The Nairobi speech

Address to the Board of Governors

by Robert S. McNamara, President, World Bank Group

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I. Introduction

Last year I began a discussion with you of the critical relationship of social equity to economic growth. I emphasized the need to design development strategies that would bring greater benefits to the poorest groups in the developing countries particularly to the approximately 40% of their populations who are neither contributing significantly to economic growth nor sharing equitably in economic progress.
In the twelve months since our last meeting, we in the Bank have given high priority to further analysis of the problems of poverty in the developing countries and to an evaluation of the policies available for dealing with them. On the basis of these studies, I should like this morning to:

- Discuss the nature of the poverty problem, particularly as it affects the rural areas.
- Suggest some of the essential elements of a strategy for dealing with it.
- And outline a plan for World Bank operations in support of this new strategy.

But before turning to these matters, I want to report to you on the results of the Bank's Five-Year Program for the fiscal years 1969-73 - a program that concluded on June 30th of this year; and then to suggest the financial objectives for a second five year plan for the years 1974-78.

II. The Bank's Five-year Program for Fiscal Years 1963-1973

It was in September of 1968 that I first met with you in this forum and outlined the goals of a Five-Year Program for the World Bank Group. You will recall what our objectives were. We stated that we were "formulating a 'development plan' for each developing country to see what the Bank Group could invest if there were no shortage of funds, and if the only limit on our activities were the capacity of our member countries to use our assistance effectively and to repay our loans on the terms on which they were lent."

Based on these analyses, we proposed to double the Bank's operations in the fiscal period 1969-73 as compared with the previous five-year period 1964-1968. That objective has been met: total financial commitments of the IBRD, IDA, and IFC, in current prices, in the 1964-1968 period, were $5.8 billion; in the 1969-1973 period, $13.4 billion. In real terms, the increase was 100%.

As indicated in the table below, in the five years we achieved a level of operations that exceeded the total of all the operations that the Bank had undertaken in the developing world in the 23 years from 1946 through 1968.

But it was not just quantity that we were seeking. We did not simply want to do more than had been done in the past, but to do more of what was best suited to the rapidly changing needs of the developing countries. That meant that within our overall objective we had to shift our emphasis both geographically and sectorally.

While continuing to serve the regions where we had been particularly active, we decided to expand substantially in other areas.

In Africa, for example, we set out to triple our lending - and we have done so.

We undertook operations, for the first time, in Indonesia and in the five years have committed $523 million there.

For the poorest and least developed of our member countries, those with average per capita incomes of $120 or less, we have nearly tripled our lending. During the Five-Year Program period we have initiated 217 separate projects in these countries. The comparable figure for the whole of the previous 23 years of the Bank's operations is 167.

Geographically, then, our planned shifts in emphasis have been carried out, and carried out concomitantly with an increased level of lending in our more traditional regions.

But it was clear to us in 1968 that the Five-Year Program must shift emphasis sectorally as well. Accordingly, we proposed to triple lending in education and quadruple lending in agriculture. We have done so.

Perhaps the most significant shift was into a sector in which the Bank had previously had no operations at all: the sensitive and difficult, but clearly critical, sector of population.

We established a Population Projects Department, and from the very beginning received more requests for technical and financial assistance from our member countries than we could immediately provide. We deliberately began our project work in a number of smaller countries in order to work effectively within our limited staff resources. But by the end of the Five-Year Program period agreements had been signed for projects in seven countries, including two of the largest and most heavily populated nations: India and Indonesia.

In addition to the Population Projects Department - to which has now been added the responsibility for nutritional projects - we launched other initiatives within the Bank. Among them are new departments for Industrial Projects, Urban Projects, and Tourism Projects; an Office of Environmental Affairs; an Operations Evaluation Unit; and a new program of comprehensive country economic reporting.

To achieve the doubled level of our operations, it was necessary, of course, to strengthen the Bank both organizationally and financially. Worldwide recruitment was increased and the staff was expanded by 120% during the period. We were determined in this effort to broaden its international character to the maximum degree feasible. In 1968 the staff represented 52 nationalities. It now represents 92. In 1968 the proportion of staff from our developing member countries was 1,9%. The proportion is now 29%, and continues to grow.

Lending more has of course meant borrowing more, and that in turn has depended on governments granting us access to their capital markets. This they have continued to do, despite unsettled conditions and monetary fluctuations. It is a mark of confidence in the Bank's financial structure that we have been able to borrow not only in our more traditional markets, but in altogether new ones, and to utilize new borrowing instruments and new channels of distribution.

Net borrowing for the five-year period has been approximately four times that of the earlier period, and our liquid reserves have risen to $3.8 billion, an increase of 170%.

Neither the increase in operations, nor the shift in emphasis toward more socially oriented sectors, has adversely affected net income. On the contrary, total net income for the five-year period was $965 million, 28% more than in the previous period, and this despite the fact that the Bank's lending rate was held down to levels resulting in a substantially greater subsidy to the developing countries than in earlier years.

We have completed the Five-Year Program, then, by meeting the quantitative goals we had set for ourselves in 1968, and by making a sustained effort to improve the overall quality of our work.

But our task now is to move forward with a second Five-Year Program. Like the first, its goals and shifts in emphasis must be shaped by the evolving development situation itself. I should like to give you my assessment of that situation.

III. The Bank’s Second Five-Year Program: Fiscal Years 1974-1978

Most of our developing member countries are faced with three interrelated difficulties:

- An insufficiency of foreign exchange earnings from trade.
- An inadequate flow of Official Development Assistance.
- And an increasingly severe burden of external debt.

Each of these problems is serious in itself. But together they threaten the outcome of the entire development effort.

Let me examine each of them briefly.

The Trade Problem
The core of the trade problem for the bulk of the developing countries is that they cannot expand their r exports rapidly enough to pay for their essential imports. These imports are themselves often the key to greater export capability–and higher foreign exchange earnings–and thus the dilemma of trade imbalances in these countries tends to become self-perpetuating.

The problem is compounded by the delay of the wealthy nations in dismantling discriminatory trade barriers against the poor countries. Our studies indicate, for example, that if the affluent nations were gradually to reduce their present protectionist trade restrictions against agricultural imports from the developing world, the poorer nations could, by 1980, increase their annual export earnings by at least $4 billion.

An Acute Shortage of Development Assistance
Secondly, the current flow of Official Development Assistance (ODA) – financial aid on concessionary terms – is acutely inadequate. Not only is it far below what the developing nations need and what the affluent nations can readily afford, but ... it is only half the modest target prescribed by the internationally accepted United Nations Strategy for the Second Development Decade.

That target called for reaching ODA levels of .7% of gross national product (GNP) by 1975. In fact, by 1975 ODA will not exceed .35%. And yet achievement of the target neither requires the people of the developed nations to reduce their already high standards of living, nor to neglect their domestic priorities. It asks them only to dedicate a tiny fraction of the incremental income–income over and above that which they already enjoy that will accrue to them in the decade of the 70s.

During the decade, the annual GNP of these affluent nations will grow, in constant prices, from $2 trillion in 1970 to approximately $3.5 trillion in 1980: an increase in output virtually beyond one's capacity to comprehend.

In order to double the ODA flows, and thereby raise them to the targeted .7%, the developed countries would need to devote to that end less than 2% of the amount by which they themselves will grow richer during the period. The remaining 98% of their incremental income would provide them with more than sufficient funds to meet their domestic priorities.

I have heard it said in the developed countries–in the United States and elsewhere – that their domestic problems are so pressing that they require an exclusive claim on the immense incremental wealth which will accrue to their societies in future years, and that not even the 2% of this additional income, which we suggest should be diverted to the developing countries, can be spared. But I believe that such critics of additional assistance to the poorer nations, when citing the needs of their own cities and countryside, fail to distinguish between two kinds of poverty: what might be termed relative poverty and absolute poverty.

Relative poverty means simply that some countries are less affluent than other countries, or that some citizens of a given country have less personal abundance than their neighbors. That has always been the case, and granted the realities of differences between regions and between individuals, will continue to be the case for decades to come.

But absolute poverty is a condition of life so degraded by disease, illiteracy, malnutrition, and squalor as to deny its victims basic human necessities.

It is a condition of life suffered by relatively few in the developed nations but by hundreds of millions of the citizens of the developing countries represented in this room. Many of you have cause to know far better than I that:

- One-third to one-half of the two billion human beings in those countries suffered from hunger or malnutrition.

- 20% to 25% of their children die before their fifth birthdays. And millions of those who do not die lead impeded lives because their brains have been damaged, their bodies stunted, and their vitality sapped by nutritional deficiencies.
- The life expectancy of the average person is 20 years less than in the affluent world. They are denied 30% of the lives those of us from the developed nations enjoy. In effect, they are condemned at birth to an early death.
- 800 million of them are illiterate and, despite the continuing expansion of education in the years ahead, even more of their children are likely to be so.

This is absolute poverty: a condition of life so limited as to prevent realization of the potential of the genes with which one is born; a condition of life so degrading as to insult human dignity–and yet a condition of life so common as to be the lot of some 40% of the peoples of the developing countries. And are not we who tolerate such poverty, when it is within our power to reduce the number afflicted by it, failing to fulfill the fundamental obligations accepted by civilized men since the beginning of time?

I do not wish you to interpret my remarks as those of a zealot. But you have hired me to examine the problems of the developing world and to report to you the facts.

These are the facts. It is true that some citizens of the developed countries protest against increasing their assistance to the developing countries because of poverty in their own societies. They do so either because they are unacquainted with these facts; or because they fail to distinguish between relative and absolute poverty; or perhaps because they are obscuring the truth even from themselves –unwilling to admit that the principal pressure on the incremental incomes of their economies comes not from a legitimate concern for the less fortunate in their societies, but from the endless spiral of their own demands for additional consumer goods.

There are, of course, many grounds for development assistance: among others, the expansion of trade, the strengthening of international stability, and the reduction of social tensions.

But in my view the fundamental case for development assistance is the moral one. The whole of human history has recognized the principle – at least in the abstract – that the rich and the powerful have a moral obligation to assist the poor and the weak. That is what the sense of community is all about–any community: the community of the family, the community of the village, the community of the nation, the community of nations itself.

I, for one, cannot believe that once the gross deficiency in the flow of Official Development Assistance is better understood; that once the degree of deprivation in the developing nations is more fully grasped; that once the true dimensions of poverty in the less privileged world are more realistically compared with the vast abundance in the affluent world (that once the people of the United States, for example, understand that they, with 6% of the world's population, consume about 35% of the world's total resources and yet, in terms of economic assistance as a percent of GNP, rank fourteenth among the sixteen developed nations) – I cannot believe that in the face of all this the people and governments of the rich nations will turn away in cynicism and indifference.

The Growing Burden of Debt

Finally, there is the growing burden of external debt in the developing world. Publicly guaranteed debt currently stands at about $80 billion, with annual debt service of approximately $7 billion.

It is important to understand what the essence of the debt problem is. It is not the fact that there is debt, nor even the size of the debt. It is, rather, the composition and dynamics of the debt; the fact that debt, and debt payments, are growing faster than the revenues required to service them.

Restricted trading opportunities, exacerbated by inadequate flows of ODA, tend to drive developing countries to over-reliance on export credits and other short-term, high-cost loans. It is these factors that threaten to increase the debt burden beyond reasonable limits. Already, since 1970, the situation in several countries – Ghana, Chile, Pakistan, India, Indonesia, and Sri Lanka among others–has led either to debt rescheduling or to unilateral defaults.

The Bank's Program for FY74-78

Given the nature of this interrelated set of problems in our developing member countries–an insufficiency in foreign exchange due to trade difficulties, the inadequate flow of ODA, and the growing debt burden–the Bank, far from relaxing the momentum of our operations over the next five years, must increase it. And that is what we intend to do.

We plan to expand both our IBRD and IDA lending at a cumulative annual rate, in real terms, of 8%.[1]

For the five-year period FY1974-78, our lending - in 1973 dollars - should total $22 billion for almost 1000 projects.

The total cost of these projects will approach $55 billion.

Our $22 billion in new commitments will constitute, in real terms, a 40% increase over the 1969-1973 period, and a 175% increase over the 1964-1968 period.

This, then, in financial terms is our plan for the Second Five-Year Program. It will represent the largest program of technical and financial assistance to developing countries ever undertaken by a single agency.

But the qualitative changes in the program will be of even greater significance than the increase in its size. We plan to place far greater emphasis on policies and projects which will begin to attack the problems of absolute poverty to which I referred earlier - far greater emphasis on assistance designed to increase the productivity of that approximately 40% of the population of our developing member countries who have neither been able to contribute significantly to national economic growth, nor to share equitably in economic progress.

In the remaining sections of this statement I would like to discuss the nature of this poverty problem, consider what means are at hand to alleviate it, and indicate what part the Bank can play.

IV. Poverty in the developing World

Poverty and Growth

The basic problem of poverty and growth in the developing world can be stated very simply. The growth is not equitably reaching the poor. And the poor are not significantly contributing to growth.

Despite a decade of unprecedented increase in the gross national product of the developing countries, the poorest segments of their population have received relatively little benefit. Nearly 800 million individuals - 40% out of a total of two billion - survive on incomes estimated (in U.S. purchasing power) at 30 cents per day in conditions of malnutrition, illiteracy, and squalor. They are suffering poverty in the absolute sense.

Although the collection of statistics on income distribution in the developing world is a relatively recent effort, and is still quite incomplete, the data point to what is happening. Among 40 developing countries for which data are available, the upper 20% of the population receives 55% of national income in the typical country, while the lowest 20% of the population receives S%. That is a very severe degree of inequality - considerably greater than in most of the advanced countries.

The data suggest that the decade of rapid growth has been accompanied by greater maldistribution of income in many developing countries, and that the problem is most severe in the countryside. There has been an increase in the output of mining, industry, and government - and in the incomes of the people dependent on these sectors–but the productivity and income of the small farmer have stagnated.

One can conclude that policies aimed primarily at accelerating economic growth, in most developing countries, have benefited mainly the upper 40% of the population and the allocation of public services and investment funds has tended to strengthen rather than to offset this trend.

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[1] In last year's address, I stated that our plan, in terms of current prices, was to increase financial commitments 11 % per year. The "real terms" equivalent was 8%. Today, because of changes in exchange rates and accelerated price increases, a growth rate of 8% per annum in real terms, for the period FY74-78 vs. FY69-73, will probably require an increase in financial commitments of approximately 14% per year in current prices.

Reorienting Development Policy
The need to reorient development policies in order to provide a more equitable distribution of the benefits of economic growth is beginning to be widely discussed. But very few countries have actually made serious moves in this direction. And I should stress that unless national governments redirect their policies toward better distribution, there is very little that international agencies such as the World Bank can do to accomplish this objective.

Without intruding into matters that are the proper concern of individual governments, I would like to discuss an important first step that could lead to a more rapid acceptance of the required policy changes. This step would be to redefine the objectives and measurement of development in more operational terms. While most countries have broadened the statements of their development goals to include references to reducing unemployment and increasing the income of the poor –as well as emphasizing traditional growth in output–they still measure progress toward these complex objectives with a single measuring rod: the growth of GNP.

But the fact is that we can no more measure the achievement of multiple development objectives by the GNP alone than we can describe the quality of life in a city exclusively by its size. The Gross National product is an index of the total value of goods and services produced by an economy; it was never intended to be a measure of their distribution.

It is important to remember that indices of the increase in gross national product implicitly weight the growth of each income group according to its existing share of total national income. Since in the developing countries the upper 40% of the population typically receive 75% of all income, the growth of GNP is essentially an index of the welfare of these upper income groups. It is quite insensitive to what happens to the poorest 40%, who collectively receive only 10–15% of the total national income.

Were we to fashion a new index which gave at least the same weight to a 1 % increase in the incomes of the poorest groups in society as it gave to a 1 % increase in the incomes of the well-to-do, we would get a much different picture of development in the past decade. The growth of total income in several of the largest countries in Latin America and Asia, for example, would be significantly lower than the growth as measured by the GNP.

But, in a number of cases – including for instance, Sri Lanka and Colombia – the opposite would be true. In these countries, giving equal weight to the growth of income of each citizen, regardless of his income level, would result in a more accurate assessment of development performance than does GNP because it would give credit for some redistribution of the benefits of growth toward the lower income groups.

Adopting this kind of a socially oriented measure of economic performance would be an important step in the redesign of development policies. It would require governments, and their planning and finance ministries, to look at the allocation of resources in a much more comprehensive way. For they would have to consider not only the total output of an investment but also how the benefits would be distributed. This would give practical, operational significance to the rhetorical statements of social objectives now embodied in most development plans. And it would insure that important questions of equity became an integral part of project evaluation procedures both within the developing countries and the lending agencies. We are, in fact, beginning to develop this approach in the World Bank.

Identifying the Concentrations of Poverty
This proposed reorientation of development strategy would require far greater precision in identifying the main concentrations of the poorest people in a given society and examining much more intensively the policies and investments through which they can be reached.

Clearly, the bulk of the poor today are in the rural areas. All of our analysis indicates that this is likely to continue to be the case during the next two or three decades:[2]

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[2] It is true, of course, that millions of the victims of poverty in the developing world live in the slums of the urban areas and that their social and economic advance depends on an acceleration of the pace of industrialization. I have discussed this subject with you before and will do so again, but today I want to concentrate on the problem of poverty in the countryside where the overwhelming majority of the people live.

- At present, 70% of the population of our developing member countries and an equivalent percentage of the poor live in the countryside.
- Although demographic projections indicate that 60% of the population increase in these countries (an increase of two billion people by the end of the century) is expected to take place in the urban areas-largely through internal migration -in the year 2000 more than half of the people in the developing world will still reside in the countryside.
- Rapid urbanization is already creating very serious problems. Under present policies, per capita public expenditures in urban areas are typically three to four times as great as they are in rural areas. Thus, efforts to relieve rural poverty by still greater migration to the cities will result in an even more inequitable division of public expenditures and only exacerbate the existing inequalities of income.
- Within the rural areas the poverty problem revolves primarily around the low productivity of the millions of small subsistence farms. The truth is that despite all the growth of the GNP, the increase in the productivity of these small family farms in the past decade has been so small as to be virtually imperceptible.

But despite the magnitude of the problem in the countryside, focusing on rural poverty raises a very fundamental question: is it a really sound strategy to devote a significant part of the world's resources to increasing the productivity of small-scale subsistence agriculture? Would it not be wiser to concentrate on the modern sector in the hope that its high rate of growth would filter down to the rural poor?

The answer, I believe, is no.

Experience demonstrates that in the short run there is only a limited transfer of benefits from the modern to the traditional sector. Disparities in income will simply widen unless action is taken which will directly benefit the poorest. In my view, therefore, there is no viable alternative to increasing the productivity of small-scare agriculture if any significant advance is to be made in solving the problems of absolute poverty in the rural areas.

But that does not mean there need be an irreconcilable conflict between that objective and the growth of the rest of the economy. On the contrary, it is obvious that no attempt to increase the productivity of subsistence agriculture can succeed in an environment of overall economic stagnation. The small farmers cannot prosper unless there is significant growth in other sectors, both to provide the development resources they will require, and to create the demand for their additional output.

The point is that the reverse is also true - and it is time we recognized it. Without rapid progress in smallholder agriculture throughout the developing world, there is little hope either of achieving long-term stable economic growth or of significantly reducing the levels of absolute poverty.[3]

The fact is that very little has been done over the past two decades specifically designed to increase the productivity of subsistence agriculture. Neither political programs, nor economic plans, nor international assistance - bilateral or multilateral - have given the problem serious and sustained attention. The World Bank is no exception. In our more than a quarter century of operations, less than $1 billion out of our $25 billion of lending has been devoted directly to this problem.

It is time for all of us to confront this issue head-on.

V. A Strategy For Rural Development

In presenting a strategy for rural development I should like: first, to analyze the scope of the problem; second, to set a feasible goal in order to deal with it; and third, to identify the measures required to meet that goal.

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[3] It is not my purpose today to discuss the food crisis presently affecting wide areas of the globe. However, any long-term solution of the food shortage, in a world in which population will increase for at least a century to come, clearly requires substantial increases in smallholder productivity. In addition, to provide insurance against the vagaries of the weather, some coordinated system of national food reserves must be established. I strongly support the efforts of the Director-General of the FAO to organize such a program, and I am fully prepared to recommend that the World Bank participate in its financing.

The Scope of the Problem
Let me begin by outlining the scope of the problem in the developing countries which are members of the Bank. It is immense:

- There are well over 100 million families involved-more than 700 million individuals.
- The size of the average holding is small and often fragmented: more than 100 million farms are less than 5 hectares; of these, more than 50 million are less than 1 hectare.
- The possession of land, and hence of political and economic power in the rural areas, is concentrated in the hands of a small minority. According to a recent FAO survey, the wealthiest 20% of the landowners in most developing countries own between 50 and 60% of the cropland. In Venezuela they own 82%; in Colombia 56%; in Brazil 53%; in the Philippines, India, and Pakistan about 50%. Conversely, the 100 million holdings of less than 5 hectares are concentrated on only 20% of the cropland.
- Even the use of the land which the small farmer does have is uncertain. Tenancy arrangements are generally insecure and often extortionate. In many countries tenants have to hand over to the landlord 50-60% of their crop as rent, and yet in spite of this are faced with the constant threat of eviction. The result is that their incentive to become more productive is severely eroded.

It has often been suggested that the productivity of small-scale holdings is inherently low. But that is simply not true. Not only do we have the overwhelming evidence of Japan to disprove that proposition, but a number of recent studies on developing countries also demonstrate that, given the proper conditions, small farms can be as productive as large farms. For example, output per hectare in Guatemala, the Republic of China, India, and Brazil was substantially greater on smaller farms than on larger ones. And it is, of course, output per hectare which is the relevant measure of agricultural productivity in land-scarce, labor-surplus economies; not output per worker.

There is ample evidence that modern agricultural technology is divisible, and that small-scale operations need be no barrier to raising agricultural yields.

The question, then, is what can the developing countries do to increase the productivity of the small farmer. How can they duplicate the conditions which have led to very rapid agricultural growth in a few experimental areas and in a few countries so as to stimulate agricultural growth and combat rural poverty on a broad scale?

The first step is to set a goal. A goal is necessary both so that we can better estimate the amount of financial resources required, and so that we can have a firm basis for measuring progress.

Setting the Goal
I suggest that the goal be to increase production on small farms so that by 1985 their output will be growing at the rate of 5% per year. If the goal is met, and smallholders maintain that momentum, they can double their annual output between 1985 and the end of the century.

Clearly this is an ambitious objective. A 5% rate of growth has never been achieved on a sustained basis among smallholders in any extensive areas of the developing world. Smallholder production has risen on average only about 2.5% per year in the past decade.

But if Japan in 1970 could produce 6720 kg of grain per ha on very small farms, then Africa with its 1270 kg per ha, Asia with 1750 kg, and Latin America with 2060 kg have an enormous potential for expanding productivity.

Thus, I believe the goal is feasible. It recognizes that progress will be slow during the next five to ten years while new institutions evolve, new policies take hold, and new investments are implemented. But after this initial period, the average pace of growth in smallholder agricultural productivity can be more than double today's rate and thereby benefit the lives of hundreds of millions of people.

Now, what are the means necessary to accomplish this goal?

Neither we at the Bank, nor anyone else, have very clear answers on how to bring the improved technology and other inputs to over 100 million small farmers - especially to those in dry-land areas. Nor can we be fully precise about the costs. But we do understand enough to get started.

Admittedly, we will have to take some risks. We will have to improvise and experiment. And if some of the experiments fail, we will have to learn from them and start anew.

What, then, can we begin to do now?

Measures Necessary to Meet the Goal
Though the strategy for increasing the productivity of smallholder agriculture is necessarily tentative, the following are essential elements of any comprehensive program:

- Acceleration in the rate of land and tenancy reform.
- Better access to credit. , Assured availability of water.
- Expanded extension facilities backed by intensified agricultural research.
- Greater access to public services.
- And most critical of all: new forms of rural institutions and organizations that will give as much attention to promoting the inherent potential and productivity of the poor as is generally given to protecting the power of the privileged.

These elements are not new. The need for them has been recognized before. But they will continue to remain little more than pious hopes unless we develop a framework of implementation, and agree to a commitment of resources commensurate with their necessity. That is what I propose.

Organizational Changes
The organizational structure for supporting smallholder agriculture is without doubt the most difficult problem. Let me examine this subject first and then turn to the others in sequence.

Obviously, it is not possible for governments to deal directly with over 100 mil/ion small farm families. What is required is the organization of local farm groups, which will service millions of farmers at low cost, and the creation of intermediate institutions through which governments and commercial institutions can provide the necessary technical assistance and financial resources for them.

Such institutions and organizations can take any number of forms: smallholder associations, county or district level cooperatives, various types of communes. There are, of course, many experiments already going on in different parts of the world. What is imperative is that at each organizational level financial discipline be rigorously required, and that the entire structure be oriented toward initiative and self-reliance. Experience shows that there is a greater chance of success if the institutions provide for popular participation, local leadership, and decentralization of authority.

The reorganization of government services and institutions is equally important. No program will help small farmers if it is designed by those who have no knowledge of their problems and operated by those who have no interest in their future.

The sad truth is that in most countries, the centralized administration of scarce resources–both money and skills–has usually resulted in most of them being allocated to a small group of the rich and powerful. This is not surprising since economic rationalizing, political pressure, and selfish interest often conspire to the detriment of the poor. It will clearly require courageous political leadership to make the bureaucracy more responsive to the needs of the subsistence farmers.

The ablest administrators, for example, should no longer be reserved exclusively for the urban sectors. Top engineering talent must be devoted to designing low-cost solutions to the problems of small-farm irrigation. Young graduates can be motivated to take on the problems of the rural poor, and be adequately rewarded for solving them. Educational institutions should recognize that the training in practical skills is as important as the accumulation of theoretical knowledge. In short, national managerial and intellectual resources must be redirected to serve the many instead of the few, the deprived instead of the privileged.

Acceleration of Land and Tenancy Reform
But there are other structural changes necessary as well. And the most urgent among these is land and tenancy reform. Legislation dealing with such reform has been passed–or at least been promised–in virtually every developing country. But the rhetoric of these laws has far outdistanced their results. They have produced little redistribution of land, little improvement in the security of the tenant, and little consolidation of small holdings.

That is extremely regrettable. No one can pretend that genuine land and tenancy reform is easy. It is hardly surprising that members of the political power structure, who own large holdings, should resist reform. But the real issue is not whether land reform is politically easy. The real issue is whether indefinite procrastination is politically prudent. An increasingly inequitable situation will pose a growing threat to political stability.

But land and tenancy reform programs-involving reasonable land ceilings, just compensation, sensible tenancy security, and adequate incentives for land consolidation-are possible. What they require are sound policies, translated into strong laws which are neither enervated by exceptions nor riddled by loopholes. And most important of all, the laws have to incorporate effective sanctions, and be vigorously and impartially enforced.

What we must recognize is that land reform is not exclusively about land. It is about the uses-and abuses-of power, and the social structure through which it is exercised.

Better Access to Credit

But realistic land and tenancy reform - as essential as it is - is not enough. It is one thing to own land; it is another to make it productive. For the smallholder, operating with virtually no capital, access to credit is crucial. No matter how knowledgeable or well motivated he may be, without such credit he cannot buy improved seeds, apply the necessary fertilizer and pesticides, rent equipment, or develop his water resources. Small farmers, generally, spend less than 20% of what is required on such inputs because they simply do not have the resources.

In Asia, for example, the cost of fertilizer and pesticides required to make optimum use of the new high-yielding varieties of wheat and rice ranges from $20 to $80 per hectare. But the small farmer there is spending only $6 per hectare because that is all he can finance. And most of that $6 does not come from government or institutional sources, but from local landlords or village money lenders at usurious rates of interest.

The present institutions in the rural areas are simply not geared to meeting the needs of smallholder agriculture. In countries as disparate as Bangladesh and Iran, less than 10% of institutional credit is available to rural areas; in Thailand, the Philippines, and Mexico less than 15%; in India less than 25%. And only a fraction of this is available to the small farmer. Even then it is accompanied by stringent tests of creditworthiness, complicated application procedures, 'and lengthy waiting periods.

Existing commercial institutions are reluctant to make credit available to the small farmers because the administrative and supervisory costs of small loans are high. Further, the subsistence farmer is operating so close to the margin of survival that he is simply not as creditworthy as his more wealthy neighbors.

Nor do governmental credit policies always help the small farmer, even though the intention may have been to shape them for that purpose. The fact is that concern over the usurious rates the farmer pays the money lender has led to unrealistically low rates for institutional credit. The smallholder does not need credit subsidized at an annual interest rate of 6% for projects which will yield 20% or more per year. He would be much better off if he had to pay a realistic rate of interest but could actually get the money.

In reviewing their financial policies for agriculture, governments should take care that good intentions do not have self-defeating consequences. In many of our member countries, radical restructuring of interest rates is long overdue.

Assured Availability of Water

No less essential than credit-indeed even more so-is an assured supply of water for the smallholder. Without it, seeds, fertilizer, and pesticides are useless. This means continued research into the most productive uses of water, as well as substantial investment in irrigation and increased attention to on-farm irrigation methods.

It is estimated that the presently irrigated area in the developing world of 85 million hectares can be expanded by another 90 million hectares, but the additional cost would be high: over $130 billion. And not only is expansion of irrigated land expensive, it is a slow process. No major irrigation dam which is not already in the active design stage is likely to yield significant on-farm benefits before the mid-1980s. Although investments in major irrigation projects will continue to be an important part of national investment plans, and of Bank financing, they must be supplemented by more quick-yielding programs designed to benefit the small farmer.

This calls for much greater emphasis in on-farm investment which can take advantage of existing large irrigation projects. There are too many cases-in our experience and that of others - in which it has taken ten years or more after the dam was completed for the water actually to reach the farmers. Major irrigation schemes often preempt necessary resources for on-farm improvement. The drama of harnessing a major river may be more exciting than the prosaic task of getting a steady trickle of water to a parched hectare, but to millions of smallholders that is what is going to make the difference between success and failure. The allocation of scarce budgetary resources should reflect this reality.

Thus, development of major irrigation works, though necessary, is not enough. Too many small farmers would be left unaffected. These programs need to be supplemented by others which can bring water to farms outside major irrigation projects -and do so cheaply. Tubewells, low-lift pumps, and small dams can make major contributions to productivity. Moreover, these investments - while not always within the reach of individual poor farmers - can often be afforded by organized smallholders.

Expansion of Extension Services and Applied Research
The small farmer needs credit and water, but he needs technical information as well. And he is not getting nearly enough of it. The projected number of trained personnel who will graduate annually from existing agricultural educational institutions can at best satisfy less than half the total needs of the developing world. In the developed countries, the ratio of government agricultural agents to farm families is about 1 to 400. In developing countries, it is on average 1 to 8000. And only a small fraction of even these limited services is available to the small farmer.

It is not primarily the deficiency of funds that is delaying the necessary expansion of extension services. It is the deficiency of resolve to do more for the small farmer who desperately requires them. There is scarcely a single developing country which does not produce too many lawyers, but there is no developing country which produces enough extension agents. Governments cannot control personal career objectives, but they can offer appropriate incentives, and promote vocational choices which will contribute more directly to economic development and social modernization.

Thus the annual cost of training the required extension personnel would be modest as a percentage of GNP or budgetary resources. The net cost-after deducting savings from changed allocations-would be even less. As long as the supply of extension workers is grossly inadequate, only the large farmers will benefit and the needs of the poor will be ignored.

Behind extension services, of course, lies applied research. In a sample of five major developed countries, the governments are allocating annually from $20 to $50 per farm family for such research. The comparable figures for five major developing countries are only 50 cents to $2 per farm family.

The international network of agricultural research has grown impressively. The Bank, for example, chairs the Consultative Group on International Agricultural Research, and contributes to the financing of the research institutes including the financing of the new institute for the semi-arid tropics. But very much more needs to be done at the national level to explore the special-equipment needs of the small operator, to develop new technologies for the non-cereal crops, and to help the farmer in non-irrigated areas.

General expenditures on research and development in the developing countries are notoriously low and must be increased substantially. In doing this, governments should give very high priority to strengthening that type of research which will benefit the small farmer-research to produce low-risk, inexpensive technology that he can put to immediate use.

Greater Access to Public Services
In other areas too, public services are grossly inadequate. The income of the small farmer could be substantially increased if he were supported by better physical infrastructure. Because of the costs involved, it is not within the power of the developing countries to provide all of this infrastructure quickly to the millions who need it. But governments can provide much of it by organizing rural

works programs to construct small feeder roads, small-scale irrigation and drainage systems, storage and market facilities, community schools and health centers, and other facilities which make extensive use of local labor and relatively simple skills.

There is no mystery about designing these programs. They have worked successfully at various times in experimental projects in Bangladesh, Tunisia, Indonesia, and other countries. The major handicap has been their limited scale and inadequate management. The task for governments is gradually to extend these projects to a national scale.

Basic changes are also necessary in the distribution of other public services. In the rural areas these services are not only deplorably deficient, they are often not geared to the needs of the people they are supposed to serve.

Educational systems should stress practical information in agriculture, nutrition, and family planning for those both within and outside of the formal school program. Health services should be developed which can assist in eradicating the common enervating diseases that afflict the rural poor. Electricity for rural areas should not be considered a luxury, nor should its purpose be merely to place a lightbulb in every dwelling. One of its most important uses is to supply power for production appliances, such as water pumps. Power is admittedly almost always in short supply, but urban lighting and air conditioning should no longer be given such a disproportionate priority in the national systems.

Every country must examine why it can afford to invest in higher education, but fails to offer incentives to attract teachers to rural areas; why it can staff urban medical centers and export its doctors abroad, but fails to provide doctors for the countryside; why it can build urban roads for the private automobile, but cannot build feeder roads to bring produce to market.

Resources are scarce in the developing countries, and their redistribution cannot provide enough for everyone's needs. But a major redistribution of public services is required if the small farmer is to have at least the necessary minimum of economic and social infrastructure.

The programs I have discussed above can all be initiated quickly by governments, and will make a major contribution to the goal of a 5% growth rate in the output of small-scale agriculture by 1985. And all of these programs deserve, and will have, the full support of the Bank Group.

But the fact remains that the measures I have outlined are primarily the responsibility of the developing countries. It would be a great disservice if the aid agencies were to try to convince either these countries or themselves that policies for alleviating rural poverty can be fashioned and delivered from abroad. The problem must be perceived and dealt with by the countries themselves.

But the international community can, and must, help. The resources required to achieve a 5% growth rate in the yields on small farms by 1985 are very large. One estimate would place the annual cost of on-farm investment, land and water resource development, additional training facilities, and minimum working capital requirements for smallholder agriculture at $20-25 billion by 1985. This would be about 3.5% of the combined annual GNP of the developing countries.

Part of these resources must come from additional savings generated by the farmers themselves, and part must come from redirecting resources from other sectors in the developing countries.

But some of these resources must come from the international community-in the form of services and, financing which the small farmer needs.

An Action Program in the Bank
What can the Bank do to assist in this effort?

First of all, we expect to lend $4.4 billion in agriculture during our next five-year program (1974-78), as compared to $3.1 billion in the first five-year program (1969-73), and $872 million in the 1964-68 period.[4]

[4] Figures for all three periods are in 1973 dollars.

This in itself is a formidable target, but more importantly we intend to direct an increasing share of our lending to programs which directly assist the small farmer to become more productive. In the next five years we expect that about 70% of our agricultural loans will contain a component for the smallholder. We are now preparing these programs in consultation with member governments.

But we recognize that at best our lending can finance only a small portion of the total credit and investment needs of smallholder agriculture. That is why we intend to give particular attention in our economic advice to governments to those sectoral and financial policies which most affect the rural poor so that the resources to be invested by governments will have a maximum impact.

And though experimentation and innovation will remain essential, the broad policies governing the Bank's program are clear:

- We are prepared to do much more to assist governments in the reform of their agricultural financial structure, and to support institutions designed to bring credit to the small farmer.
- We intend to continue to invest in large irrigation projects and in the recovery of saline lands, but we will emphasize on-farm development incorporating a maximum of self-financing so that the benefits of irrigation can reach small farmers more quickly.
- We will support non-irrigated agriculture, including the financing of livestock production, and in particular small-scale dairy farming in milk-deficient areas.
- We are prepared to finance the expansion of training facilities for extension agents who can help raise the productivity of the rural poor.
- We are prepared to finance rural works programs as well as multi-purpose rural development projects.
- We are ready to assist land and tenancy reform programs by providing the follow-up logistical support required by the small farmer, and to help in the technical and financial aspects of land purchase and consolidation.
- We have financed agricultural research institutions in the past and are fully prepared to do more in the future, particularly in the development of an appropriate technology for semi-arid agriculture. We propose to support investigation into the most effective uses of water at the farm level, especially in water-deficient areas. We are already assisting one such investigation in Mexico.
- We will, in our lending for infrastructure, strongly urge that account be taken of the pressing needs of the rural areas.

VI. Summary and Conclusions

Let me now summarize and conclude the central points I have made this morning.

If we look objectively at the world today, we must agree that it is characterized by a massive degree of inequality.

The difference in living standards between the rich nations and the poor nations is a gap of gigantic proportions.

The industrial base of the wealthy nations is so great, their technological capacity so advanced, and their consequent advantages so immense that it is unrealistic to expect that the gap will narrow by the end of the century. Every indication is that it will continue to grow.

Nothing we can do is likely to prevent this. But what we can do is begin to move now to insure that absolute poverty - utter degradation - is ended.

We can contribute to this by expanding the wholly inadequate flow of Official Development Assistance.

The flow of ODA can be increased, by 1980, to the target of .7% of GNP - a target originally accepted within the United Nations for completion by 1975.

This is feasible, but it will require renewed efforts by many nations, particularly the very richest.

Further, we must recognize that a high degree of inequality exists not only between developed and developing nations but within the developing nations themselves. Studies in the Bank during this past year reinforce the preliminary conclusions I indicated to you last year: income distribution patterns are severely skewed within developing countries-more so than within developed countries-and the problem requires accelerated action by the governments of virtually all developing nations.

A minimum objective should be that the distortion in income distribution within these nations should at least stop increasing by 1975, and begin to narrow within the last half of the decade.

A major part of the program to accomplish this objective must be designed to attack the absolute poverty which exists to a totally unacceptable degree in almost all of our developing member countries: a poverty so extreme that it degrades the lives of individuals below the minimal norms of human decency. The absolute poor are not merely a tiny minority of unfortunates - a miscellaneous collection of the losers in life-a regrettable but insignificant exception to the rule. On the contrary, they constitute roughly 40% of the nearly two billion individuals living in the developing nations.

Some of the absolute poor are in urban slums, but the vast bulk of them are in the rural areas. And it is there - in the countryside - that we must confront their poverty.

We should strive to eradicate absolute poverty by the end of this century. That means in practice the elimination of malnutrition and illiteracy, the reduction of infant mortality, and the raising of life-expectancy standards to those of the developed nations.

Essential to the accomplishment of this objective is an increase in the productivity of small-scale agriculture.

Is it a realistic goal?

The answer is yes, if governments in the developing countries are prepared to exercise the requisite political will to make it realistic.

It is they who must decide.

As for the Bank, increased productivity of the small, subsistence farmer will be a major goal of our program of expanded activity in the FY1974-78 period.

But no amount of outside assistance can substitute for the developing member governments' resolve to take on the task.

It will call for immense courage, for political risk is involved. The politically privileged among the landed elite are rarely enthusiastic over the steps necessary to' advance rural development. This is shortsighted, of course, for in the long term they, as well as the poor, can benefit.

But if the governments of the developing world-who must measure the risks of reform against the risks of revolution-are prepared to exercise the requisite political will to assault the problem of poverty in the countryside, then the governments of the wealthy nations must display equal courage. They must be prepared to help them by removing discriminatory trade barriers and by substantially expanding Official Development Assistance.

What is at stake in these decisions is the fundamental decency of the lives of 40% of the people in the 100 developing nations which are members of this institution. We must hope that the decisions will be the courageous ones.

If they are not, the outlook is dark. But if the courageous decisions are made, then the pace of development can accelerate.

I believe it will. I believe it will because I believe that during the remainder of this century people everywhere will become increasingly intolerant of the inhuman inequalities which exist today.

All of the great religions teach the value of each human life. In a way that was never true in the past, we now have the power to create a decent life for all men and women. Should we not make the moral precept our guide to action? The extremes of privilege and deprivation are simply no longer acceptable.

It is development's task to deal with them.

You and I – and all of us in the international community share that responsibility.

Projected Flow of Official Development Assistance Measured as a Percent of Gross National Product[5]

	1960	1965	1970	1971	1972	1973	1974	1975	1976
Australia	.38	.53	.59	.53	.61	.58	.59	.60	.62
Austria		.11	.07	.07	.09	.19	.22	.25	.26
Belgium	.88	.60	.46	.50	.55	.58	.65	.70	.70
Canada	.19	.19	.42	.42	.47	.49	.50	.52	.53
Denmark	.09	.13	.38	.43	.45	.52	.56	.61	.63
France	1.38	.76	.66	.66	.67	.65	.65	.65	.65
Germany	.31	.40	. 32	.34	.31	.32	.34	.36	.38
Italy	.22	.10	.16	.18	.09	.16	.16	.16	.17
Japan	.24	.27	.23	.23	.21	.28	.34	.40	.40
Netherlands	.31	.36	.61	.58	.67	.66	.70	.72	.76
Norway	.11	.16	.32	.33	.41	.56	.67	.75	.82
Portugal	1.45	.59	.67	1.42	1.51	.45	.45	.45	.45
Sweden	.05.	. 19	. 38	. 44	. 48	. 56	. 65	.71	.75
Switzerland	.04	.09	.15	.11	.21	.26	.30	.32	.34
United Kingdom	.56	.47	.37	.41	.40	.37	.40	.40	.40
United States[6]	.53	.49	.31	.32	.29	.25	.22	.22	.21
Total	.52	.44	.34	.35	.34	.34	.34	.35	

[5] Countries included are members of OECD Development Assistance Committee, accounting for more than 95% of total Official Development Assistance. Figures for 1972 and earlier years are actual data. The projections for later years are based on World Bank estimates of growth of GNP, on information on budget appropriations for aid, and on aid policy statements made by governments. Because of the relatively long period of time required to translate legislative authorizations first into commitments and later into disbursements, it is possible to project today, with reasonable accuracy, ODA flows (which by definition represent disbursements) through 1976.

[6] In 1949, at the beginning of the Marshall Plan, U.S. Official Development Assistance amounted to 2.79% of GNP.