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

T.S Jayne
with input from colleagues at Michigan State University

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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. 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”

1. Poverty is enormous
   - 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

- 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, 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.)?

- 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:

- can help to raise production, but little sustained benefit after subsidies are withdrawn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 \(\rightarrow\) 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

- < 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

4. Spending 70% of agricultural budget on input/output subsidies is most likely a mis-use of budget resources with questionable long-term payoffs

5. What’s driving this mis-allocation of resources?
“Social Trap”

(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 distribution programs?
- the underprovision of productive investments that are required to sustainably reduce poverty (R&D, education, extension, infrastructure)?
Our argument is not that markets work particularly well – they often 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

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

- 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.)

- 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