Old and New Insights to Inform African Governments' Agricultural Investment Programs

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Main Arguments

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. A growth agenda is required to reverse the increasing slide toward poverty and failed states
5. Achieving a "growth oriented" public budget allocation will require new relationship between donors and governments

The Arguments "Unpacked"

1. Poverty is enormous

- SSA poverty rates rising, 45% in 2000
- There are enormous needs

2. Donors give considerable budget support to African governments

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

Much research evidence devoted to understanding returns to investment

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

Appropriate roles for government:

- Often hear “tell us not what governments shouldn’t be doing, tell them what they should be doing”
  1. Agricultural R & D systems
  2. Extension systems
  3. Rural infrastructure
  4. Irrigation
  5. Market information systems, accurate crop forecasting

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

- Markets don’t work well without public good investments in
  - infrastructure,
  - market information,
  - accurate crop forecasts,
  - predictable policy environment

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

- < 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

Budget provision and funding for Ministry of Agriculture, 2005 Zambia (ZMK' billion)

MACO	PROVISION	FUNDING
Personal Emoluments	75	74
Recurrent Departmental Charges	44	39
Grants and Other Payments	4	4
Poverty Reduction Programs/HIPC	**221**	**222**
Fertilizer Support Program	140	142
Strategic Food Reserves	59	59
Other PRP Programs	22	21
TOTAL	**344**	**339**

Summary of research evidence about fertilizer subsidies in Africa:

- 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
- questionable effect on total input use
- Crowds out private sector
- Private sector supply chains gear up for subsidy programs, not long-term commercial development
- *Costly – foregone payoffs from alternative public investments*

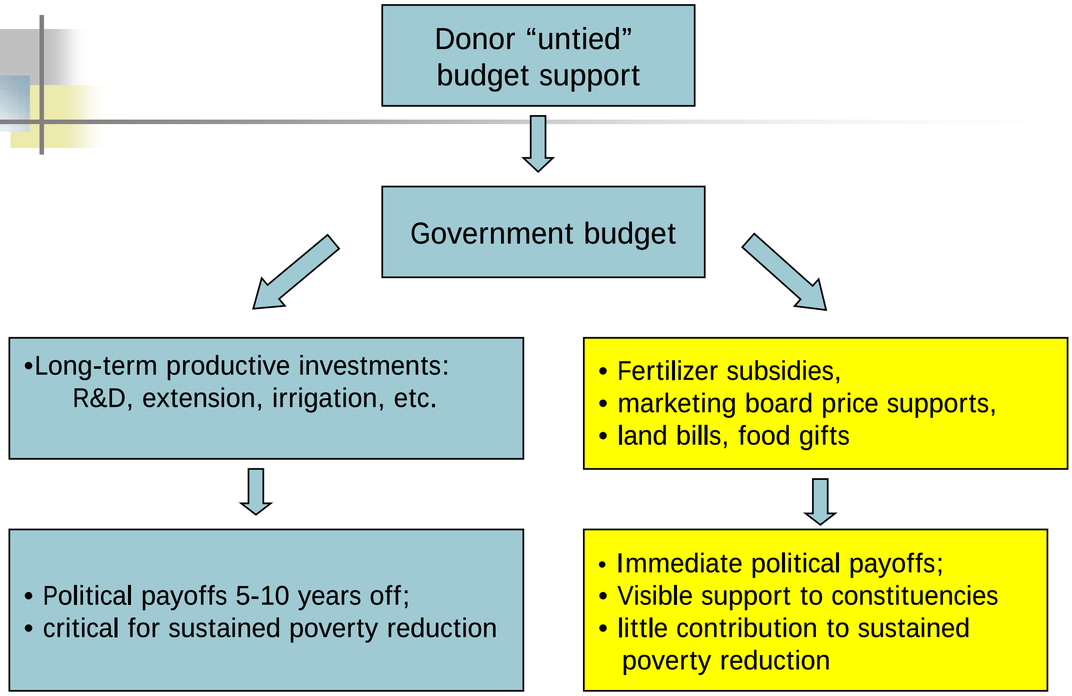
Marketing Boards' share of estimated maize surplus:

- NCPB (Kenya):
  - 40% (1990-2003)
  - 26% (1995-2003)
- ADMARC (Malawi):
  - 15% (1995–2003) – not including sales from imported stocks
- FRA (Zambia):
  - 34% (1997-2003) - mostly from sales of imported stocks

Characteristics of smallholder farmers, Zambia 1999/00

		N=	Farm size (ha)	Asset values (US$)	Gr. Rev., maize sales (US$)	Gr. Rev., crop sales (US$)	Total hh income (US$)
Top 50% of maize sales		14,261	9.0	1,160	690	729	2,534
Remaining maize sellers		272,805	3.9	233	74	97	607
Households not selling maize		839,855	2.8	163	0	26	362

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



"Social Trap"

- (def): short-run incentives cause 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 distribution programs?
  - the underprovision of productive investments that are required to sustainably reduce poverty (R&D, education, extension, infrastructure)?

How to escape from this dilemma:

- Markets don’t work particularly well, which provides rationale for government intervention
- 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

Implications - Vision

- Consider reducing donor assistance from untied budget support to “matching support” for specific types of productive public investments:
  - Ag. crop science
  - Extension
  - Infrastructure: roads, rail, port
  - Basic education
  - Irrigation

Implications (cont.)

- 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