

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

Presentation at

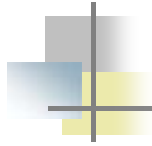
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Main Arguments

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:

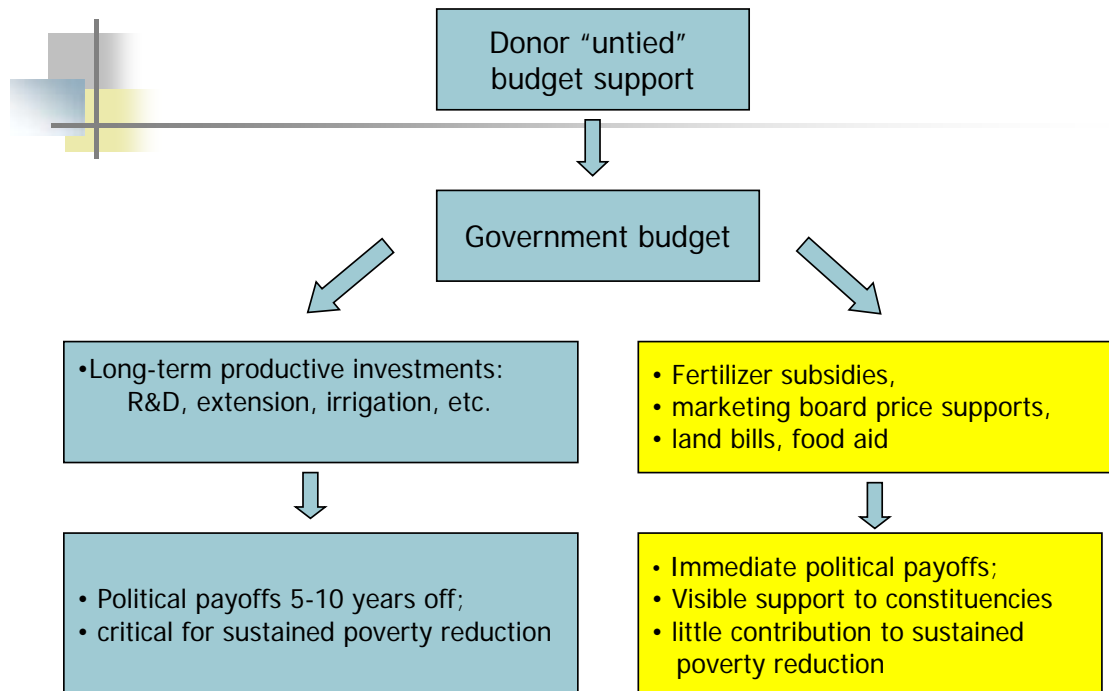
- ❑ can help to raise production, but little sustained benefit after subsidies are withdrawn
 - Examples of snuffed-out maize revolutions (Zimbabwe, Zambia, Kenya, Malawi)
- ❑ Benefits tend to be disproportionately captured by better-off farmers, unless near universal coverage
- ❑ often captured by first-beneficiaries, not farmers → 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

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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

