

# Vision of Donor Support for Agricultural Growth and Poverty Reduction in sub-Saharan Africa



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with input from colleagues at Michigan State University

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# Main Arguments

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1. Poverty and needs are enormous
2. Indeed, substantial \$\$\$ is being spent on poverty alleviation
3. Tragedy is that the \$\$\$ is not being well utilized
4. Especially with regard to promoting agricultural markets, the role of the state must be viewed more holistically
5. A new relationship between donors and governments is necessary to effectively tackle poverty



# The Arguments “Unpacked”

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# 1. Poverty is enormous

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- ❑ SSA poverty rates rising, 45% in 2000
- ❑ There are enormous needs
- ❑ Points already made by Andrew



## 2. Donors give considerable budget support to African governments

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- WB and bilateral donors provide “untied” budget support to treasuries:
  - Zambia: ~ 40%
  - Malawi: ~ 48%
  - Mozambique: ~ 70%
  - Niger: ~ 85%



# Much research evidence devoted to understanding returns to investment

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- ❑ Long-term productivity growth is critical for poverty reduction
  1. R & D: (Alston, Grilliches, Mellor, Eicher)
  2. Education: turns information into knowledge (Johnston)
  3. Extension systems: farm management (Evenson)
  4. Infrastructure: road, rail, port, communications (Antle)
  5. Irrigation (Johnston, Gulati)



# What does most of the research evidence indicate (cont.)?

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- ❑ Markets don't work well without public good investments in
  - infrastructure,
  - market information,
  - accurate crop forecasts,
  - predictable policy environment
- ❑ Because of symbiotic relationship between production and marketing, market development also needs adequate investment in farm productivity growth



# Summary of research evidence about fertilizer subsidies in Africa:

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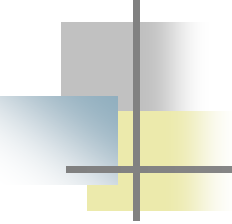
- ❑ can help to raise production, but little sustained benefit after subsidies are withdrawn
  - Examples of snuffed-out maize revolutions (Zimbabwe, Zambia, Kenya, Malawi)
- ❑ Benefits tend to be disproportionately captured by better-off farmers, unless near universal coverage
- ❑ often captured by first-beneficiaries, not farmers → questionable effect on total input use
- ❑ Costly – foregone payoffs from alternative public investments
- ❑ Inhibits development of private sector capacity

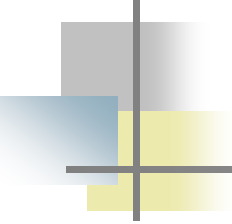


### 3. African govts devote small portion of budget to productivity growth

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- ❑ < 10% of budgets to agriculture
- ❑ Of amount devoted to agriculture
  - Zambia:
    - 70% → fertilizer subsidies and maize marketing board operations
    - 20% → salaries
    - 4% → sustained productive investments (R&D, extension, irrigation, etc).
- ❑ Similar patterns in most of E. and S. Africa

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4. Spending 70% of agricultural budget on input/output subsidies is most likely a mis-use of budget with questionable long-term payoffs
  5. What's driving this mis-allocation of resources?



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graph TD; A[Donor "untied" budget support] --> B[Government budget]; B --> C["• Long-term productive investments: R&D, extension, irrigation, etc."]; B --> D["• Fertilizer subsidies, marketing board price supports, land bills, food aid"]; C --> E["• Political payoffs 5-10 years off; critical for sustained poverty reduction"]; D --> F["• Immediate political payoffs; Visible support to constituencies; little contribution to sustained poverty reduction"]
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Donor "untied" budget support

Government budget

- Long-term productive investments: R&D, extension, irrigation, etc.

- Fertilizer subsidies,
- marketing board price supports,
- land bills, food aid

- Political payoffs 5-10 years off;
- critical for sustained poverty reduction

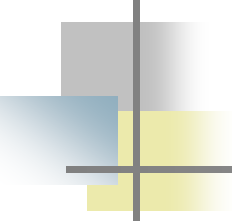
- Immediate political payoffs;
- Visible support to constituencies
- little contribution to sustained poverty reduction

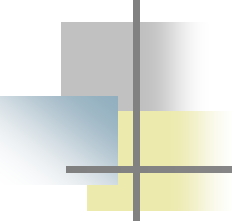


# “Social Trap”

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- (def): short-run incentives causes people to act in ways that produce undesirable outcomes in long-run (e.g., tragedy of commons)
- Do social traps explain:
  - the major allocation of donor resources through budget support to highly visible interventions?
  - the “staying power” of marketing boards, fertilizer subsidies, and food aid?
  - the underprovision of productive investments that are required to sustainably reduce poverty (R&D, education, extension, infrastructure)

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- Our argument is not that markets work particularly well – they usually don't
    - But without a greater % of scarce govt + donor funds focused on productive investments
      - we will be saying this 50 years from now
      - making the same rationale for state interventions to redress immediate crises
      - but crises will be more frequent and severe

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- Attempts to correlate market organization with agricultural growth are probably not meaningful in bivariate way
    - Ag. growth, market performance, and investments to promote farm productivity are all endogenous
    - need to account for other investments and policies affecting outcomes



# Implications - Vision

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- Reallocate donor assistance from “untied” budget support to funding of specific productive investments:
  - Ag. crop science
  - Extension
  - Infrastructure: roads, rail, port
  - Basic education
  - Irrigation



## Implications (cont.)

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- As massive as the poverty problems are now, they will be much greater unless budgets are re-allocated sooner or later:
  - Population growth w/o productivity growth → civil strife
  - Not a viable option to have more and more “failed states” in Africa
  - Donors will need to exert more influence over the way their support will be used

