Financing African Agriculture: Issues and Challenges

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By
Walter Odhiambo[1]
Department of Agriculture and Agro-Industry, African Development Bank

Abstract:

This paper identifies and discusses some key issues and challenges in financing agriculture in Sub-Saharan Africa. The analysis first reviews recent trends in agricultural financing focusing on both external and domestic sources. The paper then discusses a number of issues and challenges that affect agricultural financing in SSA. The four areas, which show a certain degree of inter-relationship, are: government commitment to support agriculture; the role of public and private sector; emerging aid modalities to agriculture; and financing regional public goods. The paper stresses the importance of ensuring that agriculture is prioritized in the political processes of countries and that the government and the private sector play their rightful role in the financing of African agriculture. The paper notes that while the emerging agricultural financing mechanisms such as budget support and sector-wide approaches (SWAPs) present opportunities for enhancing the volume and effectiveness of agricultural support, they pose challenges to both donors and recipients. The paper also notes that the financing of regional public goods (RPGs) in agriculture, which has great potential in Africa, will require up-scaling and innovative financing.

1 Introduction

The agriculture sector has a crucial role to play in the long-term development of most African countries. For many African countries, agriculture remains the most important source of employment, income and overall-wellbeing. The sector provides the largest contribution to national income; it is the biggest source of foreign exchange and is a major source of saving and investment. Moreover, with over 80% of the population in sub-Saharan African (SSA) dependent on the sector and 70% of these dependent on food production through farming and livestock rearing, growth in the sector has the best chance for producing poverty reducing effects. It follows, therefore, that any strategy for sustained growth and poverty reduction must centre on rapid growth of the agriculture sector.

Although the role of agriculture in growth and poverty reduction in Africa is well recognized, there has been gross under-investment in the sector over the years. Since the mid 1990s, donor

[1] Senior Agricultural Economist, Department of Agriculture and Agro-Industry, African Development Bank. The view expressed in this paper are entirely those of the author and do not necessarily reflect institutional positions. Correspondence e-mail: w.odhiambo@afdb.org.

contribution to the agricultural sector has declined dramatically. Globally, official development assistance (ODA) to agriculture has decreased by nearly two thirds between 1980 and 2002 from US$ 6.2 billion to US$ 2.3 billion. The share of agriculture in total ODA fell from a peak of 17% to only 3.7% over the same period. In sub-Saharan Africa, support to agriculture fell from US$ 1,450 to US$ 713 million dollars over the same period. The decrease in spending in agriculture has been associated with among other things, the significant increase in the share of ODA going to the social sectors, namely education and health, as part of the poverty reduction strategy.

The under-investment in African agriculture is further evidenced by the low and sometimes declining budget allocation by governments to the sector. Few governments prioritize agriculture in their policies and spending to the extent that agriculture receives less than 10% of the national budget in many countries, yet its contribution to GDP is between 20 and 50%. Available data also show that private investment has skirted the agriculture and rural development sectors in Africa ostensibly due to the perceived long-term low yield nature of agricultural projects and perceived high risks. It is thus difficult to reconcile the apparent contradiction between the recognized importance of agriculture, on the one hand and the declining resources directed at it, on the other.

In the past few years, agricultural development has regained prominence in discussions and policies in Africa on economic development and poverty alleviation, thanks to a number of high profile initiatives that have refocused attention to investment in agriculture. This attention has come from many sources: from international initiatives such as the UN Millennium projects, the Commission for Africa, the World Bank World Development Report 2008 focusing on Agriculture; from within Africa such as the African Union, and NEPAD's comprehensive Africa Agriculture Development Program (CAADP). However, despite these initiatives, financing African agriculture remains a matter of major concern. To eradicate poverty and ease the chronic food shortage in the continent, a significant increase in new investment in agriculture is imperative.

This paper seeks to highlight some of the key issues and challenges surrounding the financing of agriculture in SSA. The paper also identifies some opportunities that could be exploited for improved agricultural financing in SSA. The aim is to generate broader conversation among parties involved (donors, African governments, private sector, NGOS, civil society organizations and farmers) about how some of the challenges might be addressed. After providing in the next section a brief overview of recent trends and initiatives in the financing of African agriculture, the paper identifies and discusses four key general challenges and prospects based on recent work and discussions. The paper concludes with a review of the overall policy framework for agricultural development in SSA.

2 Resources for African Agriculture: Recent Trends and Initiatives

External resources

External financial resources are important for economic and social development in Africa, especially agriculture. They account for a sizeable proportion of the amount of resources available for agriculture and rural development. However, as already indicated, external assistance to agriculture has been on the decline since the 1980s. This has been true for both bilateral and multilateral sources (See annex Figure 1). Many reasons have been cited for this decline including changes in development policy and approaches, the loss of donor confidence in agriculture as a result of poor performance of agricultural projects as well as the inherent complexity and risk these projects, shifting emphasis in development assistance towards health and education (which have been at the centre of the HIPC debt relief-funded programs and PRSP) and changes in the aid architecture. The decline has also been associated with a weak demand for assistance for agricultural support due to tight fiscal constraints and inadequate capacities in the ministries of agriculture to bargain for more resources (DFID, 2004).

However, there are indications that the tide is turning. Calls to increase the priority given to agriculture in aid and national budgets are, it would seem, bearing fruit. Indeed, between 2001 and 2005, a number of multilateral and bilateral agencies increased their ODA to SSA agriculture (Annex Table 1). Among the multilateral donors, IDA (for the World Bank) increased from 183.1 million dollars in 2001, peaked at 241.6 million dollars in 2003 before falling slightly to 192.9 million dollars in 2005. For the African Development Bank (AfDB), lending for agriculture under ADF increased from US $ 104.1 million dollars in 2001 to 285.6 million dollars in 2003 before falling back to 152.0 million dollars in 2005. It is significant to note that over the last 30 years, the bulk of AfDB's total loan and grant portfolio has been to agriculture and rural development. Even at a time when many donors were reducing their support to agriculture, the Bank maintained its support to the sector. This may however change with the current strategic orientation of the Bank which places more emphasis on infrastructure development[2]. A number of other agencies active in African agriculture such as the European Commission (EC), DFID, JICA and USAID have also prioritized agriculture as part of the poverty reduction efforts as evidenced by their recent policy strategies. New initiatives such as the Bill and Melinda Gates Foundation working together with the Rockefeller Foundation, through the Alliance for a Green Revolution for Africa (AGRA) will most likely increase the attention and resources to the sector.

In terms of private sector investments, it is notable that the African continent has generally been unable to attract significant private sector external resources. Although the total FDI inflows shot up from US $ 17 billion in 2004 to an unprecedented US$ 31 billion in 2005, the regions share in global FDI continues to be low, at just about 3%. FDI flows have gone mainly into natural resources especially oil. Agriculture attracts only a negligible proportion of the total FDI to the country. The low level of FDI in the continent is associated with high perceived social political and economic risks. Political instability, poor management of economies and the lack of adequate infrastructure and services are some of the reasons for the unattractiveness of the continent. Excessive bureaucracy and poor governance also remain as serious problems.

Domestic Resources

The lack of reliable data makes it difficult to analyze trends in domestic resources for agriculture. Figures for most countries on public expenditure contain a large amount of external funds and do not give an accurate picture of the domestic resources committed to agriculture. This constraint notwithstanding, public expenditure is by far the most important indicator of the amount of domestic resources devoted to agriculture. Trends in public expenditure on agriculture have shown a decline since the 1980s. Fan and Rao (2003) have shown that the share of total

[2] AfDB plans to raise its allocation to infrastructure in its lending portfolio from the current 40% to 60% in the coming years.

government expenditure in agriculture dropped from 6% in 1980 to about 5% in 1989. This is in contrast to a sharp increase in expenditure in the social sectors (education and health) over the same period.

To boost public expenditure in agriculture, African Heads of State at the AU summit in 2003, in what has become known as the Maputo Declaration, undertook to work towards allocating 10% of the national budget resources to agriculture over a period of 5 years. In support of this unprecedented commitment, the FAO undertook to put in place a tracking system to monitor budget allocation to agriculture and rural development as committed by the African Heads of State. The latest information by FAO indicate that out of the 36 African countries providing information, 7 countries (Burkina Faso, Chad, Mali, Niger, Ethiopia, Malawi and Cape Verde) had government expenditure on agriculture above 10% in 2005[3] (See Annex Table 1). It is worth noting that all these countries already had allocation to agriculture at above 10% by 2003. In fact, the data show that the allocation decreased in Burkina Faso and Mali between 2004 and 2005. The FAO data further show that 13 countries are in the range of between 5 and 10% while the other 16 had expenditures that were less than 5%. In the former category, there were marginal increases in Kenya (0.4%), Sudan (0.4%), Tunisia (0.2%), and Mozambique (0.1%). The allocation declined in Lesotho from 5.0% to 2.9% and from 5.0% to 4.9% in Senegal between 2004 and 2005. In the latter category, only Tanzania recorded a significant increase from 3.0% to 5.5%. There were declines in Gabon, Burundi, Mauritius and Liberia. The overall picture that emerges from this information is that although commitments were made to increase public expenditure to agriculture, many African countries are yet to make significant changes to their allocation to the sector and are unlikely to meet the agreed targets by 2008.

Against the backdrop of limited government budget for agriculture in most SSA countries, there has always been the debate as to whether the continent has adequate domestic resources that can be mobilized for agricultural development. A common view has been that many African countries can hardly mobilize adequate resources to meet national and sectoral needs, especially in agriculture which ranks low in the sectoral allocations. This has been the justification for asking for external assistance. There are strong pointers to show that there are ample resources within countries that could be mobilized for agricultural and rural development and that what lacks are appropriate policies and strategies to mobilize resources. It has, for example, been pointed out that whereas it would take an average of US $ 17 billion of annual investment to adequately implement the CAADP program, the annual food and agricultural products import bill for the continent is in the order of US $10-20 billion.

As relates to private domestic investments, it is notable that although the bulk of the resource investment in agriculture originate from private investors (ordinary farmers), the sector has not been able to attract in a significant way private commercial capital. The barriers to increased private investment are largely the same for international investors and include high perceived risks, political instability and low relative returns from the sector. Farmers who are the primary investors in the sector also face a number of constraints, the main one being poor access to loan

[3] The allocation to agriculture in Malawi and Zambia has been relatively high in recent years. In the 2006/7 budget, Malawi allocated 14% of the total national budget of MK 150 billion to the Ministry of Agriculture and food security, up from 10% in the previous year. In the 2006/7 budget year, Zambia allocated 8.5% to the agriculture sector compared to 5% in the previous year. It should be noted that the two countries have a policy of fertilizer subsidies.

funds. A widespread concern of authorities in SSA has been that the banking systems have not been providing enough support to agriculture and for the expansion for small and medium enterprises. Agricultural specialized banks, generally created by the state, have performed poorly and have had to be rescued at large public costs. The success of lending to agriculture has been constrained by a number of factors including land tenure systems that prevent the use of land as a collateral, high risks associated with rain-fed agriculture and price fluctuations. These factors have led to the emergence of numerous micro-finance institutions (MFIs) in many parts of Africa seeking to serve poor farmers. However, MFIs in Africa generally tend to be urban based leaving rural areas with lower outreach. Moreover, the support they give to farmers is generally limited and is confined to covering the need for working capital (Sacerdoti, 2005). This indicates the need for continued efforts to improve rural and agricultural finance.

3 Key Challenges and Prospect in Financing African Agriculture

Based on recent work and discussions on agricultural financing a set of four general challenges have been identified that have relevance throughout SSA. The five areas that show a certain degree of relationship are:

- Commitment by national government
- Agriculture sector governance
- Aid delivery to agriculture
- Financing regional public goods

3.1 Commitment by national governments: Political will

It is widely acknowledged that the financing of African agriculture needed to achieve food security, reduce poverty and to set economies on the path of sustained growth is largely the responsibility of African governments. While external finances are important, they should largely be used as a complement to own local resources. However, as already indicated, African government have traditionally allocated meager resources for the development of agriculture, the sector they acknowledge is important for growth and poverty reduction. While there have been marginal changes since the Maputo Declaration, governments have been extremely slow in meeting the 10% target. This begs the question why African governments have traditionally shown low commitment to agriculture.

Analysts blame the lack of commitment by governments to the agriculture sector on among other things the lack of "political will' (see for example Games 2006, Palaniswamy and Birmer, 2006). Several contributors argue that on the whole, African governments only pay lip service to agricultural development. For instance, Games (2007: 5) notes:

> '*On the whole, governments pay only lip service to agricultural development. Where there are good policies, there is usually lack of implementation. Some government seem to feel that just having good policies is enough, and once that has been drawn up they can sit back and allow donors and NGOs to take over*'.

That political commitment by governments to develop agriculture has been lacking or wanting is in no way a new finding. Many have commented on it before. What has however lacked, in our opinion, is a systematic analysis of the reasons for low political commitment to the agricultural sector, particularly in the African context. What can we make of the perceived lack of "political will” to spend government resources for agricultural development? What are the factors that affect the political will of the governments to support the agricultural sector?

Analysts agree that the amount of resources allocated to agriculture is a political question and is the outcome of political decisions on resource allocation at the national level. Decisions about the sectoral allocation of public expenditure are made by ministries of finance, responding to political imperatives of different interest groups. Two broad strands of explanations have been provided in the literature detailing the behavior of the different groups. These are society centered approaches and state centered approaches. Society centered approaches focus on the role of different urban and rural interest groups and their ability to organize themselves as effective lobby groups. Taking this line, Bates (1981) has argued that forms of “urban bias” have influenced the way agriculture is seen in African politics, often downgrading its status. Within agriculture itself, larger farmers, and farmers growing export crops are, according to Bates, better able to organize themselves, often in commodity specific organizations. The second strand, which is the state centered strand, argues that other social and political factors are at play, particularly neo-patrimonial relationships. A number of analysts suggest that neo-patrimonial politics are in a large part the explanatory factor for many of the policies or the lack of them in agriculture.

While these explanations were important in contextualizing agricultural policies in the 80s and 90s, they appear inadequate in explaining policy decisions in the post adjustment era with the emergence of new actors and changing roles in agriculture. Analysts have therefore called for more robust approaches able to incorporate the dynamics of liberalism, both political and economic on policy choices in agriculture. An interesting study along this line is that by Palaniswamy and Birner (2006). Based of the concept of “political resources[4]”, which combines arguments of society based approaches, state-centered approaches and political conflict theories, the authors provide empirical evidence showing that political factors play an important role in determining African Governments’ commitment to supporting agricultural development. The authors conclude that “democratic type of political regime and availability of government revenues tend to enable the rural population to use their instrumental political resources, especially their electoral leverage, for achieving a higher budget share dedicated to agriculture”. Put differently, this means that agriculture gets better support in terms of spending in more democratic regimes than in authoritarian ones. The authors also find evidence consistent with earlier findings that larger farmers tend to be better organized as interest groups and are better able to influence resource allocation policies. Additional evidence from elsewhere also show that new agricultural entrepreneurs engaged in the new globalized mode of agricultural commercialization often have close affiliations or are themselves the new political elites (Olukoshi, 2005; Amanor, 2005). In Kenya, for example, a growing number of local entrepreneurs especially those engaged in the lucrative flower export are politicians or have political connections.

[4] The authors distinguish between instrumental political resources and infrastructural political resources. While the former refers to specific resources used by actors to realize their perceived interests, the latter empower the actions of the interest groups and condition the effectiveness of their instrumental political resources. Electoral leverage and interest group organizations are examples of instrumental political resources, while the fiscal capacity of the state and the type of political regime are examples of infrastructural political resources.

The above findings, though limiting in certain crucial respects, provide some useful insights into what determines "political will" by governments to spend on agriculture. The finding that more democratic regimes tend to spend more in agriculture than authoritarian ones is significant. This implies that increased democratization, which is a growing phenomenon in the continent, is expected to benefit the average poor voters, who in most African countries are people dependent on agriculture in rural areas. Greater democratization is likely to lead to more transparent and participatory resource allocation processes that benefit the agricultural sector. There is hope in that many African governments are embracing democratic practices that would make them more accountable to their citizenry and place agriculture back on the development agenda as a unique instrument for growth and poverty reduction. The recent World Bank Governance Report, the Worldwide Governance Indicators 2007, reports significant improvements in governance in sub-Saharan African countries over the past decade. Countries such as Niger, Sierra Leone, Angola, Democratic Republic of Congo, Liberia, Tanzania and Rwanda have shown some significant improvements in some governance dimension.

The other important finding relates to the role of interest groups in influencing agricultural policies. The evidence shows that such groups matter and play a role in determining policy outcomes for agriculture. Due to decreased state capacity arising from the reforms of the 1990s, farmers' organizations, NGOs and other non-state actors have become more prominent in shaping policies especially those that are important for the poor segment of the population. Recent years have seen the emergence of strong farmers' organizations, especially producer ones in many parts of Africa. While they exists for different purposes, lobbying around condition of pricing and marketing have been their main pre-occupation as well as mediating between producers and economic, institutional, and political actors outside the farming community. Although these organizations are yet to seriously focus on issues of resource allocation at the macro-level, it is encouraging to note that they are gaining acceptability after many years of being sidelined on many issues including budget formulation. This was particularly evident during the PRSP consultations in many African countries. But while the African organizations have made great strides in recent years in defending the interest of farmers, difficulties and weaknesses still remain. These organizations lack certain capacities that are necessary for their effectiveness including expertise and finances.

The role of producers' organizations is now widely recognized by governments and donors in building social capital. One area of support is capacity building. Already some donors are supporting capacity building of producer organizations in a wide variety of areas including aspects of management, market intelligence, technical aspects of production and resource conservation, input procurement and distribution, policy analysis, dialogue, and negotiations. Donors have also been involved in the reform of cooperatives which have been important sources for finance and credit. Donors have also assisted in empowering members of producer organizations in marginal and isolated areas through access to ICT instruments and training. Governments need to ensure that producer organizations are actively involved in the policy dialogue and play a role in the design and implementation of agricultural policies.

3.2 Agriculture sector governance: Roles for the public and private sectors

In the last three decades, market based reforms have arguably been a dominant phenomenon adopted by developing countries in varying proportions. These reforms have significantly changed the notion of governance across sectors of the economy and particularly in agriculture.

In agriculture the reforms were responsible for the change in traditional notion of governance from being state dominated to a multi-stakeholder affair that includes the private sector, civil society organizations and other non-state actors. However, the experience of these reforms, which has largely been mixed, has pointed to the need to reflect on the appropriate role of the state and that of the private sector in agricultural development.

The debate on the role of the state in agriculture has in the last two decades been dominated by two main theoretical currents centering on the imperfection of markets and market failure (Nogueira, 2006). For most of the 70s and 80s, market imperfection and market failure was a justification for direct state intervention in agriculture. Thus public policies were the main instrument for promoting and restraining production, determining income distribution and affecting resource allocation and distribution. The state and in particular the ministry of agriculture was visualized as the main driver of development, the organizer of the productive system and the distributor of costs and benefits. In addition, and more importantly, the state was expected to provide the bulk of the resources necessary for agricultural development.

Today's "post Washington consensus" seems to accommodate two visions on agricultural governance: the completion of the structural adjustment programs and the need to accommodate "selectively" state interventions. The overriding view now is that the Government has a central and unavoidable role to play in improving governance for sustainable agricultural and rural development. Governments are expected to provide incentives, pass and enforce laws, adopt regulations, all of which are key ingredients for a conducive environment for business. Another key role for government is enabling, organizing, or participating in multi-stakeholder processes for policy reform. All of these constitute a framework that has enormous impact on whether and how various agricultural activities occur.

It is a well known fact that the magnitude of the task involved in moving African agriculture surpasses the ability of national governments and donors agencies alone to provide the necessary resources. There is thus a clear case for mobilizing private resources for investment in the sector. In the increasingly globalised and market–driven economies, the private sector is expected to play an important role in agriculture, as well as in other sectors of the economy. This implies that the power of the market place must be used to mobilize private resources for investment in agriculture. However, despite the immense opportunities for investment in African agriculture, private investments have been very limited. A number of factors have been identified as limiting private investment in African agriculture. These include relative high risk associated with climatic and policy vagaries, high costs of doing business, weak human and institutional capacities, limited access to finance and technical assistance, and weak human and institutional capacities.

A major expectation of the reforms of the 1980s and 90s was to create opportunities for the private sector that would then bring in much needed investment capital and expertise. However as already indicated, the reforms did not succeed in most places as they failed to attract sufficient investment from the private sector as originally expected. There are, therefore a few exceptions like the horticultural sector in Kenya which enjoyed relatively significant growth. Thus, the main lesson from the post adjustment period is the critical importance of moving beyond "getting prices" right to what analysts are now calling "getting markets right". Getting markets right involves creating an enabling environment for the private sector to operate, and strengthening market institutions to reduce transaction costs and improve market performance.

Two main reasons have been advanced for the poor responsiveness of private investments in African agriculture. The first is poor agriculture infrastructure (roads, research, extension, level of farmer awareness, access to agricultural services, etc). Poor infrastructure is a major reason for high costs of doing business and a factor in the lack of competitiveness. The second factor is weak institutions (including law and order, land management) In this respect, Dorward *et al* (2004) have argued that getting prices does matter, but so does getting institutions right. The argument here is that markets cannot work if coordination is weak and institutions are missing. Addressing these two constraints, namely weak infrastructure and institutions, clearly requires the active role of the government.

As relates specifically to funding of agriculture, the government still has an important role to play. This however, is unlikely to be the traditional role in which the state was expected to finance agricultural activities with resources from the national budget**.** Apart from the fact that many African governments are not able to mobilize sufficient resources to adequately fund agricultural activities**,** the emergence of specialized funding mechanisms from donors, civil society and the private sector calls for a different role of government. One area which is receiving a lot of attention is the role of the government in the establishment of workable public-private cooperation for financial service provision and contracting among other requirements. Partnerships combine the power of government to create a supporting environment and the resources of the private sector. The potential capacities of partnerships come from their participative and multi-sector nature.

Although public-private sector partnerships have been touted as viable mechanisms for marshalling much needed resources for research and development (R&D) in agriculture, the willingness and ability of public institutions and private firms to enter into partnerships have been constrained by a number of factors. According to Spielman (2004), public-private partnerships in agriculture have not been successful because of insufficient minimization of the costs and risks of collaboration, inability to overcome mutually negative perceptions, limited use of creative organizational mechanisms that reduce competition over key assets and resources, and insufficient access to information on successful partnership models. The state, it would seem, has an important role to play in putting in place policies that support private sector investment and removing some of the constraints that impede collaboration. In addition, there is need for complimentary polices and incentives that strengthen market infrastructure and operations.

Another key role of government in agricultural governance/financing should be to ensure that resources available from various sources are spent efficiently. There is growing recognition that more resources spent in agriculture will amount to very little without reforms to ensure efficiency. The case of government intervention in input markets is informative. Because of market failure, some governments in Africa have even in the post reform era intervened in the supply of inputs such as seeds and fertilizers. In Zambia, for example, 37% of the public budget for agriculture in 2005 was devoted to fertilizer subsidies. In doing this, the aim of the government of Zambia has been to encourage the use of fertilizer especially among poor farmers. And while this move may have increased input use, it remains controversial because of its high fiscal and administrative costs. There have been complains that the subsidies have mainly benefited the larger farmers and that they have contributed very little to the emergence of a viable private sector led fertilizer supply systems. Thus while the use of fertilizer subsidies may be justifiable, the conditions for using them efficiently may be demanding. It is incumbent on the state to ensure that such conditions are realized.

In the new agricultural governance arrangement with multiple players, ministries of agriculture have to demonstrate transparency, efficiency and effectiveness in the use of public resources. The Ministries of agriculture also need to be more effective in the planning and implementation of their activities and to show how agriculture can become a driving force in economic growth and sustainable poverty reduction. For many countries in Africa, little is known or said about the actual composition and effectiveness of the expenditure in agriculture. According to DFID (2004), poor recording and analysis of public expenditure and its impact in agriculture makes it very difficult to assess the nature, efficiency and effectiveness of public expenditure in agriculture. The Ministries of agriculture are, among other things, expected to adopt tools that add transparency and analytical sense to public expenditure in agriculture. The public expenditure reviews (PERs) devised by the World Bank may be useful in such cases.

3.3 Emerging Aid modalities to agriculture

Recent years have witnessed a significant transformation in international development assistance. The pendulum swing has largely been a move away from the original concentration on project based assistance to new programmatic forms, otherwise known as program–based approaches (PBA). The most notable in this category are budget support and associated modalities like the sector wide approaches (SWAPs) and sector investment programs (SIPs). Most donors now prefer these mechanisms for a variety of reasons. Apart from the perceived failure of many past agricultural projects by donors, programmatic approaches have found favor among donors because they are largely consistent with the MDG/ PRSP focus which are universally focused. Recipient governments also appear to like them as they provide a harmonized approach to dealing with various donors with varying requirements.

How has the change in the aid framework impinged upon the agricultural sector, and particularly its financing? Partly because of the use of these aid delivery approaches and the resulting focus on the PRSP and MDGs, agriculture has to a large extent been affected, sometimes adversely. Eicher (2003) has strongly argued that the transition from projects to program aid overlooked agriculture to an extent that it virtually disappeared in aid circles. It has increasingly become clear that PRSPs have in most countries been inclined to the social sectors – education and health- and less to the productive sectors such as agriculture. Since the mid 1990s when these programs were introduced, donor contributions to different forms of program approaches have nearly doubled for the social sectors. In contrast, support to agriculture sector programs has declined. The new donor initiative on debt relief, namely the HIPC has maintained this bias as the bulk of the resources continue to go to the social sectors.

There is little doubt that the new way of delivering aid through PBAs has made most progress in the social sectors, where the government is the main service provider. In agriculture in contrast, the experience has been poor in most cases and outright failure in others. Various studies have shown that while PBAs have been popular among donors and governments as a means of enhancing aid effectiveness and ownership by government, they have actually not led to reduction in transaction costs. Cabral (2006) notes that, in fact, the heavy management structures required in putting PBAs in place in terms of design, implementation and monitoring have been overbearing and have not improved agricultural performance. According to Cabral, there is in most cases no clear evidence of transaction costs reductions. Some authors have also argued that despite the original intent, PBAs and particularly SWAps, have concentrated resources almost exclusively to the ministry of agriculture, and have done very little to stimulate linkages with other sectoral ministries and non-state agricultural actors (Cabral and Scoones, 2006). The particular experience of Mozambique with "PROAGRI" illustrated in Box 1 below highlights some of the challenges of PBAs in agriculture.

Box 1: Agriculture Sector Programs: the Experience of "PROAGRI" in Mozambique

The Mozambique "PROAGRI", a national program for agricultural development began in 1999 with the support of 16 donors. It had a budget of over €200 million to finance activities within eight components: institutional development, livestock, forestry and wildlife, extension, research, land, irrigation and crop production. The program was designed based on a set of "basic principles" committing donors and governments to its successful implementation. The program was supported by a combination of measures. While at the beginning only two donors (EU and USAID) supported the program through budget support, the number increased to ten by the closure of the program. The remaining donors intervened through projects. Among the key achievement of the program were:

- Increased donor commitment for the agriculture sector
- Initiated a process of reform and modernization of Mozambican agriculture

The weaknesses of the program were identified as follows:

- Poor participation of beneficiaries and the private sector especially in the design stages
- Weak evaluation of the impacts of the program
- Over concentration of project activities in the Ministry of Agriculture

Source: The Courier ACP-EU No 195 November-December, 2002

So why have PBAs in agriculture been less successful than in other sectors? It is worth noting here that challenges in implementing PBAs have not been exclusive to agriculture. Indeed the implementing PBAs in health and education have been fraught with many challenges some of which equally apply to agriculture. However, analysts argue that the uniqueness of the agricultural sector makes the application of PBAs more complex and consequently less successful. Foster et al (2003) identifies a number of key characteristics that create problems for the implementation of sector programs in agriculture. These are; (i) agriculture is a productive sector which is expected to generate income and revenue unlike the social sectors; (ii) the state and the line ministries have smaller roles than in the other sectors; (iii) there is no consensus on the role of the state in agriculture; (iv) the line ministry must work with other parts of government; (v) high level support for continued agricultural reform may be lacking; and (vi) sector programs create expectations for higher funding. The authors argue that given these differences between agriculture and the social sectors, PBAs are less likely to succeed in agriculture.

In a number of countries like Zambia and Tanzania donors have moved on to sector investment programs and budget support. In Zambia, for example, a number of donors came up to support the Zambia Agricultural Support Program (ZASIP) in which a substantial proportion of resources were earmarked to support the Ministry of Agriculture, Food and Fisheries (MAFF). In Tanzania, the government is currently implementing the Agricultural Sector Development Program (ASDP) which is a case of sector budget support. The latest in the ever growing list is

Malawi, where donors are in consultation to establish an Agricultural Development Program in which participating donors will coordinate their activities in supporting agricultural activities outlined in the Malawi Growth and Development Strategy.

So far a variety of mechanisms have been used to finance PBAs/SWAps in financing agricultural sector programs: general budget support (GBS); basket or pooled funding at the level of the sector; and earmarked project funding. What are the implications of these funding mechanisms to the key players, especially multilateral donors and to the flow of resources to the agriculture sector? Because of differing institutional arrangements and programming cycles, some are unable to provide funding through PBAs/SWAPs. However, donors are under increasing pressure to ensure that their support is increasingly aligned to the Paris Declaration for which most are committed to. What seems to be emerging from the actions of the major donors in recent years is the adoption of a policy which allows for various funding mechanisms, sometimes in contravention of their statutes. The UN International Fund for Agricultural Development (IFAD), for instance, has a policy on SWAPs which states:

> *As a full and active partner in the SWAP, it is appropriate that IFAD seeks to channel its resources through the sector level pooling arrangements established; even if, as an institution dedicated specifically to rural poverty reduction, budget support (either GBS or sector level) is **not** a suitable financing mechanism for IFAD. Participation in pooled funding arrangements not only enables IFAD to contribute to the agenda of harmonization; it also strengthens the Funds reputation with both governments and its development partners, and permits it to play a more active role in promoting the issues it considers essential for the SWAPs (pg 11).*

Although the bulk of the portfolio of the African Development Bank, have been largely in form of the traditional stand-alone projects, the Bank is under pressure from other donors and its clients to channel resources through development budget support (DBS) and SWAp instruments. Consequently the Bank has developed guidelines for the operation of DBS and SWAPs. Since 2001 AfDB has used DBS to support the development programs of a number of eligible countries including Benin, Burkina Faso, Uganda, Cape Verde, Ghana, Malawi, Mozambique, Rwanda and Tanzania. These have mainly been support to the general budget. Thus sectors such as agriculture continue to be supported mainly through projects and sector policy reform programs. The only notable exception is a recent (Sept. 2007) sector budget support for Tanzania where AfDB came under pressure from other donors to join in a budget support arrangement in which it will pool its resources together with other donors although the Bank would have preferred to support the program through a parallel project financing[5].

So what do all these changes in aid delivery mechanisms mean to financing African agriculture? Answering this question requires placing PBAs in the context of the rapid changes underway in the architecture of development assistance. PBAs by their very nature provide mechanisms for coordination and pooling of resources. If the recent developments are anything to go by, there is evidence that there is keen interest by donors and governments in PBAs for agriculture and other sectors. Recipient governments see PBAs as a providing a better mechanism to deal with donors

[5] AfDB's participation in Budget support and SWAps has been constrained by Article 15(4) of the agreement establishing the Agricultural Development Fund (ADF). The article imposes restrictions on the rules of origin of goods and services.

in a coordinated fashion rather that dealing with each separately. Thus the development of PBAs has the potential of strengthening country systems, enhancing budget planning, resource inflow predictability, expenditure management and accountability in the use of budget resources. Also as pointed out by Foster et al (2001), a major incentive for line ministries in Africa to adopt SWAps is the expectation that this will result in increased aid flow to the sector. SWAps, it is argued can be an important instrument for securing donor allegiance to the sector. While this may happen in some cases, the risk is that it can set expectations too high on the part of the recipients. Additionally, questions are already being asked as to whether budget support can lead to the much needed transformation of African agriculture. Some observers have argued that there is need to move way from "untied" budget support into funding specific productive investments like crops science, extension service improvement, basic education, irrigation and basic rural or rural-to-urban infrastructure.

3.4 Financing regional public goods

Many of the vital goods and services required for agricultural development in Africa are of a regional public nature, i.e. the benefits from such goods and services, apart from being non-rival and non-excludable, provide benefits to two or more nations in a well defined region. Examples of such goods and services include agricultural research, control of diseases, and certain types of infrastructure. Because agricultural research findings are specific to soils and climatic conditions, geo-climatic factors can be the prime determinants of the range of the resulting spillovers. Thus, knowledge generated from research can be of a public nature. Similarly, diseases and pest control may be indigenous to some regions so that defensive measures may yield benefits across a number of countries or regions.

There is growing evidence to show that returns to regional investments are potentially high, especially in Sub-Saharan Africa, where the economies of many individual African countries are too small to justify heavy investment for an efficient and competitive production of vital goods and services. However, available information shows that RPGs have received very little attention among financiers and countries that could potentially benefit from them. It is therefore not surprising that the New Partnership for Africa Development (NEPAD) is placing a lot of emphasis on the development of RPGs. The partnership names as immediate priorities: communicable diseases (HIV/AIDS, malaria, and TB), information and communication technologies, and debt reduction and market access. Agricultural research and sanitary services are the other main areas in which collaboration and coordination among national and regional research services, NGOs and private sector can lead to the production of some essential collective goods and services in agriculture.

If indeed returns to RPGs are potentially high, why have they remained under-funded? For individual countries, the reason seems to lie in the nature of the goods and services. Because the consumption of public goods is non-excludable and that benefits to such investments are not confined to nation states, there is usually no sufficient incentive to invest in them because of the "free rider" problem". Nation states are generally more responsive to social demands for country specific public goods such as universal primary education, roads and public health and less on agricultural research or pest control. Individual countries are even less inclined to assume a loan to underwrite the good or service.

Financing of core RPGs poses a number of challenges for donors. A common problem has been the limited incentive for developing countries to cooperate for purposes of joint investment. This is, however changing very fast with the mushrooming of regional integration and other pan-territorial initiatives such as NEPAD. Increasingly, RPGS are being funded through regional initiatives such as ECOWAS, COMESA and SADC. In funding RPGs, multilateral agencies must also grapple with the important issue of whether to use grants or loans. Loans which are the more abundant resource have the disadvantage that commitment are difficult to make since they would require a clear allocation of repayment and other obligations to the borrower, which are difficult to negotiate. This makes it difficult for multilateral institutions to employ their basic financial instruments to support the creation of RPGs. The problem with grants is that they are generally scarce, although they are more desirable for the funding of most RPGs. The allocation, governance and management of Grants for RPGs may also be challenging. Because they are free, grants may be associated with an element of moral hazard.

What are the possibilities for enhancing financing of RPGs in the interest of agricultural development in Africa? Ferrorni (2002) calls for innovation in financing RPGs and advocates for a system in which multi-country loans are taken out jointly by countries that stand to benefit from coordinated action. The AfDB and a number of other multilateral institutions have worked out a system in which countries can access funding for regional projects through the multinational window. This allows individual country commitments to loans and grants to finance regional projects. While this mechanism may be suitable for financing RPGs, the challenge is one of generating sufficient interest among countries on RPGs and ensuring cooperation.

IV **The Policy Framework for Agricultural Development**

The new policy architecture that has emerged for development in Africa has implications for agricultural financing. The setting of the Millennium Development (MDGs) initiated a process of realignment and refocusing of strategies by African countries as well as development partners. This has put agriculture back on the development agenda as many organizations recognize the need to support agriculture in meeting the MDGs. For example, the World Bank, which is the leading multilateral lender to agriculture, has reiterated the importance of agricultural growth for poverty reduction and in meeting the MDGs. Others institutions that have taken cue and are placing agriculture at the centre of the MDGs include IFAD, AfDB, DfID and USAID.

At the continental level, the overall reform agenda in agriculture has been provided by the New Economic Partnership for Africa’s Development (NEPAD). Agriculture is one of the seven priority areas and currently one of the three for which continental initiatives are prominent. NEPAD’s comprehensive Africa Agriculture Development Program (CAADP) has been endorsed by African heads of State and Governments, as a framework for the restoration of agricultural growth, food security, and rural development. The CAADP sets out a wide range of actions to revitalize African agriculture and provides a framework for action for realizing NEPAD’s vision for African agriculture. The CAADP has outlined four key pillars for investment: extending the area under sustainable land management and reliable water control systems; improving rural infrastructure and trade related capacities to improve market access; increasing food supply and reducing hunger; and support to agricultural research, technology dissemination and adoption.

The CAADP initiative takes a continent-wide view, but builds on national and regional plans for the development of agriculture. Although originally developed as a basis for enhanced investment, it has been reformulated to become a common framework, reflected in a set of key principles and targets, aimed at achieving three main goals[6]: (i) guide country strategies and investment programs, (ii) allow regional peer learning and review; and (iii) facilitate greater alignment and harmonization of development efforts. While the NEPAD secretariat is tasked with coordinating and monitoring the implementation of the CAADP agenda, the AU Commission provides political guidance and legitimacy to the process. The Regional Economic Communities (RECs), which are the building blocks for economic integration in Africa, are expected to play a key role in the harmonization and implementation of agricultural policies, particularly with respect to agricultural and food security aspects. A CAADP support group was established, consisting of ADB, FAO, IFAD, WFP and the World Bank, to provide technical assistance in mobilizing resources to assist governments in the formulation of projects, helping to coordinate multilateral support in the implementation of CAADP, and assisting to assess capacity building needs at the national and regional levels. Most African countries national agriculture development plans now incorporate recommendations for the CAADP document, and are working towards allocating 10% of national budgetary resources to agriculture, as agreed in the African Union Maputo declaration of 2003.

The whole NEPAD framework in general and the CAADP in particular represent a set of very ambitious targets, which are supported by regional and national poverty reduction strategies. But do these frameworks, targets, plans and programs offer a new agenda, with agriculture at the centre-stage? Are they likely to lead to better financing of the agricultural sector? A recent review[7] of CAADP finds that only little progress has been achieved in the implementation of the four CAADP pillars. The report highlights the need for the initiative to be backed by more coordinated and effective support from development partners while reassessing what more can be done to broaden and deepen donor alignment with CAADP framework and national strategies. The review report identifies a number of critical issues both from the donor side and the African governments' side that have slowed down the CAADP process. Among the constraints on the donor side are a poor link and integration of CAADP in other initiatives, insufficient knowledge and information on CAADP, and varying donor expectations. On the RMC side, the report identifies constraints in information and communication gaps, insufficient leadership and championship for CAADP, a system of policy review and formulations that is not credible. The result of these failures is that agriculture continues to suffer from lack of adequate funding and a critical mass of technical expertise. Perhaps the greatest weakness of CAADP is that there has been insufficient attention and commitment to the mobilization of resources to implement agricultural programs and projects. A number of African leaders have starting letting out their frustration with the slow implementation of the program.

[6] There are currently divergent views on what CAADP is all about. While AU minister and member countries view CAADP as a basis for enhanced investment in agriculture, some partners view it as a common framework. This is increasing becoming of concern for the implementation of the program.

[7] Report on Agriculture at the 8th Africa Partnership Forum (APF) meeting, October 26-27, 2006 in Moscow.

Conclusions

This paper has identified and discussed a number of challenges for the financing of the agriculture sector in Africa. The paper notes that although the role of agriculture in poverty reduction and overall growth in Africa is well-recognized, investment in the sector remains low**.** For poverty reduction, agricultural growth in most African countries needs to be accelerated. This requires investments in critical areas to enhance productivity and transformation of the sector. Available development statistics show that support to the sector has declined since the 1980s. And although there are signs of a reversal of this trend, the financing challenge remains enormous.

Among the challenges discussed is the apparent lack of commitment by African governments to increase resources to the agricultural sector. Although African government committed themselves in 2003 to allocate 10% of the budgetary resources to agriculture under the Maputo declaration, many of the countries are unlikely to meet the target by 2008. The CAADP process has also registered only limited progress in mobilizing resources partly due to lack of leadership. The general conclusion in this paper is that agriculture is unlikely to receive the attention it deserves in terms of achieving a higher budget share dedicated to agriculture unless the sector is prioritized in the political processes in many African countries. There will also be need to redefine the role of the state in agricultural development. The general conclusion is that this role will have to discard the old dichotomy between state and market and to make use of the diverse possibilities of joint action and partnerships with the private sector and civil organizations for agricultural development. The role of the state in promoting public-private partnerships will in this regard be important.

The paper also discussed aid modalities to agriculture as a challenge to improved financing of the sector. The conclusion that emerges is that the recent shifts in aid modalities towards PBAs and SWAps present both challenges and opportunities. While PBAs have a number of advantages, they are at the same time associated with difficulties that impair their overall impact. Given the particular characteristics of the agricultural sector, and the varying recipient capacities to implement PBAs, it will be important to achieve a balance of different aid instruments to ensure adequate financing of agricultural development. Similarly, the financing of RPGs which have great potential in Africa will require up-scaling and innovative financing.

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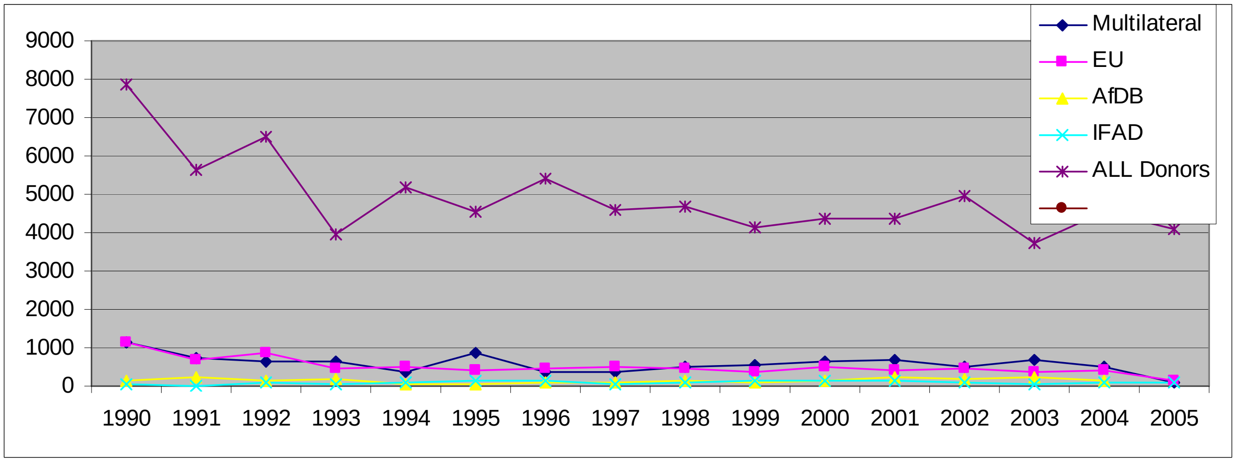
Annex Figure 1: Trends in ODA to Sub-Saharan African Agriculture, 1990-2005



Source: DAC data base (OECD)

Table 1: Progress report on Government Expenditure to Agriculture and Rural Development: Maputo Declaration on 10% Commitment

2004 as Base Year	2002	2003	2004	2005	2006	Share of agr. Expenditure in govt. budget after 2004
Agr. Expenditures < 5%						
Algeria	3.0	4.0	4.0			N/A
Congo, Dem. Rep		0.1	1.0	1.8		Increased
Gabon	0.6	0.9	1.0	0.8		Decreased
Burundi	1.2	2.1	2.0	1.5		Decreased
Sierra Leone	0.9	2.2	2.0	2.0		No Change
Botswana		2.5	2.0	2.7		Increased
Mauritius	2.7	4.0	3.0	2.9		Decreased
Tanzania	4.5	6.6	3.0	2.9		Decreased
Cameroon	2.4	2.8	3.0	5.5		Increased
Zambia	1.8	3.2	4.0			N/A
Uganda	4.7	6.1	4.0	4.1		Increased
Rwanda	5.5	4.3	4.3			N/A
Nigeria		4.8				N/A
Liberia		0.6	1.0	0.3		Decreased
Egypt	1.5	1.2	1.1			N/A
5%≤ agr.expenditure<10%						
Senegal	4.1	4.1	5.0	4.9		Decreased
Lesotho		4.1	5.0	2.9		Decreased
Swaziland			5.0	5.0		No Change
Guinea	8.0	8.0	5.0			No change
Sudan	1.7	3.1	5.0	5.4		Increased
Benin	3.5	4.7	6.0	6.1		Increased
Zimbabwe	9.4	10	6.0			N/A
Kenya			6.0	6.4		Increased
Equatorial Guinea			7.0			N/A
Gambia, The	4.9	8.6	8.0			N/A
Madagascar	8.0	7.9	8.0			N/A
Tunisia	10.1	9.4	8.0	8.2		Increased
Mozambique		1.2	9.0	9.1		Increased
Ghana	6.8	5.7	8.8			N/A
agr.expenditure≥10%						
Burkina Faso	13.1	14.3	15.5	13.7		Decreased
Chad	10.3	6.6	12.0	12.0		No change
Mali			13.0	11.0		Decreased
Niger	15.3	19.3	20.0	20.0		No change
Ethiopia	14.7	13.6	16.5	16.8		Increased
Malawi					17.2	
Cape Verde	45.6	30.7	31.0			N/A
Africa		**6.2**	**6.9**	**7.1**		

Source: FAO Tracking System to Monitor Government Expenditure in Agriculture

Table 2: Official Development Assistance 2001-2005 for the Major Donors in African Agriculture (USD Million)*

Group	Donor	2001	2002	2003	2004	2005
Bilateral	Australia	4.8	7.1	0.3	0.5	0.4
	Austria	2.4	1.5	3.7	0.9	4.7
	Belgium	17.4	35.7	29.5	45.0	63.5
	Canada	10.8	4.9	74.0	130.0	48.4
	Denmark	21.9	37.3	1.3	77.7	115.8
	Finland	3.6	0.2	0.7	13.4	0.1
	France	92.6	80.7	65.8	47.0	32.9
	Germany	33.8	55.1	34.2	95.9	84.9
	Greece		0.0	0.4	0.4	0.2
	Ireland	7.4	8.4	16.3	18.0	12.7
	Italy	7.6	16.0	11.6	6.3	
	Japan	70.8	62.2	47.9	61.8	66.0
	Luxembourg		0.8		4.4	0.7
	Netherlands	15.3	42.4	18.6	13.5	80.2
	New Zealand		0.1	0.2	0.2	0.1
	Norway	10.5	16.4	12.9	25.7	20.9
	Portugal	3.6	2.6	1.1	0.8	1.1
	Spain	5.5	4.4	28.8	9.8	4.4
	Sweden	1.5	6.9	0.2	0.9	6.1
	Switzerland	11.3	8.2	22.1	6.9	14.9
	UK	6.8	13.3	59.4	42.9	29.6
	USA	131.3	42.4	3.2	39.9	96.5
Total Bilateral		458.7	446.5	432.1	641.7	688.8
	AFDB	104.1	102.6	285.6	105.5	152.0
	EC	65.2	32.4	61.6	82.0	58.0
	IDA	183.1	56.7	241.6	195.0	192.9
	IFAD	79.5	70.8	64.1	103.8	94.8
Total Multilateral		432.0	262.6	652.8	486.3	497.7
Total		890.7	709.1	1084.9	1128.1	1186.5

* These figures relate to AfDB non-regional member countries only

Source: Cooperation Unit, AfDB