sponsoring agencies, other UN agencies, or governments, as its professional staff will be kept small.

8. The Consultative Group will regularly inform the World Food Council of its activities and discussions so that the Council may consider policy questions which appear to be impeding the work of the Consultative Group and which justify action by the Council. Similarly, the Council may request the Consultative Group to give attention to important matters arising out of the Council's deliberations which are within the investment responsibilities of the CGFPI.

### Budget and Staffing

9. The three sponsoring agencies will share the total budget in equal proportions, subject to the budget approval procedures of each agency. The budget is tentatively estimated at around \$517,000 per annum. The staff will include an Executive Secretary and five professionals.

### Meetings of the Consultative Group

10. Two meetings a year are contemplated.

11. It is hoped that participants in the Consultative Group on Food Production and Investment will approach the important task assigned to it in the spirit of the resolutions of the World Food Conference, namely, that its purpose is to address the practical problems and constraints faced by developed and developing countries alike in seeking to expand food production in developing countries and improve the quality and distribution of food available to the peoples of the world. The Group will not be an executive body; and its procedures will be entirely informal. Its effectiveness would be lessened by following unduly formal procedures. Rather the Consultative Group is expected to achieve its objectives through an exchange of experiences, good and bad, the expression of their views



by its participants, and the examination of factual reports submitted by its Secretariat. By such a process of free discussion, solidly based on fact and practical experience, it is hoped that participants will be led to adopt policies and take measures, within the framework of the three roles assigned to the Consultative Group in paragraph 15 of Resolution XXII, which will accelerate the pace at which the substantive objectives with respect to food production in developing countries set forth in the Resolutions of the World Food Conference will be achieved.

#### Organization of Work

12. The Consultative Group will discuss important investment and resource transfer choices and decisions by its participants. Technical matters may be assigned to ad hoc temporary groups which may be composed of representatives of participants in the Consultative Group, other multilateral organizations or other countries or private experts.

13. Within the guidelines established by Resolution XXII of the World Food Conference as approved by the UN General Assembly, and recognizing the special role in organizing and financing the program of the Group given by that Resolution to the three sponsoring agencies, the Consultative Group agendas, work program and procedures shall be based on full discussions in the Group by all participants so that the Chairman, Executive Secretary and staff may meet as far as possible the priority needs as seen by the participants.

## II. SCOPE OF WORK

14. Topics which merit attention sooner or later from the standpoint of investment or technical assistance programming are outlined below. Some topics may well justify inclusion on the agenda of the Consultative Group at least once each year. The analysis of the flow of resources to food production, of the prospects for its increase, and of the obstacles to greater increases would seem to deserve such treatment. The evaluation of progress in improving the efficiency of resource use may also deserve to be repeated at regular intervals. Others may need two or more meetings to cover the total problem or to followup on an initial discussion. Fertilizer investment needs and programs for integrated rural development might fit into this category. Other topics should probably be dealt with and then dropped until some new difficulty or opportunity justifies their reinstatement on an agenda. Among these various categories of subjects some appear to be amenable to early consideration by the Consultative Group on the basis of information already available and which therefore could result in early presentation of background papers prepared by the agencies and the Secretariat. The selection and timing of others will have to be decided after discussion by the CGFPI of its work program, drawing on the subjects listed below or others that may be proposed.

### A. General Investment Policies and Programs.

- (1) Investment in Food Production. Examination in as much detail as the data will permit of present and planned investment in food production systems should provide a benchmark against which to test both the quantitative adequacy of future flows and the adjustments in priorities and methods required to achieve agreed objectives. The latter should of course reflect the Resolutions of the World Food Conference. In this connection it may be useful to examine the investment implication of the broad strategies and specific objectives contained in each of the Resolutions adopted by the World Food Conference.



- (2) Resource Transfers. As a main function of the Consultative Group is to promote an increase in resource transfers to developing countries to improve their food production systems, high priority should be given to reviewing existing and projected needs for external resources, including those of anticipated major projects or sector programs, in order to stimulate a greater effort on the part of donors to close identified resource gaps. Close coordination with the work of DAC, UNCTAD and the Committee for Development Planning in measuring and increasing total resource transfer volumes will be required for this work to have maximum effectiveness.
- (3) Investment Strategies. Within the context of improving the efficiency of resource use for food production, as called for by paragraph 15 of Resolution XXII, several issues appear to warrant consideration by the Consultative Group. One relates to the relative merits of investment in large development projects, frequently with heavy infrastructure costs and long gestation periods, as compared with the smaller projects with quicker pay-offs and higher labor intensities.

A similar issue which may need examination is that of the relative advantages of increasing production of small, often subsistence farmers, as opposed to investing in the often quicker increases in output possible on larger farm units.

A third topic is assessment of the appropriateness of giving priority attention to the needs and problems of certain critical countries with large populations and precarious food situations.

A fourth topic, and in a sense an alternative to the third, could be what priority to give to external assistance to developing countries with a potential for a relatively quick increase in food output for export to food deficit developing countries.

A fifth topic in this area could be the relative advantages in certain types of situations of using a given volume of investment resources to increase fertilizer supply, or to expand controlled water availability, or to improve marketing and storage facilities, etc.

A sixth issue concerns the absorptive capacity in recipient countries. Among the questions this may raise is that of the adequacy of the supply of qualified manpower for project implementation and operation and what measures are required to overcome shortages through increased programmes of technical assistance for training and education.

(4) Policies to Promote Rural Development and Food Production.

While the Consultative Group would not envisage discussing directly domestic policies within specific developing countries, it seems important to discuss in general terms the changes in policies toward the rural sector and food production efforts which might remove or lessen constraints to increased production.



This results from the inseparability of many policy and operational issues and from the profound effect of social and institutional factors on the effectiveness of external resources in increasing food production.

B. Production Inputs.

- (1) Fertilizer Investment Needs. The principal issues requiring attention here are the size and timing of the need for additional investment in fertilizer production and distribution capacity in the light of the quantities needed to meet realistic country food output goals, looking primarily at the necessity of meeting the demand of developing countries without interruption or excessive price fluctuations. Where additional required capacity, either for basic fertilizers or for mixing, could most advantageously be located among and within countries should also be discussed.
- (2) Credit. Availability of credit in adequate amounts and on reasonable terms, especially to small farmers, is a major obstacle to the more rapid spread of new technologies. Review of needs for increased outside financial and technical help and the best means for accomplishing common objectives with such help might well be given a high priority for the Consultative Group.
- (3) Seed Multiplication and Distribution. While national and international research organizations are achieving steady improvements in breeding new varieties of seeds, a problem

with serious implications for food production may be emerging with respect to the multiplication and distribution of these high-yielding varieties. The Consultative Group may wish to examine this matter at an early date and to explore possibilities for using external investment and technical aid to improve this situation.

- (4) Land and Water Development. While requiring considerable time to prepare adequately, a careful consideration of the most profitable types of investment in these two fields, both in regions with scarce and with abundant water supplies, should have a high priority as suggested by the separate resolutions on each of them adopted by the WFC. A preliminary step with long-term value may be the intensification of the land and soil survey programs of the FAO.
- (5) Other Agricultural Inputs. The need for productive investment in the manufacture and distribution of off-farm agricultural inputs such as pesticides, herbicides and agricultural machinery will also justify the attention of the Group.

C. Institutional Development

- (1) Rural Development and Agrarian Reform Action Programs. The growing experience with broadly-based rural development projects is suggesting additional possibilities for donor-recipient cooperation in increasing production by small farmers, a large population group which often suffers the most from poverty and malnutrition; they are therefore a target of major world importance. The Consultative Group



might usefully focus also on the technical assistance and financial requirements for implementing production-related agrarian reform measures.

(2) Storage, Marketing, Processing and Transportation.

These activities are of great importance as they effect directly the cost of inputs and the level of returns to producers and the volume, quality and cost of food for consumers. Opportunities to improve cost-efficiency and reduce waste in these areas are considered to be substantial and the Consultative Group might wish to identify investment and technical assistance opportunities.

D. Other.

- (1) Fisheries Development. The FAO is doing considerable work in this sector which is likely to lead to a growing number of investment possibilities, including increased production in fresh and brackish water.
- (2) Health and Education. Although important in the consideration of a total food system, these topics would be examined only in the context of the impact of **resource allocations** / on food production. Participation of the specialized UN agencies (UNESCO, WHO, etc.) would be necessary.