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Briefing

Donor Policy Narratives: What Role for Agriculture?

How do international agencies concerned with agricultural development see the role of agriculture? What is the role for the market and the state? This briefing examines four recent statements from major aid agencies, asking how they see the role of agriculture in development.

The importance of agriculture in development

Agriculture it seems is back on the development aid agenda, seen as a key to both spurring growth and getting large numbers of people out of poverty, and as a key route to meeting the Millennium Development Goals (MDGs). Indeed, in developing countries, agriculture contributes to the bulk of employment and remains an important part of GDP and export earning. In Sub-Saharan Africa (SSA), agriculture accounts for 20 percent of GDP and employs 67 percent of total labour force. Furthermore, 75 percent of the world's poor work and live in rural areas and, according to estimate, 60 percent will continue to do so by 2025. But, despite this striking evidence, aid spending on agriculture and rural development has, over the past two decades, declined significantly. Part of the reason for the agricultural and rural development neglect in development policies has been the lack of consistency between development agencies' policy narratives.

Declines in funding to agriculture

Development aid to the agriculture sector has suffered a major decline since the 1980s. The global volume of official development assistance (ODA) to agriculture decreased by nearly two-thirds between 1980 and 2002 (from US$ 6.2 billion to US$ 2.3 billion, in 2002 prices), despite the increase by 65% of total ODA. The share of ODA to agriculture fell from a peak of 17% in 1982 to 3.7% in 2002. In SSA, the reduction in agricultural aid was less dramatic but still sizeable – from $1,450m to $713m over the same period (in 2002 prices). Over the recent period, there have been reductions in support to agricultural inputs, services (including finance), agricultural education and research, with very few agencies providing inputs such as fertilisers, chemicals, seeds and machinery. There has also been a decline of area-based or crop-based projects; and an increase in agricultural policy and administration support.

Figures on public spending also illustrate the decline, not only in aggregate terms, but also in areas where public investment is argued to be of incontestable significance, such as economic infrastructure and agricultural research. The share of total government expenditure in agriculture dropped from 12% in 1980 to 9% in 1998, in a sample of 43 developing countries. The decline was, however, less significant in Africa, from 6 to 5% during the same period. This decrease in public support to agriculture contrasts with a substantial increase in aid to social infrastructure and services, both in relative and absolute terms. Public agricultural research expenditure in SSA fell from 21% in 1976 to 11% in 1995. When compared to developed countries levels, agricultural spending as a percentage of agricultural GDP is extremely low in developing countries – on average, more than 20% in the former and less than 10% in the latter. In SSA, country variation in relative spending in agriculture seems to have been particularly significant. In 1998 public spending in agriculture as a percentage of agricultural GDP ranged from 45% in Botswana to 0.19% in Mali.

Explanations for these trends and patterns abound, including changes in the dominant developmental paradigm towards a free market model, demanding the reduction is size of state institutions; changes in priorities of development assistance away from productive to social sectors, and away from sectors to general budget support; the perception that many of the current agricultural problems can be addressed outside the agricultural sector, such as transport and communication infrastructure, international trade regulations, etc; and overall the loss of confidence in the sector, due to poor performance of investments in agriculture, particularly in Africa.

States and markets: donor perspectives

There has been much talk in the last few years about how the trends described above need to be reversed, and how agriculture is key to both poverty reduction and economic growth, and so meeting the Millennium Development Goals. In Africa, the New Economic Partnership for African Development (NEPAD) launched the Comprehensive African Agricultural Development Programme (CAADP) with much fanfare, aiming to attract significant donor funding to a new push for agricultural development in Africa.

Box 1: Agency positions

The **World Bank**, long devoted to a liberalisation narrative, argues for implementation of unfinished market reforms and emphasises the role of the private and NGO sectors. The capacity of ministries of agriculture, no longer seen as the key player in agricultural policy, should be improved to enable fruitful cooperation with other line ministries and more important stakeholders in the sector, rather than taking on substantial roles themselves. While accepting the broad regulatory and enabling role of the state, **DFID's** policy leaves a wider scope for state direct intervention in 'kick starting' rural markets, especially in poorly resourced remote rural areas where high transaction costs and coordination failures constrains private sector development. Targeted subsidies and guarantees are mentioned as possible temporary measures to remove barriers for private sector participation in markets. While public-private sector partnerships are mentioned, a strong emphasis is put on public investment in technology and infrastructure development. The **OECD** document perhaps presents a middle-of-the-road view which highlights the need for innovative public-private partnerships and the potential of NGOs and other civil society organisations (such as farmer associations) in service provision and market coordination. A strong emphasis is put on targeted policy which differentiates according to rural household livelihoods and prioritises smallholder and landless farmers. **USAID**, by contrast, is virtually silent about the role of the state and its strategy is defined by its direct interventions in the sector. Its major stakeholder seems to be the smallholder farmer treated as a homogeneous private sector operator.

Taking four recent agency statements – from DFID, World Bank, OECD and USAID – we ask how are aid agencies thinking about agriculture, and in particular, what role is envisaged – explicitly or implicitly - for the states and markets in agriculture?

While the state-market dichotomy is one of the most contested themes in agricultural policy, detecting the differences between agency perspectives on the roles of state and markets is not a straightforward task. Policy statements are usually the product of a compromise between potentially conflicting views and interests within an organisation or network, and as such they often deliver somewhat hazy policy messages. These examples are no exception. Some broad features of agency thinking and positions, however, can be captured. Any differences between agencies' thinking and policy positioning are to some extent toned down by the undisputed acceptance of:

(i) the central role of agriculture to economic growth and poverty reduction (these are agriculture policies after all); (ii) the importance of agricultural markets for consolidating farm production and productivity gains; and (iii) the role of the state in creating conditions for market (private sector) development, through an effective legal and regulatory framework, provision of basic rural infrastructures and agricultural research and a sound and stable macroeconomic environment.

Across these statements, three policy narratives on the role of the state in agriculture are in use:

- A free-market narrative: complete structural adjustment reforms and rely on private sector development; little role for ministries of agriculture, more important functions located at other line ministries such as ministries of trade and finance.
- Coordinated-market narrative: targeted and sequenced state intervention justified to kick-start markets; ministries of agriculture have potentially strong coordination role and provision of input and financial services.
- An embedded-market narrative: NGOs, CSOs and farmer associations provide and alternative to market and state failures; ministries of agriculture should support the development of these institutions.

The earlier developmental state narrative – with a more active role for the state - apparently remains firmly off the radar. Differences instead are defined at the margins by the position of the state with regards to other players in the development (and liberalisation) of agricultural markets. Despite general agreement on the regulatory and enabling role of the state, there are though more nuanced positions with regards to the nature and extent of this function (Box 1).

Carl Eicher noted that 'after fifty years of experience, most donors remain confused about how to package, coordinate and deliver aid to accelerate agricultural and rural development in Africa'. Despite agriculture being back on the agenda, this confusion seems to remain alive and well today.

by Lidia Cabral and Ian Scoones

correspondence to:
l.cabral@odi.org.uk