



## Aid for agriculture and rural development: A changing landscape with new players and challenges

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WIDER Working Paper No. 2013/014

## **Aid for agriculture and rural development in the global south**

A changing landscape with new players and challenges

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February 2013

### **Abstract**

This paper analyses the way aid for agriculture and rural development in the global south has changed over time. It finds three key shifts. First, a change in funding priority that has seen aid commitments move to the social sectors. Second is a shift in priority within agriculture and rural development from the productive sector towards support for policy development and administrative capacity strengthening. Third is the emergence and rise in commitments from non-traditional bilateral donors, private sector foundations and venture capital finance. The paper argues that these 'new' actors, often working outside the Development Aid Committee and other global official development assistance frameworks, have introduced alternative aid channels that not only complement but also reshape aid relationships between the traditional donors and the global south. It suggests further research to understand the impact of these new ways of financing development.

Keywords: aid agriculture, rural development, high-impact investments, venture philanthropy  
JEL classification: F35, O13, O19, Q13, Q18

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## List of abbreviations

ARD	agriculture and rural development
BRICS	Brazil Russia India China South Africa
CAADP	Comprehensive Africa Agricultural Development Programme
CGIAR	Consultative Group on International Agricultural Research
CIMMYT	International Centre for Maize and Wheat Improvement
DAC	Development Assistance Committee
DfID	Department for International Development (UK aid)
GAVI	Global Alliance for Vaccines and Immunization
GBS	general budget support
GDPRD	Global Donor Platform for Rural Development
IFAD	International Fund for Agricultural Development
IRD	integrated rural development projects
OECD	Organization for Economic Cooperation and Development
ODA	official development assistance
NEPAD	New Partnerships for African Development
SWAP	sector-wide approach
WASA	West African Seed Alliance
WB	World Bank

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## **1 Introduction: aid and rural livelihoods**

Despite a rapidly urbanizing world, a majority of people in some of the poorest regions of the world still spend all or most of their lives making a living in rural areas (IFAD 2010:46). This is particularly so for sub-Saharan Africa and Asia where up to 60 and 55 per cent of the respective population are still classified as mainly rural (UNDESA 2012: 11). More significantly many of these live in poverty. A majority (70-75 per cent) of the 1.4 billion poor people living on less than US\$1.25 per day are mainly based in rural areas of the less developed countries. Even taking into account the expected 50 per cent urbanization in Africa by the year 2035 (and Asia by the year 2020 [UNDESA 2012: 1]), projections still suggest that a majority of the poor (up to 60 per cent) will still be found in rural areas (IFAD 2010: 46). These facts suggest that much of the efforts to improve the lives of people in the global south must remain focused on improving rural livelihoods. This paper looks at official development aid (ODA) spending on agriculture and rural development (ARD) in the global south. It analyses trends in ODA and discusses the factors influencing levels and scope of ODA. The paper also considers the emergence of non-traditional donors and how this is reshaping the scope and levels of aid for ARD. This paper divides into four main sections. Section 1 introduces the paper and discusses data issues and how this affects analysis of patterns of spending. Section 2 presents an analysis of contemporary spending on agriculture and rural development while section 3 looks at how spending on agriculture and rural development has changed over time and will show and explain the variations in aid spending over time. Section 4 analyses the emergence of new players and their impact of ODA for ARD while section 5 looks at emerging issues and questions likely to shape ODA for agriculture and rural development in future.

### **1.1 Understanding aid for rural livelihoods**

The term ‘rural livelihoods’ refers to the ways in which people who spend most or all of their lives in rural areas of the global south make a living (Francis 2002; Ellis 2000; Ellis and Freeman 2005). For many countries in the global south this discourse is mainly about smallholder farming—including livestock production; fisheries; forestry. It is also often about wage labour (in agriculture and non-agricultural activities) and rural non-farm, non-agricultural activities (artisanal mining; micro-enterprise) and increasingly about migration and remittances. For the purposes of this paper aid for rural livelihoods is an omnibus term that includes any ODA directed at both: resources used to make a living (land, water, forests, minerals, institutions) and activities done for a living within the rural environment (farm and non-farm activities). There is no doubt, however, that much of this discussion will be about agriculture which is the primary livelihood activity on which the majority of rural households depend (IFAD 2010; World Bank 2008; Dechenne 2008). This paper focuses on ODA that is part of ‘normal’ planned programming and excludes emergency aid. Emergency aid is only discussed in contexts where this enhances our understanding of current funding priorities and trends.

The availability of good quality data on aid commitments by both state and non-state actors has a major influence on the quality of analysis of the aid data and inferences drawn from it. Two major points need to be made with respect to data availability. First, that much of the data on ODA for rural livelihoods come from the Organisation for Economic Co-operation and Development (OECD) database, which tracks spending by the 24 Development Assistance Committee (DAC) member countries and multilateral aid agencies. Much of this

paper discusses OECD data reporting on ‘agriculture and rural development’, a category that includes rural activities in sectors like agriculture, forestry, fisheries and food security. Since the Global Donor Platform for Rural Development, a grouping of 34 major donors supporting agriculture, rural development and food security, was founded in 2003 there is better tracking of what aid has gone to which aspect of the rural space economy.

A second issue on data relates to the fact that much of the data are on ‘aid commitments’ rather than actual spending. This means there is often a time lag between the commitment and the actual disbursement due to a longer gestation period for ARD projects. Project preparation for ARD projects often take time due to increased need for compliance with environmental legislation. As Islam (2011) observes time delays often mean the actual value of aid is less than the figure committed. Apart from this wider point of the time value of money, not all commitments are met. In fact analysis shows that for a variety of reasons more than a quarter (26 per cent) of all aid commitments made to ARD between 2002 and 2009 were not expended (GDPRD 2011: 29). This was primarily projects getting timed out of funding cycles due to delays in project development. The later point has been significant especially since the 1990s when the downsizing of agricultural reforms done as part of economic reforms resulted in a decline in state capacity to interface with ODA (Eicher 2003). The implication of these two points on agriculture and rural development aid data is that much of what can be said about quantities, flows and trends remains only indicative. In the next section we look at the patterns of flow of aid to rural livelihoods by region. We start by looking at the contemporary pattern of aid before looking at the long-term sectoral trends over time.

## **2 Aid commitments to rural livelihoods**

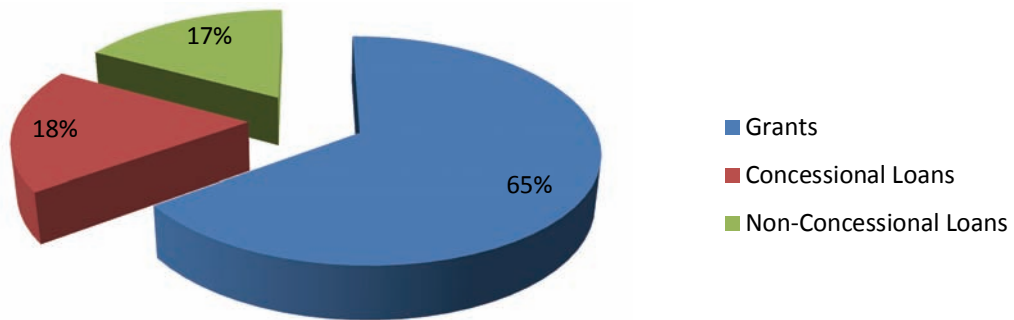
### **2.1 How much aid?**

In 2011, the OECD’s DAC member countries committed US\$133.5 billion in aid to developing countries. Relative to the year 2010, this represented a three per cent decline in overall ODA commitments (OECD 2012). This was the first decline since 1997 and came on the back of a severe financial crisis in many of the DAC members. For the ARD sector however, available data show that its share of the total ODA has been in decline and by 2009 only about 7 per cent of the total aid commitment went to activities that relate directly to agriculture, food security and rural development (OECD 2012). This is a dramatic decline relative to the late 1980s when ARD’s share was almost 43 per cent of total ODA. Of the nearly US\$9.13 billion committed to ARD by the DAC members, some US\$2.4 billion came from multilateral agencies while the balance came mostly from bilateral donors. As Figure 1 shows, 65 per cent of the aid was in the form of grants, well below the 86 per cent threshold recommended in the 1978 agreement on ODA. There was a near even split between soft loans and non-concessionary loans.

### **2.2 Regional distribution of aid to ARD**

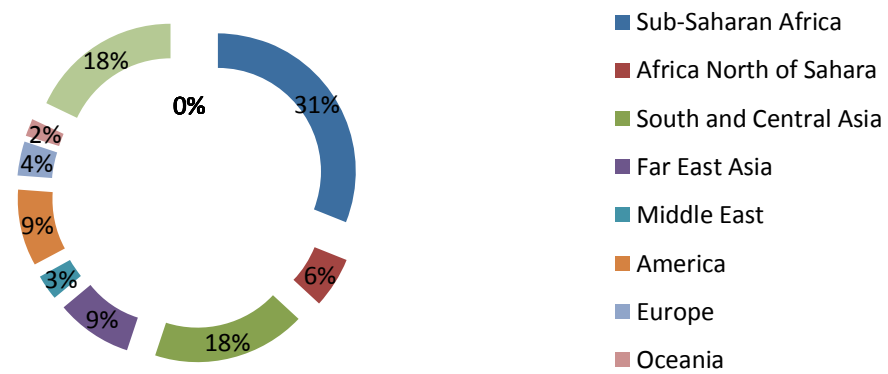
Figure 2 shows the regional distribution of the aid commitments to agriculture and rural development. Unsurprisingly, sub-Saharan Africa (SSA) together with south and central Asia got the largest share of the aid commitments. In absolute numbers south and central Asia has the largest number of poor people in rural areas but SSA still has the highest incidence of

Figure 1: ODA to agriculture and rural development by type 2008/9



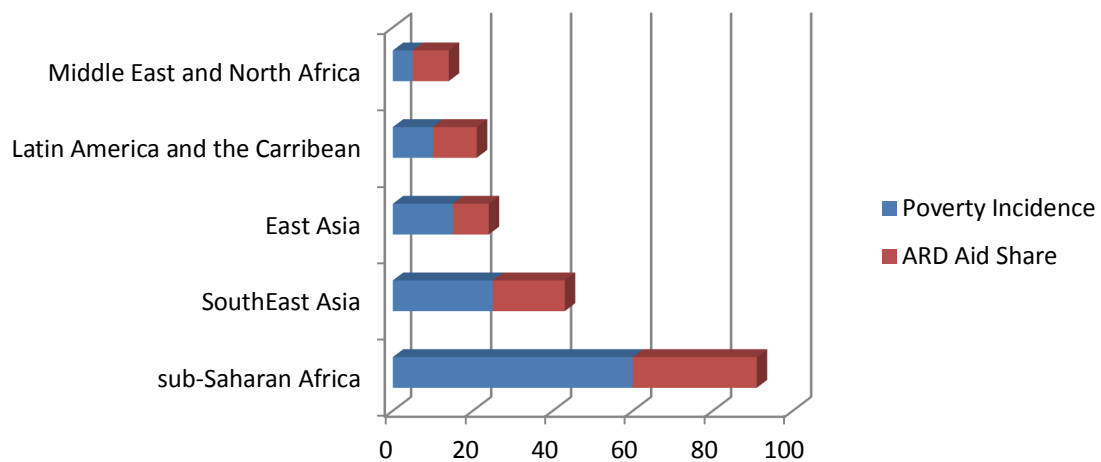
Source: OECD DAC Aid statistics; available at: [www.oecd.org/dac/aidstatistics/aidtoagricultureandruraldevelopment.htm](http://www.oecd.org/dac/aidstatistics/aidtoagricultureandruraldevelopment.htm)

Figure 2: Regional distribution of ODA to agriculture and rural development (% commitment 2008/9)



Source: OECD DAC Aid statistics

Figure 3: Share of ARD aid and poverty incidence by region



Source: Compiled from OECD (2011) and IFAD (2010: 54).

poverty, with the largest proportion of its inhabitants spending all or most of their lives in rural areas.

If we compare poverty incidence with the share of ODA, it becomes clear that poverty incidence alone cannot explain how much a region gets as Figure 3 shows. Severino (2012) observes that compassion alone does not sustain aid. Geopolitical considerations appear to play a part especially in explaining why areas with the greatest need for ARD aid do not always get a proportionate share of the aid commitments.

Similarly, country-level data (see Table 1) of the top ten recipients of aid for agriculture and rural development show that Afghanistan tops the list. There is little argument that Afghanistan faces rural challenges, but strategic considerations (like the war on terrorism) do play a role in attracting more ARD aid than other areas which are in an equally desperate situation but without the overriding strategic importance. Of the three African countries (Morocco, Ethiopia and Ghana) that feature in the top ten recipients of ODA in the ARD sector, two (Morocco and Ghana) are classified middle-income countries. Morocco's proximity to Europe, its biggest donor, allows it to access aid through the European Union Neighbourhood Programme. Chronic food insecurity and the inertia generated by celebrity responses to the 1983-85 famine can partly explain why Ethiopia ranks within the top three recipients of aid for ARD. It is beyond the scope of this paper to look at the key determinants of aid allocation for agriculture and rural development allocation; suffice it to say that the literature bifurcates between those who see 'needs determined' response (espoused in the Paris Declaration on Aid) on one hand and those who see donor's strategic interests and middle-income bias on the other (Harrigan and Wang 2011). On balance the reality is that while strategic interests may eventually prevail, for collective entities like the DAC, considerations of need still play a prominent role.

Table 1: Top ten recipients of aid for agriculture and rural development 2008/9: average commitments in US\$ millions, constant 2009 prices

Country	Total aid for ARD US\$ millions	% of total ARD aid
Afghanistan	534.2	6
Morocco	352.2	4
Ethiopia	268.2	3
Indonesia	279.7	3
India	299.6	3
Pakistan	162.6	2
Colombia	136.7	1
Iraq	198.2	2
Philippines	138.3	2
Ghana	241.0	3

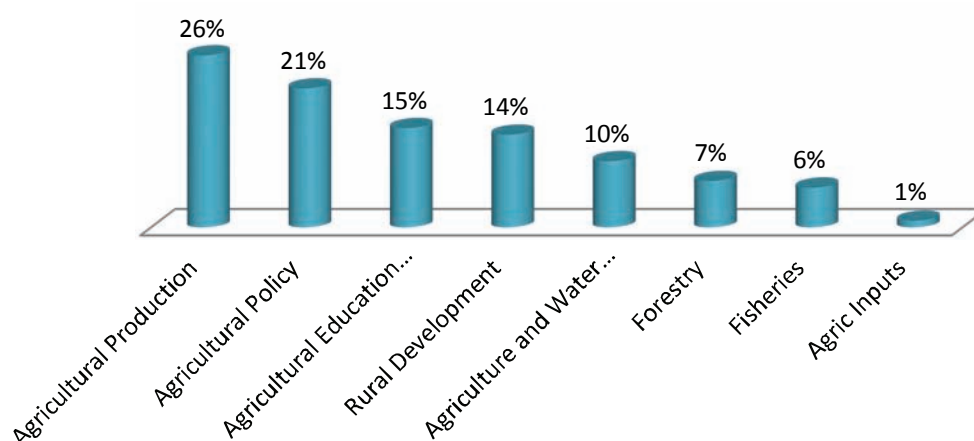
Source: Based OECD (2011).

### 2.3 Which agriculture and rural development activities attracted ODA?

Figure 4 shows a breakdown of the ODA commitment in ARD by subsector in 2008/9. Aid for agricultural production and policy attracts nearly half the share of aid commitment. This is a significant shift in funding priorities. OECD data show that in the 1970s and 1980s infrastructure and water resources, which now account for just 10 per cent, attracted most of

the funding and accounted for up to 39 per cent of the ARD commitments (Islam 2011). This shift can be explained in part by a decline in popularity of large-scale water reservoirs and irrigation projects over time (Eicher 2003). Apart from perceptions of the negative environmental effects and the displacement they cause, large-scale water projects are now seen as unsuitable for the needs of small-scale farmers. Figure 4 also shows that provision of inputs (supply of finance, seed, fertiliser and farm machinery) is the least favoured area of support, attracting just one per cent of the total commitment. This is also a considerable decline from a peak of nearly 9 per cent in the early 1980s. Again this shift can be explained by the neoliberal reforms of the late 1980s and 1990s that advocated for a greater role of markets in agricultural input supply. The pattern of aid support reflected in Figure 4 is a culmination of a number of factors related to changes in the supply (donor dynamics) and demand (global south) of ODA for ARD over time. In the next section we look at the trends in ODA for ARD since the early 1970s with a view to understanding how both demand and supply-side dynamics have influenced patterns of aid for ARD.

Figure 4: Distribution of aid for agriculture and rural development 2008/9



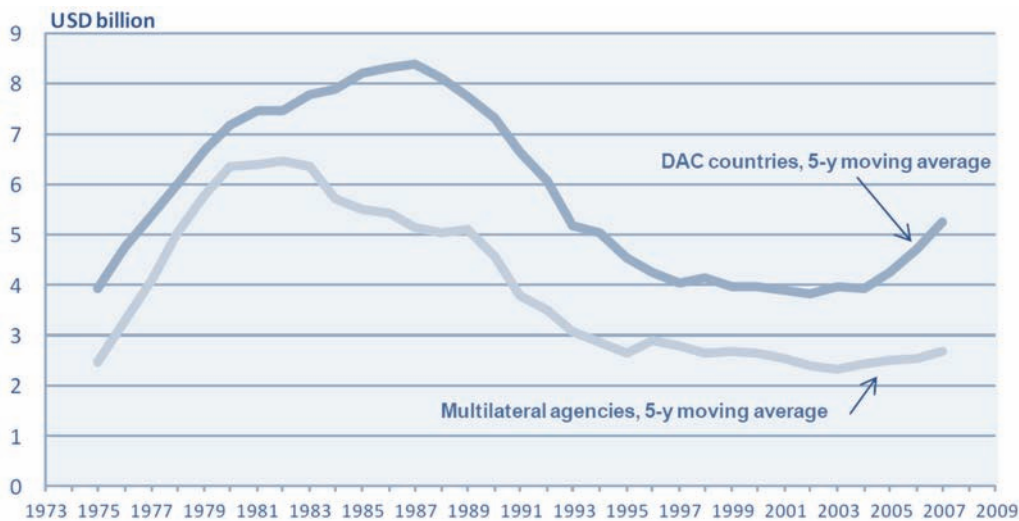
Source: OECD DAC aid statistics.

### 3 Aid for agriculture and rural development since the 1970s

Figure 5 plots five-year moving averages of aid commitments for agriculture and rural development by DAC countries and multilateral agencies between 1971 and 2009. It is a story of the rise, decline and recovery of spending on ARD by donors. Figure 5 shows that aid for ARD over the past 40 years has been characterized by periods of increasing support, sustained decline and some recovery. Figure 5 suggests four phases in the funding pattern since the early 1970s. Phase 1 (early 1970s to late 1980s) was a period of increase in aid commitments by both the DAC countries and multilateral agencies. Phase 2 (late 1980s to late 1990s) was a period of sustained decline in aid commitments while phase 3 (late 1990s to early 2000s) was a bottoming out period when the decline abated and a gradual recovery began. Phase 4 (early 2000s to end of the decade) is a period of recovery in aid commitments to agriculture and rural development. The next section identifies and analyses the factors accounting for this trend.



Figure 5: Trends in aid to agriculture and rural development (ARD), 1971-2009, 5-yr moving average commitments (constant 2009 prices)



Source: OECD/DAC statistics, available at [www.oecd.org/dac/stats/49154108.pdf](http://www.oecd.org/dac/stats/49154108.pdf)

#### *Phase 1: early 1970s to late 1980s, the golden era*

This was a period of sustained growth in aid commitments to agriculture and rural development. During this time many countries in the global south (especially Africa's post-colonies) moved away from import-substitution led industrialization and rediscovered ARD as an important area of development intervention after years of neglect (Eicher 2003). Aid spending on agriculture was seen as one of the few areas that could have an impact on short-term economic growth (Clements et al. 2004). The agricultural productivity 'blast off' in Asia as a result of green revolution-type interventions had shown what can be achieved through aid. More aid commitments were made to support modernization of agriculture and rural areas through funding: interventions in community development programming; further agricultural productivity enhancement through green revolution-type technologies (including high yielding variety seeds) and enhanced extension techniques (like the Training and Visit System). In the semi-arid regions the emergence of 'integrated rural development' programming also provided scope for increased aid commitments for activities to enhance living standards. This was in part driven by a desire to stem the rapid 'march of the peasants' to urban areas and to counter the harmful effects of 'urban bias' in public financing applied by bureaucratic elites. What is also clear from Figure 5 is that during this 'golden era' both the DAC countries and multilateral agencies committed themselves to supporting rural livelihoods. Much more aid was committed by DAC member countries as bilateral aid than by multilateral agencies. By the early 1980s multilateral agencies had begun to scale back aid commitments in comparison to DAC countries which continued to scale up commitments until the late 1980s. In fact increased bilateral aid commitments offset the decline in funding commitment by multilateral donors in the mid-1980s. Agriculture accounted for up to 70 per cent of aid commitment to ARD. By 1980, the largest share (26 per cent) within agriculture went to agricultural resources development (irrigation, dams, water) (Islam 2011).

#### *Phase 2: late 1980s to late 1990, the doldrums*

This period saw an increase in overall ODA but a rapid decline in aid commitments to ARD. A levelling-off of commitments by multilateral agencies in the late 1970s was followed by a

steady decline that lasted nearly fifteen years. During this period global aid spending on agriculture declined from a high of US\$6.2 billion in 1988 to 2.3 billion by 1997 (DfID 2004: 8). OECD data show that by the turn of the millennium only Switzerland, Japan, Denmark and Belgium and Australia gave more than five per cent of their ODA to agriculture. The share of agriculture spending by multilateral agencies also declined dramatically, falling from US\$3.4 billion in 1980 to just under US\$0.5 billion by the turn of the century. World Bank spending on ARD in Africa declined sharply from US\$419 million in 1991 to 123 million by 2000 (IEG 2007: 26). Similarly, the African Development Bank (ADB) cut agricultural spending from 27.9 per cent in the late 1980s to just 10.5 per cent of their total spending by 2000. The Asia Development Bank's spending declined from 28.2 per cent in the 1980s to about 6.5 per cent while the EU's spending on agriculture declined from 25.2 per cent to 3.8 per cent of their total aid budget by the turn of the millennium (DfID 2004: 9). In SSA, this decline in aid was also matched by a real US\$ terms decline in public spending on agriculture (Fan, Omilola and Lambert 2009). Clearly this was a period of sustained decline in aid for ARD and created an impression that the sector did not matter anymore (IEG 2007). Data from non-DAC members are not easily available, but some (see Cabral et al. 2011) suggest that during this period non-traditional donors increased their support to rural development especially agriculture agencies. We can identify six key aid supply and demand factors that explain this decline in funding by DAC countries and multilateral funding for ARD during this period. The next section discusses these in detail, starting with issues that relate to the donor environment.

### **3.1 Supply-side factors**

#### *Donor community and shifting priorities*

Around the late 1980s there was a shift in priorities among the major donors especially the DAC member countries. Following disillusionment with the results of investments in ARD many began to shift spending towards social development sectors especially health and education. The 1995 World Summit on Social Development laid the platform that led to a more coherent way to package the social agenda around the Millennium Development Goals (MDGs). The shift was in part informed by emerging evidence suggesting better returns in human capital formation (education) rather than the rural productive sector, a fact which also enhanced spending in the social sectors (World Bank 1995: 21). The increase in the number of cases and the impact of the HIV/AIDS epidemic provided a moral case for donors to shift attention towards education and health. In fact as DfID (2004: 3) shows, commitments to agriculture declined from 17 per cent of total ODA in 1982 to 3.7 per cent by 2002. In contrast commitments to the social sector increased nearly four-fold from only 9 per cent in 1980 to 33 per cent of total ODA by 2002. For SSA, donor aid to agriculture declined from US\$1.7 billion in 1991 to just US\$1 billion by 2002 while health and education spending by donors increased from 32 per cent of total ODA spent on Africa to 56 per cent by 2002 (Jayne, Zulu and Nijhoff 2006). The shift in spending priorities is clear to see. It can also be argued that during this period, the absence of a coherent narrative around which to package aid for rural development and agriculture made it difficult for donors to justify increased commitments to a sector that had not produced good results up until then. Policy coherence that had provided for by the likes of 'community development'; 'green revolution', integrated rural development and 'training and visit systems' had been replaced by what at the time were experimental concepts like 'farming systems research' and 'participatory development'. These were still unproven and therefore lacked purchase with donors. In short, many donors were unsure what actually worked where and for whom in ARD. This has remained one of

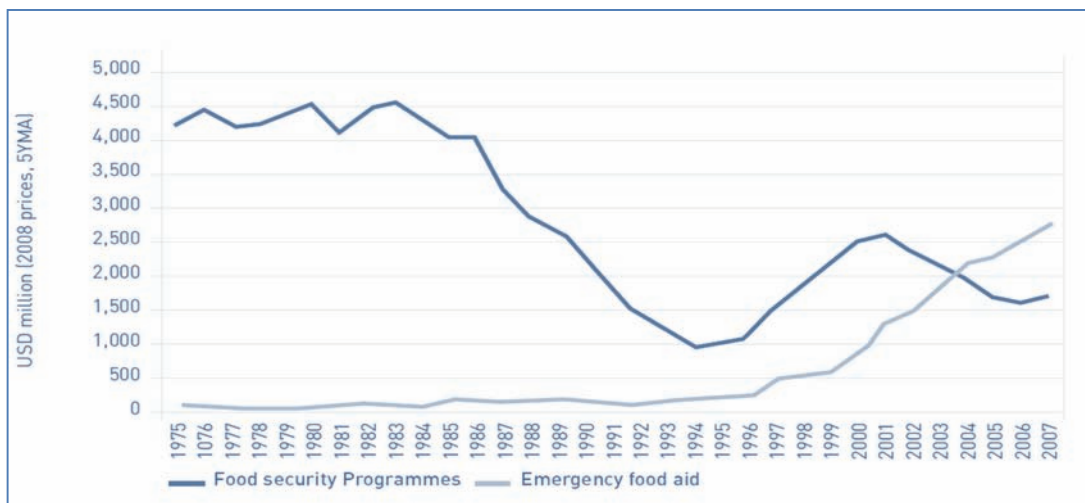
the knowledge gap areas in ARD even to date although much of the consensus is building around ‘climate smart’ agriculture and ‘a uniquely African green revolution’ as the new frontier for ARD aid.

### *Emergence of competing funding priority areas*

New areas of aid commitments also emerged during this period. These included humanitarian aid, debt relief, prevention of drug trafficking and environmental protection. A look at Figure 6 shows how emergency relief rose to become one of the major areas of donor expenditure overtaking donor spending on normal food security programming.

The rise and increase of emergency food aid as an area of aid commitment can be explained by an exponential rise in the number of complex emergencies requiring this type of response (Harvey et al. 2010) although it has also been attributed in part to a desire by donor countries to offload surplus production (World Bank 2008). What is clear, however, is that the emergence of new areas requiring urgent priority funding did affect the amounts donors committed to normal programming in ARD.

Figure 6: Food security and emergency aid, 1975-2007

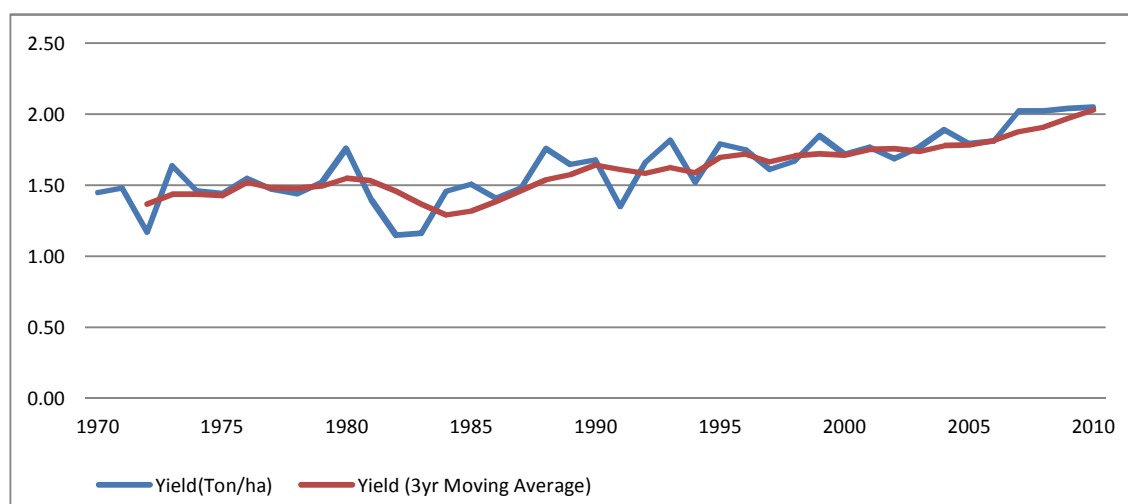


Source: GDPRD (2010: 19).

### *Fear of failure*

Another factor contributing to the decline in spending on agriculture and rural development was the growing perception among donors that agricultural and rural development projects had become toxic (World Bank 2008). After significant spending on ARD projects for much of the 1970s and into the 1980s, there was some evidence that the returns did not justify the investments, especially in Africa. If we consider agriculture a sector receiving the bulk of ARD commitments at the time, there certainly was a ‘productivity blast-off’ in Asia where cereal yields doubled between 1965 and 1982 (Hazel 2009: 8). SSA made only modest gains at best. A look at the productivity trends of corn, a staple food crop in parts of SSA, suggests modest rates of growth with a significant decline in the early 1980s as Figure 7 shows.

Figure 7: Corn yields in SSA, 1970-2010



Source: Computed by author based on data from worldfood.apionet.or.jp

The modest productivity growth during the 1960s, 1970s and 1980s has been attributed to a variety of factors that include poor policies, especially over centralized institutions (Anderson and Masters 2008) and anti-agriculture policies (Kherallah et al. 2000). Table 2 presents a summary of some studies on agricultural productivity growth in SSA. Although the results paint a variable picture depending on methods and data used, a general picture emerges that suggests anaemic growth for much of the 1960s, modest growth for much of the 1970s and 1980s and better productivity growth rates in the 1990s and 2000s. There is no evidence of a ‘quantum leap’ in productivity in Africa. Some productivity gains have slowly begun to occur especially during the latter decades leading to the 1990s and 2000s. The irony is that this was a period when there was relatively less aid commitment to ARD. This gradual productivity gain has been attributed to the positive effects of agricultural policy reforms implemented during the late 1980s and early 1990s in many African countries (World Bank 2008).

Table 2: Sample of studies on agricultural productivity growth in sub-Saharan Africa

Study	Year	Results
Block	1995	Poor results for productivity growth in the 1970s followed by growth of 1.6% between 1983-88.
Lusigi and Thirtle	1997	A study of 47 African countries found that agricultural productivity grew by an average of 1.27% per year between 1967-91.
Trueblood and Coggins	2003	Regional aggregate agricultural productivity in Africa declined by 0.9% per year in the 1980s (based on a global sample).
Fulginiti, Perrin and Yu	2004	Analysis of data on 41 SSA countries found no sustained agricultural productivity growth in 1960s and 1970s but total gain of 0.83% between 1960 and 1999. Found growth of 1.9 % per year from 1985-99. Average growth in the 1980s was 1.29 % while in the 1990s it was 1.62 % per year.
Coelli and Prasada Rao	2001	Using a global sample found that only 6 out of 18 countries had agricultural productivity growth above 2% between 1980 and 2000.
Dias Avila and Evenson	2010	Total factor productivity grew 1.20% per year between 1961-80 and by 1.68% per year between 1981 and 2001.
Alene	2010	Agricultural productivity in SSA grew by 1.6% per year between 1970-2004.
Block	2010	Low rate of agricultural productivity growth during 1960-84 (0.14% per year) but more rapid growth from 1985-2002 (1.24% per year).

Source: Compiled by the author.

Some of the most compelling evidence of outcomes of impact of aid for ARD come from a comprehensive review study by the World Bank published in 1988. After committing nearly US\$19 billion to ARD, a comprehensive review of programmes between 1965 and 1986 noted that ‘although lending targets were met, half the audited programmes in Africa failed’ (World Bank 1988). Similarly commenting on investments in integrated rural development projects (IRD), Binswanger (1998) notes that many had failed due to a number of factors that included a lack of core common activities to finance; poor coordination and centralization and the fact that IRD, as a concept, had been too skill-intensive to be replicated outside the experimental projects. It could therefore be said that results of major commitments raised concerns for donors who responded by shifting focus to the non-productive sectors (World Bank 2002).

#### *Washington Consensus on agriculture and commodity prices*

From the mid-1980s general concerns about structural problems in agriculture blamed on state control and regulation of agricultural markets led to calls for rolling back state involvement in markets. This often meant selling off state enterprises and deregulating markets to stimulate private enterprise and provisioning of public goods and services (Kydd and Dorward 2001). For donors, this also meant cutting back on direct support for agricultural inputs, agricultural extension services, agricultural finance and research. Declining agricultural commodity prices also made agricultural and rural development investment unattractive. Between 1980 to 2000 world prices of 18 major export commodities declined by 25 per cent in real terms with more severe collapses for cotton (47 per cent), coffee (64 per cent), rice (61 per cent), cocoa (71 per cent) and sugar (77 per cent) (World Commission on the Social Dimension of Globalization 2004: 83). This was, in part, due to new countries moving into ‘new’ crops. For example, collapse of the coffee prices in 1999 was partly due to the emergence of Vietnam as a major producer. Most donors viewed this price volatility as evidence that investment in the rural productive sector did not make economic sense at that time.

#### *Changes in aid architecture*

A further factor explaining the decline in aid commitments to agriculture and rural development is the shift in aid architecture that occurred towards the later part of this doldrums period. There was a general shift from project and programme support to new modalities of transfer like the sector wide approach (SWAP) especially from the mid-1990s and general budget support (GBS) especially from the mid-1990s. The former meant that clustered aid targeted comprehensive sectoral or thematic strategies (of which rural development and agriculture was one), while the latter implied that aid was provided to support a percentage of the budget based on priorities agreed with donors. Rural development and agriculture lost out in this process as civil society actors argued for priority for social sector spending (Eicher 2003).

#### *Domestic constituency lobbying and return of the urban agenda*

It has also been suggested that lobbying by producer groups in developed countries who argued that giving aid to agriculture in developing countries increased competition and reduced the viability of their farms may also have influenced donors to cut back on committing aid, especially for agriculture in developing countries (World Bank 2008). Similarly, the growth of environmental lobby groups who viewed promoting agriculture as being detrimental to the global environment meant there was little appetite to fund a sector

that was seen as undermining efforts to reduce loss of natural habitats. Specifically, there was reduced interest in large-scale agricultural projects in preference for small-scale community managed systems (World Bank 2004). Apart from negative environmental effects, large-scale projects were also seen as having too many negative social impacts especially displacement of the very people supposed to benefit from the projects. During this *doldrums* period there was also growing evidence (based on forecasts) suggesting that focus needed to shift towards urban programming in the large cities where poverty was growing and the risk of instability was also high (UN-Habitat 1995). In particular, fears of the growing urbanization of poverty and social unrest saw renewed efforts to support social sectors rather than the rural productive sector.

### 3.2 Demand-side factors

While internal dynamics in donor organizations played a part in seeing a reduction in the support for agriculture and rural development, reduced state capacity to implement projects also played a role in dissuading donors to support the ARD sector. In some way this can be seen as a direct outcome of ‘the Washington Consensus’ type reforms implemented throughout the 1980s and 1990s (Kidd and Dorward 2001). Starting in the late 1970s, there was a perception that too much state involvement in regulating agricultural markets had created inefficiencies in the rural productive sector (World Bank 2008). Many developing countries undertook agriculture sector reforms that while successful in liberalizing markets also undermined state capacity to partner donors in implementing projects (Wiggins 2005). Wanzala (2010) in a review of NEPAD’s Comprehensive Africa Agricultural Development Programme (CAADP) identifies reduced state capacity’s ability to absorb aid as one of the key areas for action. This decline in capacity to plan and implement large complex projects (especially within ministries of agriculture) also resulted in donors shifting their focus to finding projects in what were perceived less risky social sectors. This has remained an issue affecting commitments to ARD.

Overall, a combination of these demand- and supply-side factors can explain this sustained decline in aid commitments to agriculture and rural development. The next section considers the period from the mid-1990s to early 2000s when the decline in ARD aid spending abated.

#### *Phase 3: mid-1990s to early 2000s, slowdown in decline and bottoming-out*

The mid-1990s marked the period when the rate of decline in ARD spending slowed down followed by a bottoming-out period till about 2003. The decline in ODA for agriculture and rural development bottomed-out in 1993 when just US\$2.4 was committed to agriculture (DfID 2004). As Figure 5 illustrated, the decade 1993 to 2003 was a one of continued neglect and disinterest in committing aid for ARD. It was, however, also a period during which plans to rebuild support for agriculture emerged. Focus shifted back to rural areas following a realization that unless rural incomes increase, rural poverty was unlikely to abate. Three key publications crystallized policy attention during this time. Two influential World Bank publications: *Rural Development, from Vision to Action* (1997) and *Reaching the Rural Poor* published in 2002 signalled a return of interest by multilateral donors. Similarly the launch of the New Partnership for African Development (NEPAD)’s Comprehensive Africa Agricultural Development Programme in 2003 signified to donors that spending priorities needed to change if the six per cent agriculture growth rate envisaged was to be achieved.

It can also be said that a shift in attitude towards spending on ARD was helped by the emergence of the *Sustainable Rural Livelihoods Framework* (SRLF) as a more coherent way to package interventions in ARD (Carney 1998; Scoones 1998; Elis 2000). This was especially so within donor agencies like the UK's DfID where the emergence of SRLF helped to provide a way to package and promote the ARD agenda (Solesbury 2003; Scoones 2009). Renewed interest however did not immediately translate into increased support for ARD. In fact OECD data suggest that by 2002 multilateral donors committed only 15 per cent of what they had been giving in the early 1980s while bilateral donors committed just 39 per cent of what they spent on agriculture in the early 1980s. Although this period did not see a further decline in the amount of committed to ARD, a near doubling of overall ODA commitment without any increase in spending on ARD meant that its share of overall ODA continued to decline until the mid-2000s.

#### *Phase 4: 2003 to the present (?), the recovery*

We can characterize the period since 2003 as a time of recovery in ARD support with spending increasing by nearly 10 per cent between 2003 and 2006. It has remained around this figure for much of the MDGs tenure. Much of this increase is attributable to renewed interest in spending on agriculture. Five key supply- and demand-side factors explain the recovery. First was the growing realization that without further investment in the rural productive sector, the MDGs would be harder to achieve as incidence of poverty remained high. Internal reviews within donor organizations justified a renewed focus on ARD. In the US the unveiling for the USAID's 2004 agriculture strategy paper: 'Linking Producers to Markets' signalled a return of interest in productive sectors of the rural economy from the world's largest bilateral donor. Similarly the DfID's 2005 paper on 'Growth and Poverty Reduction: The Role of Agriculture' and the European Commission's 2007 'Rural Development Policy' also highlighted a shift in this direction. The World Bank's 2008 *World Development Report* with a focus on agriculture also played an important role shaping think around this sector. Similarly, launch of the 'Global Donor Platform on Rural Development' (GDPRD) bringing together 39 donors (providing 80 per cent of overall ODA) and the crafting of their 2006 'Joint Donor Concept on Rural Development' helped forge a common understanding of priorities for rural development support beyond just agriculture.

Second, after the launch of the MDGs, evidence began to emerge showing that the achievement of poverty targets was being constrained by lack of rural progress especially in South Asia and SSA (World Bank 2004). The United Nations' 2004 *Global Monitoring Report* and their 2005 *Millennium Development Goals Report* both emphasized that reforming rural institutions and enhancing incomes from agriculture could help progress the MDGs agenda. As a result, the MDGs framework increasingly accommodated a more productive focus to the rural poverty agenda. Third, the emergence of a more organized civil society pressing for increased aid commitments, aided by the power of celebrity endorsements, focused media attention on how much rich nations gave to poor countries. It is debatable whether the pressure brought to bear on the G8 leaders by civil society groups at the 2005 Gleneagles Summit played a part (Richey and Ponte 2008). Certainly the outcome—a pledge to increase aid commitment to 0.7 per cent of national income—made a difference in making more resources available, although the share of this 'new' money that went to the rural productive remained low.

A fourth factor relates to the emergence of new financing arrangements which expanded spending on overall ODA. The establishment of the International Financing Facility (IFF) a

new blend of ODA leveraged by private capital markets after the Gleneagles summit created new funding opportunities (Addison and Mavrotas 2008). By 2011 some US\$6.3 billion in donor pledges had been leveraged to raise US\$3.7 billion on the world's capital markets for immunization projects. Although the IFF did not really take off in areas other than vaccines, it could be argued that it created the fiscal space for other donors to fund ARD. Fifth, changing global dynamics, in particular a surge in food prices in 2008 led to global food riots and drew attention to ARD, especially concerns about growing food insecurity due to use of land for the production of bio fuels (Fan and Rosegrant 2008). The threat of instability driven by food price rises has certainly kept the focus on how agriculture and agribusiness can respond to rising global consumption driven by a growing population and growing affluence in parts of the global south. It can be said that although aid for ARD has recovered, this recovery is incomplete and nowhere near the 'golden' years when it constituted the largest share of ODA. The incomplete recovery is both a function of the residual effects of a fear of failure but also until recently lack of coherence in intervention strategies. These two are tempered with a growing perception of the urbanization of poverty and a need to begin to focus on urban development issues especially given the demographic shift that has occurred. Although the recovery has been incomplete, the aid landscape has changed as new players have also emerged to fill some of this gap. The next section looks at the emergence of new players committing aid for ARD. It considers the enduring role of private philanthropic foundations and analyses implications for the rise of venture philanthropy and other 'new' bilateral donors from the global south as actors in ARD aid.

#### **4 Changing aid landscape: new players, new funding modalities**

While traditional bilateral and multilateral donors have played (and continue to play) a dominant role in funding ARD over the past 40 years, two main shifts have occurred in the aid landscape. First is the growing role of private sector financing of development. Private giving and venture capital have emerged alongside partnering arrangements as sources of financing for ARD. Second is the emergence of new non-traditional bilateral donors especially from among some of the rising powers (China, India, Brazil) and mineral rich donors. The next section looks at these in turn.

##### **4.1 Elite philanthropy: private giving and foundations**

Private giving has emerged as an increasingly important source of development financing. The Hudson Institute's 2012 *Index of Philanthropy and Remittances Report* shows that when combined with private transfers and remittances, venture philanthropy delivered US\$575 billion to developing countries, much more than ODA. Of this amount, venture philanthropy contributed US\$56 billion while remittances topped US\$190 billion (Hudson Institute 2012: 3). Although up to 80 per cent of the commitments are directed to the social sectors (especially health), the ARD sector has also benefitted. Only about 10 per cent of funding from United Kingdom-based private giving goes to agriculture projects (Pharoah 2011). Many of the foundations and trusts work to provide aid financing in situations where markets do not work or where private companies avoid investing in because of poor profit margins.

Private philanthropic foundations have always played a notable role especially in experimenting with concepts, trying them out and then providing scope for scaling up what



works. A good example is the lead role played by Rockefeller Foundation and Ford Foundation in pushing for science-based agricultural modernization. Their concept of ‘productivity blast off’ has been at the centre of science-led productivity revolution in agriculture that worked well in Asia. In 1956 the Rockefeller Foundation helped set up the International Centre for Maize and Wheat Improvement (CIMMYT) in Mexico, while the Ford Foundation is credited with setting up the International Rice Research Institute in the Philippines in 1960. Both institutes played a leading role in researching and experimenting with high yielding varieties (HYV) that underpinned the green revolution in Asia. Similarly, Syngenta Foundation for Sustainable Agriculture, the first private company based foundation admitted to the Consultative Group on International Agricultural Research (CGIAR) has become a significant player in supporting research and development focusing on smallholder farmers (Ferroni and Castle 2011).

As independent players often are not hamstrung by bureaucracy and funding programmes timed to political calendars, private philanthropic foundations have shown an ability to take risk-embracing innovation and experimenting on approaches. In so doing, they demonstrate what could work in ARD and, working in partnership with some bilateral donors are providing alternative ways of aid funding for such experimental work. Whether or not they emerge as competitors multilateral agencies like the UN and World Bank still remains to be seen but at an experimental level, some traditional donors have begun to appreciate private foundations as partners. The Gates Foundation’s lead role in the Global Alliance for Vaccines and Immunizations (GAVI) is an example of foundations playing such a leading role and attracting significant funding from other bilateral donors who traditionally have preferred multilateral agencies. The Gates Foundation’s contribution of US\$1.75 billion towards GlaxoSmithKline’s malaria vaccine development programme was crucial in shaping priorities towards an area that ordinarily would have been seen as less profitable by private capital alone (House of Commons International Development Committee 2012: 11).

In ARD some agribusiness-driven foundations play an increasingly important role venturing into research on some of the ‘orphan’ crops often seen as not very profitable. Much of the effort is on raising smallholder farmers’ productivity by making technologies developed by private agribusinesses easily available to what has often been perceived as a non-traditional market for large agribusinesses. Examples of such work by international private agribusinesses include Syngenta’s research on tropical sugar beet, Monsanto’s work on water-efficient maize for Africa, Pioneer’s African bio-fortified sorghum initiative, BASF’s herbicide seed treatment to control *striga*, Jain Irrigation’s development of irrigation techniques suitable for dry lands, and Nokia’s agricultural information services targeting smallholder farmers.

## **4.2 Public private partnerships**

Apart from independent agricultural research and development, international agribusinesses are also working in partnership with public sector organizations (Poulton and Macartney 2012). Although PPPs have existed in many areas of public sector provisioning especially health, this has been an area of activity that many of the private agribusinesses have neglected as being unprofitable. In the past international private agribusiness may have been seen by some as largely seeking to ‘fleece’ smallholder farmers. However, there has been a gradual shift in thinking (Fan 2010) especially since the Toronto G20 summit of June 2010 when a call was made for an expanded role for private agribusiness in closing the agricultural

productivity gap in the global south. Private agribusinesses working in partnership with public sector bodies are now seen as part of the solution. The West Africa Seed Alliance (WASA), a US\$61 million programme, is an example of such a multiple actor programme. It brings together the USAID-Global Development Alliance, a public regional body like the Economic Community of West African States (ECOWAS), international private agribusiness firms Monsanto and DuPont's Pioneer Seeds working and the Alliance for Green Revolution in Africa (funded by Bill and Melinda Gates Foundation, DfID and the Rockefeller Foundation) to promote agro-dealership in West Africa.

Ariga and Jayne (2009) have shown how Rockefeller Foundation's support of a similar alliance to expand hybrid seed markets through networks of local small-scale agro-dealers in Tanzania improved supply of seed and fertilizer and nearly doubled productivity. While this is often presented as a win-win arrangement in which the private companies bring the technological innovations to bear on development problems with the hope of making modest profits, some (see Morvaridi 2012; Scoones and Thomson 2011) raise concerns about the long-term sustainability and social implications of such funding arrangements for public goods. In particular, PPP are seen as working only in areas where private companies can make profits. It however is a new area of growth providing additional financing for ARD. Although estimates of how much this is worth are hard to come by, data from the Agricultural Partnership Exchange show that by February 2013 there were some 209 ARD related public private partnerships covering 29 crops and involving 415 partners spread across 48 countries in the global south (e-Agriculture 2013). Outcomes of the PPPs in agriculture are only beginning to emerge but there is evidence of a capacity gap to negotiate and implement such deals especially in the global south (Hartwich et al. 2007). This can undermine the efficiency gains envisaged in PPPs and compromise the public interest dimension of such deals. The next section looks at venture philanthropy and high-impact investments as another dimension of private sector involvement in aid for ARD.

#### **4.3 Venture philanthropy and high-impact investments: financialization of social problems?**

High-impact investing has emerged as one of the new ways to generate private sector financing for development problems especially since the 2008 global financial crisis. Monitor Institute (2009: 11) defines high-impact investing as 'actively placing capital in businesses and funds that generate social and/or environmental good and at least return nominal principal to the investor'. In high-impact investments the investor sets out to make an investment in a development problem and recoups their capital at or below market rates. There are three types of impact investments. *Impact first* investments aim to make an impact in the social, financial or environmental problem they are investing in and the profit motive is subdued. Often they simply aim to break even. For example, Vodafone and M-PESA with support from DfID and the Bill and Melinda Gates Foundation have invested in developing a payment system that has helped extend financial services to the unbanked in remote rural regions of Kenya.

On the other hand, *financial first* high-impact investments have a clear breakeven minimum threshold and a profit motive underpins this investment. What is different is that the investment is often in an area where there is a clear public interest but often ignored either because of the high risks involved or the returns are not sufficiently high. Examples include Ebay Founder's Omidyar Network's 'high impact' investment in providing insurance for

people with HIV/AIDS in South Africa and Syngenta's provision of weather insurance to smallholder farmers in Africa. These two illustrate the ability of venture philanthropy to take risks for a good cause. The third type of high-impact investment is a blended value vehicle in which both impact and finance motives inform the investment decisions. Pension funds are an example of such an investment.

Recent data show that in 2011 some 2,200 high-impact investments worth US\$4.4 billion were made in areas as diverse as microfinance, consumer internet and mobile technologies, global entrepreneurship, government transparency and property rights (J.P.Morgan 2011). This was nearly double the 1000 high-impact investments worth US\$42.5 billion made in 2010. Examples of venture capital funds include Acumen Fund (brainchild of the Rockefeller Foundation), Grassroots Business Fund, IGNIA, Omidyar Network, and Root Capital. High-impact investing is projected to grow to over US\$500 billion over the next ten years (Rangan et al. 2011: 1).

In 2011, out of the US\$1.794 billion invested in emerging markets (about 39 per cent of total), only 6 per cent (US\$247 million) went into agriculture (J. P. Morgan 2011: 12). This allocation mirrors the per cent share of total ODA from OECD countries that went into agriculture in 2011. It should be observed, however, that although this might appear modest, a significant share of investments in other sectors also ends up providing support for ARD. For example the US\$100 million invested in 26 microfinance organizations in the global south ends up helping to finance agriculture and other forms of rural production. Philanthropic foundations have also been active as high-impact investors especially helping to draw private equity funds into investing in non-traditional markets. The Rockefeller Foundation pioneered the concept with its Acumen Fund while the US\$25 million African Agricultural Capital Fund has attracted US\$ 17million equity funding from three foundations (Bill and Melinda Gates Foundation, the Gatsby Charitable Foundation, and the Rockefeller Foundation) in addition to a US\$8 million commercial loan from J. P. Morgan Social Finance, 50 per cent of which was guaranteed by the United States Agency for International Development (J. P. Morgan 2011: 9).

Quite clearly, high-impact investing has emerged as an innovative way to involve private equity firms in helping to solve social and environmental ills. It can only complement rather than replace traditional ODA. It has no doubt provided alternatives to public financing of development problems but is not without its critics. For example, Morvaridi (2012) questions the sustainability of a private sector and market-driven approach to funding development, arguing that it compromises the altruistic motivations of aid financing. The issue here is whether high-impact investing should be seen as part of a gradual trend towards financialization of development problems. As an analytical framing within development discourses this is an interesting proposition that would raise questions about the ethics of profiting from poverty, regardless of the benefits that accrue in the global south. One thing that is clear, however, from the literature is that not much is known about the impact of this form of aid financing for ARD. Perhaps its benefits could be maximized if more work is done to analyse its impact. The next section considers the emergence of new bilateral donors in ARD.

#### **4.4 Rising powers: south-south aid for ARD**

Apart from the traditional bilateral and multilateral donors who mostly constitute the DAC, a new generation of bilateral donors has also emerged. These include rising powers mainly

from the global south and deriving from among the BRICS countries, oil rich Arab nations and private foundations. Aid from non-DAC countries more than doubled between 2005 and 2009, rising from US\$4.6 billion to US\$10.4 (Smith 2011: 3). Incomplete data reporting for non-DAC countries makes it difficult to look more closely at commitments. Some of the bilateral aid is classified as either development cooperation or as partnership agreements shrouded in secrecy. Although BRICS countries' spending on ARD aid is still poorly documented and least understood, there is evidence of their growing influence. For example the Poverty and Hunger Alleviation Fund set up by India, Brazil and South Africa is meant to offer alternative financing for southern partners—some of which has gone into ARD projects. In fact, of the US\$362 million committed to Africa by the BRICS, about 26 per cent was spent on ARD (Shankland et al. 2012).

Similarly, rising power China is becoming a significant player in ARD projects especially in rural infrastructure where it has filled the void left by a shift in focus by traditional donors away from large infrastructure projects. It is estimated that between 2001 and 2009 China committed US\$14 billion to finance infrastructure development in Africa (Chen 2010: 14). Nearly 8 per cent of total ODA to Kenya now comes from China (Fengler and Kharas 2010) while in Pakistan non-traditional donors (Saudi Arabia, China Kuwait and Oman) provide up to 12 per cent of ODA. Clearly the emergence of these countries as donors has created alternative sources of aid for ARD and will likely shape the way traditional donors relate to their southern partners in the future. For countries with 'governance deficits', the emergence of the BRICS countries as players in providing development assistance gives alternative sources of development financing that often come with few questions (Wu 2012). Although some of the aid funding in ARD from non-DAC countries has been linked to controversial land investments in developing countries (see Carmody 2011; Deininger and Byerlee 2011) it is clear that their emergence and expanding role will change the aid landscape especially if they continue to operate outside of the DAC frameworks.

In summary, emergence of private sector financing for ARD, and the rise of a new generation of donors can be characterized as complementing rather than replacing existing donors. In the next section, we consider the issues emerging from this paper, focusing specifically on the implications for future actions.

## **5 Emerging issues and conclusions**

Based on this discussion, it could be said that we have entered a period during which private sector involvement in financing aid for agriculture and rural development is a reality and is bound to grow. The twin challenges that still remain to be addressed in the ARD sector include: raising agricultural productivity especially in SSA—the 'last productivity frontier region' while also enhancing the ability of global rural production systems to cope with climate change. Both are areas in which working closely with private sector actors has its advantages. The technology and expertise required for a uniquely neo-African green revolution can certainly be enhanced through partnerships with 'progressive' agribusinesses and other private sector financing arrangements. This is additional to the bilateral and other forms of multilateral aid already available. The West African Seed Alliance has already shown what can be achieved when a coalition of the willing work together. The main issue however is how to harness the synergies generated by traditional donors linking up with these emerging players (particularly high-impact investors and elite foundations). This section

raises these questions and draws some conclusions on the emerging issues. We look first at the emergence of private sector players in financing aid for development in the global south.

### *Impact of private sector financing of aid: a social bubble?*

The emergence of elite foundations, private agribusinesses and venture capital high-impact investments as a means to finance development is clearly a new phenomenon. There is little research so far to understand the long-term impacts of this way of financing development aid. Quite clearly the key question is whether this is a better, more effective and efficient way of providing aid when compared with the traditional sources and pathways. With suggestions that this is an aid industry that could be worth US\$500 billion within the next decade, it is imperative to understand not only how this form of financing will impact on the global south but also how this will shape the way traditional donors finance aid for ARD. In particular there are questions whether this is a ‘social bubble’ that could burst exposing many in the global south to the hazards of venture capital finance (see Bank 2012).

### *Accountability and governance of the global impact finance industry*

Although ARD attracts less than 10 per cent of the funds committed so far by private foundations and venture capital finance, the key issue is how to attract more of this funding on terms that do not undermine the traditionally accepted altruistic dimensions of aid. This form of financing operates outside the global voluntary regulatory frameworks for aid. It is not signed up to the Paris Declaration on Aid Effectiveness, nor is it party to the Global Donor Platform on Aid for Rural Development. Accountability for private financing of development aid still largely rests with the private investors and shareholders. In circumstances like these, the key issue is how to continue to develop self-regulation in a way that protects communities in the global south when private capital ventures into areas where global mechanisms for self-regulation are only emerging. One way could be to incorporate private sector financing into existing mechanisms like the Paris Declaration on Aid Effectiveness. But then, could doing so limit the potential interest that there is in high-impact investing? This is especially a possibility if working within the existing aid voluntary regulatory frameworks is seen as being an unnecessary distraction from sound investment decisions. These are important questions that still need to be addressed if the full potential of this new financing vehicle is to be realized in ways that limit the exposure of the poor in the global south.

### *Building capacity to interface with new sources of aid financing*

Governments in the global south have built capacity and institutions to interface with traditional donors over many decades. The involvement of the private venture capital and agribusinesses in financing aid for development is relatively new and brings with it new challenges. It is clear that there is need to build capacity of both the private and public sector institutions in the global south to interface with this new way of financing development. In many countries this will often mean changing investment regulations or creating new laws to take into account these new forms of investment. Apart from the institutional changes there will need to be staff capacity development within both the public and private sectors to enable them to provide an ideal environment to productively interact with this new face of philanthropy. Without this necessary capacity strengthening, the rate of growth of high-impact investments could soon be stymied by an inability to absorb this new aid finance by the global south.

### *Emergence of new bilateral donors*

This paper has shown that the aid landscape has shifted significantly and the emergence of new non-state actors provides opportunities and challenges for ARD aid financing. Among the key challenges is how traditional donors should respond to and work with the new non-DAC state donors and venture philanthropy to enhance aid financing for ARD. There are tensions to be resolved especially around approach and strategy for ARD. For example, the non-DAC members tend to have a singular focus on agriculture while the DAC-donors, especially in Europe, subscribe to a broader rural development concept in which agriculture is but one of the livelihood activities (Wobst 2011). Similarly, should the focus on enhancing agricultural incomes be on the small farms or large farms or even a mixture of both? These are issues of strategy that Global Donor Platform on Aid for Rural Development has emerged to provide some guidance. Without a coherent strategy on what aspects of ARD need attention and in what ways, much of this new aid finance will generate profits for investors without necessarily impacting on the development problems targeted.

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