

# **Official development assistance to agriculture**

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The paper reflects work in progress towards the development of new guidelines for agricultural policy in DFID. It does not necessarily reflect the views and policy of DFID.

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# Executive summary

Recent efforts to alleviate poverty in developing countries have met with largely disappointing results; leading to a refocusing of attention on the role of agriculture in promoting economic growth and poverty reduction. Despite this trend, the share of official development assistance (ODA) allocated to agricultural development has fallen during the past two decades.

Some believe that this trend could have serious consequences. International support was one of the key triggers for the Green Revolution, and it could be argued that declining aid flows are limiting agricultural growth, especially in regions like Africa, where agricultural performance desperately needs to be improved. Others believe that volume of ODA in itself is not the answer, since aid or lending programmes to agriculture have experienced persistent problems of sustainability and institutional development. They argue that the limitations of international assistance should be recognised.

Either way, there is a resurgence of interest amongst development agencies, developing country governments and civil society in the role of ODA in improving agricultural performance. The debate focuses broadly on two main themes:

1. The nature and extent of changes in the volume of aid to agriculture.
2. The overall effectiveness of agricultural ODA and the real impact of changes in assistance.

## 1. Changing Volumes of ODA to Agriculture

The analysis of aid statistics over the last forty years suggests the following key trends:

- **Volume and Share of aid:** Bilateral and multilateral assistance to agriculture increased during the 1970s and 1980s, but has declined significantly in real terms during the 1990s. The global volume of assistance to agriculture (expressed in 2002 prices) decreased from US\$ 6.2 billion to US\$ 2.3 billion between 1980 and 2002. Most of this decrease occurred during the 1990s. Over the same period, however, total ODA flows provided by all donors increased by 65%, from US\$ 37.1 billion in 1980 to US\$ 61.4 billion in 2002. So, while the total volume of assistance provided to agriculture has decreased in real terms, its share of total ODA has fallen even more, from a peak of 17% in 1982 to 3.7% of total ODA in 2002.
- **Multilateral vs Bilateral trends:** Between 1980 and 2002, multilaterals cut ODA spending on agriculture from \$US 3.4 billion to US\$ 0.5 billion (a decrease of 85%). Bilateral donors reduced spending from US\$ 2.8 billion to US\$ 1.7 billion (a decrease of 39%).
- **Sectoral distribution:** The decrease in spending on agriculture is mostly related to the significant increase in the share of ODA spent on social infrastructure and services, which rose steadily between 1980 and 2002 from 9% to 33% of all ODA.
- **Geographical Distribution:** Regionally, the largest proportional reductions in assistance (both bilateral and multilateral) have occurred in Asia. Between 1980 and 2002, ODA to agriculture halved in sub-Saharan Africa and decreased by 83% in South and Central Asia. In real terms, official development assistance to African agriculture is less than it was in 1980.

There appears to be no single cause to explain these declines. Contributory factors include:

- changes in definitions in aid statistics;
- the loss of donor confidence in agriculture;
- changes in development policy and approaches in favour of more market-led approaches;
- perceived high transaction costs and complexity of investments in agriculture;
- weaker demand for assistance to agriculture from many developing country governments;
- shifting emphasis in development assistance towards health and education sectors
- changes in aid modalities.

## **2. The Efficacy of ODA to agriculture**

In terms of efficacy, assistance to agriculture has had mixed results. However little evidence exists regarding the relative advantages and effectiveness of different aid instruments or mechanisms for agricultural development. The nature and focus of assistance to agriculture has changed substantially over the past 40 years, making definitive judgements of impact difficult. Yet past assessments can help to identify lessons for improving the quality of future assistance to agriculture. Agriculture strategies have typically evolved in tandem with changing dominant development paradigms, shifting from:

- 1960s to early 1980s: the Green Revolution, whereby new technologies supported by the provision of government support services led to agricultural expansion and intensification in high productivity areas of Asia;
- mid-1980s to mid-1990s: Integrated Rural Development Projects (IRDP), which focused on direct assistance to the rural poor, but were considered unsuccessful due to poor multisectoral co-ordination and overambitious design;
- 1980s to present: Concerns about the performance of IRDPs contributed to a shift towards adjustment lending, market-led approaches and a withdrawal of the state;
- mid-1990s to present: Sector wide Approaches (SWAPS) and support to Poverty Reduction Strategies (PRSPs) as a basis for donors to contribute more coherently to budgets and processes designed by governments.
  - SWAPS – whilst there have been some positive experiences (e.g. Uganda, Zambia), the fundamental characteristics of the agricultural sector make developing and implementing a SWAP more difficult than in more homogenous sectors, such as health or education.
  - PRSPs – agriculture has been weakly reflected in PRSPs to date, partly due to the focus on increasing social sector spending.
  - Poverty Reduction Budget Support (PRBS) the proportion of DFID funding for rural livelihoods through PRBS is low and declining compared with other sectors (probably due to the greater relative ease of channelling funds for other more well defined sectors, such as health and education).

In sum, if the target of reducing extreme poverty and hunger by 2015 is to be achieved, the share of ODA going to agriculture will need to better reflect agriculture's importance in generating livelihoods for the majority of the rural poor. In terms of the efficacy of changing aid mechanisms, the particular characteristics of the agricultural sector suggests that it will be particularly important to achieve a balance of different aid instruments (i.e.

project, SWAP and budgetary support), and to assess their utility on a country-by-country basis.

# 1. What is the issue?

Recent efforts to alleviate poverty in developing countries have met with largely disappointing results; leading to a refocusing of attention on the role of agriculture in promoting economic growth and poverty reduction. However, perhaps surprisingly, the share of official development assistance (ODA) allocated to agricultural development has fallen during the past two decades. This trend could have serious consequences. International support was one of the key triggers for the Green Revolution, and it could be argued that declining aid flows are limiting agricultural growth, especially in regions like Africa, where agricultural performance desperately needs to be improved.

The Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) speaks of declining aid flows to agriculture as 'a matter of increasing policy concern' (OECD, 2003), while the International Fund for Agricultural Development (IFAD) claims that support for agriculture has 'collapsed' (IFAD, 2001). The issue has also featured in major international summits, including Financing for Development in 2002, the Johannesburg World Summit on Sustainable Development in 2002 and the G8 meeting in Evian in 2003, all of which included calls for increased aid commitments to agriculture.

Others are more guarded in the role they ascribe to ODA in achieving agricultural growth. For this group, the issue is improving the quality, not just the quantity, of ODA to agriculture. They believe that ODA in itself is not the answer, since aid or lending programmes to agriculture have experienced persistent problems of sustainability and institutional development (World Bank, 2004). They argue that the limitations of international assistance should be recognised.

Either way, there is a resurgence of interest amongst development agencies, developing country governments and civil society in the role of ODA in improving agricultural performance. The debate focuses broadly on two main themes:

2. The nature and extent of changes in the volume of aid to agriculture.
3. The overall effectiveness of agricultural ODA and the real impact of changes in assistance levels.

## 2. Changing volumes of ODA to agriculture

This section provides an overview of changes in the volume, composition and distribution of bilateral and multilateral assistance to agriculture since 1980. After a note on definitions and data sources, we consider four key questions:

1. What has happened to the volume of assistance in absolute terms and as a proportion of total assistance flows?
2. What differences, if any, have emerged in the use of development assistance to agriculture?
3. What changes, if any, have occurred in the geographical distribution of assistance to agriculture?
4. What factors may have contributed to these changes in volume?

## 2.1 Definitions and data sources

Definitions of the 'agricultural sector' used by different reporting bodies are not always the same and have changed over time. While this makes for some confusion, it does not impede the basic definition of trends. For the purpose of this paper, we have used data provided by the DAC of the OECD through its Credit Reporting System (CRS)<sup>1</sup>. This data is supplemented by more specific information on the United Kingdom's bilateral aid programme taken from DFID's published Statistics on International Development (DFID, 2003), and on World Bank disbursements sourced from the Agricultural Investment Handbook (World Bank, 2004).

The DAC statistical definition of assistance to agriculture includes support to:

- agricultural sector policy, planning and programmes;
- agricultural land and water resources;
- agricultural development and inputs;
- crops and livestock production;
- agricultural credit;
- cooperatives;
- agricultural education;
- training and research; and
- Institutional capacity building and advice.

Forestry and fishing were included in earlier data, but identified as separate sectors from 1996 onwards. The current definition excludes:

- 'rural development', which is classified as multi-sector aid. DAC statistics do not therefore capture assistance to agriculture delivered within multi-sector programmes (Eicher, 2003);
- food aid; and
- assistance provided through NGOs may also be excluded, since this is not always 'sector coded' in as much detail as project and programme aid.

Since sectoral data are collected on commitments rather than disbursements, averages are used as the basis of analysis. In the DFID classification, agriculture falls within the Rural Livelihoods category, which includes:

- agricultural policy;
- renewable natural resources research; and
- land policy and forestry production.

In the data reported here for DFID, bilateral expenditure on agriculture is classified as 'total rural livelihoods less forestry'.

A last note on measurement: in this paper, developments in financial data over time are reported in real rather than nominal terms (Box 1).

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<sup>1</sup> All OECD data on ODA reported here are taken from the DAC-CRS website at <http://www.oecd.org/dataoecd/50/15/5037782.htm>, from the database CRS/Aid Activities - Aggregated by sectors: 1973–2003 (= dataset 2 + dataset 3).

### **BOX 1: Nominal and Real Financial Figures**

Nominal financial figures are the amounts of money (usually reported in US dollars) disbursed or committed in a year. The value of the US\$ declines over time due to inflation, therefore, the same amount of dollars in 2002 represents a lower value than in 1980. Recalculating both figures in 'real' terms is a way to establish how much less. To do this, a correction for exchange rates and inflation (the deflator) needs to be applied so that a time series of financial figures can be expressed 'in constant prices' or 'in real terms'. It does not matter which year is chosen as the constant price year, as this does not affect the relative changes in the data over time.

In this paper, we examine trends from 1980 to 2002 and report figures in constant 2002 prices. In fact, the US dollar declined by 71% in value between 1980 and 2002. US\$ 100 spent on ODA in 1980 would have to be matched by US\$ 171 in 2002 for ODA contributions to remain stable in real terms. Anything less is effectively a decline in ODA.

In this paper, data are presented and discussed in real, constant price terms so that we know changes in ODA volumes represent real changes in their value to users, and do not merely result from different exchange rates or inflation.

## **2.2 How have ODA volumes changed?**

The global volume of assistance to agriculture (expressed in 2002 prices) decreased by nearly two-thirds from US\$ 6.2 billion to US\$ 2.3 billion between 1980 and 2002. Most of this decrease occurred during the 1990s (Figure 1).

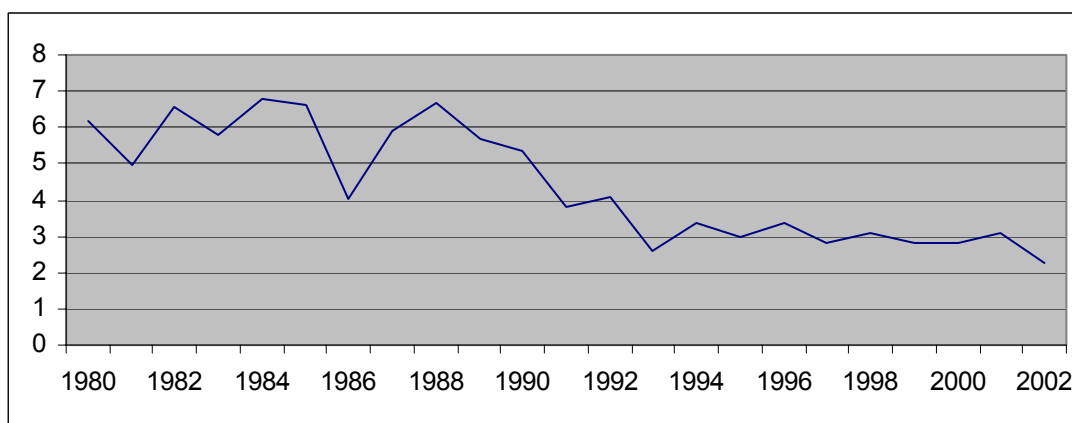


Figure 1: Total ODA to agriculture, 1980–2002, constant 2002 prices (US\$ billion)

Source: OECD (2004)

Note: Figures are defined as total ODA from all donors and to all recipients for category iia 'Agriculture'

Over the same period, however, total ODA flows provided by all donors (again measured in real terms) increased by 65%, from US\$ 37.1 billion in 1980 to US\$ 61.4 billion in 2002 (Table 1). Most of this increase resulted from a jump from 45.8 to 61.4 billion US\$ during 1999–2002. So, while the total volume of assistance provided to agriculture has decreased in real terms, its share of total ODA has fallen even more, from a peak of 17% in 1982 to 3.7% of total ODA in 2002.

**Table 1: Assistance to agriculture 1980–2002: volumes and shares in total ODA**

Year	ODA to agriculture (constant 2002 billions)	Total ODA US\$, (constant 2002 billions)	Share of ODA to agriculture (%)
1980	6.2	37.1	16.7
1985	6.6	40.0	16.6
1990	5.4	44.8	12.0
1995	3.0	38.9	7.6
2002	2.3	61.4	3.7

Source: OECD (2004)

These global figures represent both country contributions (bilateral assistance) and ODA provided by multilateral organisations. These show slightly different trends over time. While bilateral assistance<sup>2</sup> increased during the 1980s, multilateral assistance decreased. During the 1990s, both showed a downward trend, although there were considerable fluctuations (Figure 2). Between 1980 and 2002, multilaterals cut ODA spending on agriculture from \$US 3.4 billion to US\$ 0.5 billion (a decrease of 85%). Bilateral donors reduced spending from US\$ 2.8 billion to US\$ 1.7 billion (a decrease of 39%).

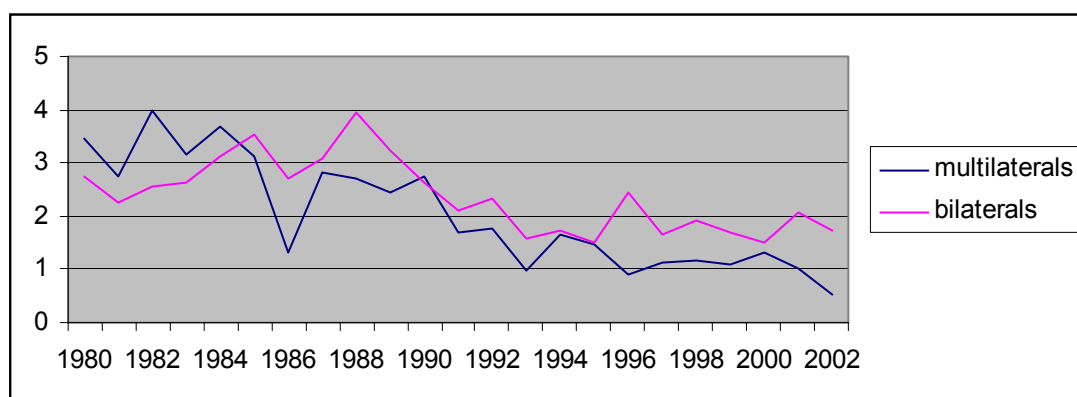


Figure 2: ODA to agriculture, 1980–2002 by multilateral and bilateral donors, constant 2002 prices (US\$) billion

Source: OECD (2004)

For both groups of donors, agriculture’s share of total ODA has fallen during the past 20 years. By 2002, assistance to agriculture represented just 3.7% of total OECD development assistance, which is about a third of its 1980 share of total ODA. ODA provided through multilaterals dropped in 2002 to 3.6% of all multilateral ODA, which represents just over one tenth of the 1980 share in total spending (Table 2).

**Table 2: The share of assistance to agriculture in total ODA, 1980–2002**

Year	Share of ODA to agriculture in total ODA (%)	
	Multilaterals	DAC countries
1980	3.6	13.1
1985	3.6	13.0
1990	2.7	12.0
1995	1.6	7.6
2002	0.5	3.7

<sup>2</sup> Bilateral donors here only include OECD countries reported in the DAC database.

1980	32.6	10.4
1985	30.1	11.9
1990	25.9	7.7
1995	17.4	4.9
2002	3.6	3.7

Source: OECD (2004)

In terms of individual countries, the past two decades have seen a rapid reduction in support to agriculture from several traditionally strong bilateral donors, i.e. Canada, Germany, Japan, the Netherlands and, particularly, the United States (Table 3). Of the 16 donors recorded here, only seven of the smaller donors increased their support to agriculture between 1980 and 2000. However, much of this support was provided in the form of 'tied assistance' to purchase of agricultural inputs.

**Table 3: Bilateral assistance to agriculture in 1980, 1990 and 2000: volumes and shares**

Country	Average annual ODA to agriculture in constant 2002 prices (US\$ million)			Average annual share of ODA to agriculture in total ODA (%)		
	1979–81	1989–91	1999–01	1979–81	1989–91	1999–01
Australia	13.8	27.3	46.9	2.7	8.5	7.2
Austria	n.a.	n.a.	4.0	n.a.	n.a.	0.9
Belgium	n.a.	0.3	68.1	n.a.	0.3	6.3
Canada	80.9	80.4	18.3	21.6	5.2	1.1
Denmark	53.8	38.2	57.6	15.9	9.4	6.8
Finland	n.a.	60.5	3.0	n.a.	15.4	1.0
France	131.2	247.9	141.7	7.9	10.5	3.6
Germany	373.5	145.0	134.1	7.9	3.8	2.9
Italy	10.6	150.7	27.6	21.5	10.5	2.2
Japan	661.4	736.5	481.1	10.1	7.7	7.3
Netherlands	223.1	130.7	96.2	19.5	11.4	2.2
Norway	37.2	23.4	43.6	14.9	4.4	4.0
Sweden	12.9	244.2	28.7	2.6	13.1	2.7
Switzerland	38.6	68.9	62.5	26.6	12.2	7.9
<b>United Kingdom</b>	<b>75.9</b>	<b>102.4</b>	<b>107.2</b>	<b>4.7</b>	<b>8.5</b>	<b>2.9</b>
United States	1042.1	549.2	383.2	12.5	6.6	3.1
All bilaterals	2755.0	2605.6	1703.8	13.0	8.0	3.9

Source: OECD (2004)

Note: The 'all bilaterals' row for agriculture's share in ODA is an unweighted average, rather than agriculture's share in global ODA volume as reported in Table 2.

DFID spending on agriculture has also decreased in recent years. ODA to agriculture (defined as spending on renewable natural resources less rural development spending) decreased slightly from £ 112.6 million in 1997–1998 to £ 93.8 million in 2002–2003 in current prices (DFID, 2003).

Multilateral assistance to agriculture shows a broadly similar trend to that for bilateral assistance. Table 4 shows the total level and proportional importance in total portfolios of the assistance provided to agriculture by the key multilateral agencies. All have decreased their ODA to agriculture during the past 20 years. Consequently, the total share of multilateral assistance being allocated to agriculture has fallen by half between 1980 and 2000.

**Table 4: Multilateral assistance to agriculture in 1980, 1990 and 2000: volumes and shares**

Multilateral	Average annual ODA to agriculture in constant 2002 prices (million US\$)			Average annual share of ODA to agriculture in total ODA (%)		
	1979-81	1989-91	1999-01	1979-81	1989-91	1999-01
African Development Fund	118.2	287.2	92.3	27.9	28.6	10.5
Asian Development Fund	215.9	492.3	76.8	28.2	36.6	6.5
European Community	460.5	81.6	132.5	25.2	5.9	3.8
Int. Devpt. Assistance	1551.3	1253.8	634.9	31.6	19.7	10.3
Int. Devpt. Bank Special Fund	352.8	63.4	n.a.	27.8	16.1	n.a.
Int. Fund for Agr. Devpt.	372.1	110.2	177.9	61.6	55.6	48.6
All multilaterals	3070.8	2288.5	1114.4	33.7	27.1	15.9

Source: OECD (2004)

Note: Volumes are computed as three-year annual averages. The 'all multilaterals' row for agriculture's share in ODA is an unweighted average, rather than agriculture's share of global ODA volume as reported in Table 1.

Both of the regional development banks increased their spending during the 1980s but then decreased spending during the 1990s, to below the 1980 level. European Union (EU) spending fluctuated the most, falling dramatically during the 1980s, but, unique among multilaterals, increased during the 1990s. In the latest round of country strategy papers prepared by the EU, agriculture and rural development account for only 7.8% of total commitments of 7.4 billion Euros (Maxwell, 2003). Spending by IFAD, the one multilateral that was established to support agriculture, halved during the period.

The World Bank has traditionally been the most important provider and leader of loan support to agriculture. World Bank support for agriculture grew, from around 6% of total lending in the early 1960s, to reach over 31% in 1979–81 at the height of the Green Revolution. Total lending fell to around 17% in the mid-1990s and just 8.4% in 2001 (World Bank, 2002). World Bank support to agriculture (represented by 'International Development Assistance' in Table 4) has fallen by a fifth during the 1980s and again by half during the 1990s. However, the World Bank remains a major contributor, currently supplying about one-third of the total ODA to agriculture (World Bank, 2003).

## 2.3 How is ODA to agriculture used?

Over the last twenty years, significant changes have occurred in the balance of sectoral spending, with lower allocations for agriculture (Tables 5 and 6).

**Table 5: Purpose of ODA, 1980–2002 (constant 2002 US\$ billion)**

	1980	1985	1990	1995	2002
Social infrastructure and services	3.8	6.3	8.6	11.2	20.5
Economic infrastructure	10.5	9.1	10.5	10.3	9.3
Production sectors	9.7	10.5	8.4	4.3	4.4
<i>includes agriculture</i>	<i>6.2</i>	<i>6.6</i>	<i>5.4</i>	<i>3.0</i>	<i>2.3</i>
Multisector	1.3	1.3	3.9	3.5	5.3
Commodity aid/general prog. ass.	8.5	10.9	9.6	4.4	6.6
Action relating to debt	2.0	0.7	2.6	2.2	6.6
Emergency assistance	0.2	0.7	0.8	1.7	4.1
Non-food emergency and distress relief	0.2	0.6	0.7	1.5	3.0
<b>Total</b>	<b>36.5</b>	<b>40.1</b>	<b>45.1</b>	<b>39.1</b>	<b>59.8</b>

Source: OECD (2004)

The most significant change in ODA allocation has been expenditure on social infrastructure and services. The amount more than doubled during the 1980s and again during the 1990s. While it was one of the smaller sectors in 1980, this sector overtook other sectors in terms of spending and, in 2002, received twice as much as the next largest expenditure item (economic infrastructure). Multisector spending increased at a similar rate, although at a much lower level. Spending on the debt relief sector has tripled since 1995 and emergency assistance has also seen a marked increase.

The greatest decrease in ODA has occurred in the production sectors. Spending was fairly stable during the 1980s, but almost halved during the 1990s. Within this category, spending on agriculture decreased at an even faster rate. The decrease in spending on agriculture is mostly related to the significant increase in the share of ODA spent on social infrastructure and services, which rose steadily between 1980 and 2002 from 9% to 33% of all ODA (Table 6). Other smaller expenditure items help explain the changing patterns. Shares in total ODA of multisector aid and debt relief more than doubled, while shares of emergency assistance and non-food emergency and distress now account for 6.5 and 4.9% of all spending, respectively.

**Table 6: Purpose of ODA, 1980–2002 (% of total)**

	1980	1985	1990	1995	2002
Social infrastructure and services	8.9	13.5	17.0	26.6	33.0
Economic infrastructure	24.6	19.5	20.9	24.6	15.0
Production sectors	22.9	22.5	16.6	10.2	7.1
<i>includes agriculture</i>	<i>14.6</i>	<i>14.2</i>	<i>10.6</i>	<i>7.1</i>	<i>3.7</i>
Multisector	3.2	2.7	7.8	8.2	8.5
Commodity aid/general prog. ass.	20.1	23.2	19.0	10.5	10.6
Action relating to debt	4.8	1.6	5.2	5.3	10.7
Emergency assistance	0.6	1.4	1.5	4.0	6.5

Non-food emergency and distress relief	0.5	1.3	1.4	3.6	4.9
Total	100.0	100.0	100.0	100.0	100.0

Source: OECD (2004)

Note: The shares of agriculture given here are slightly different from those reported in Table 1 due to classification differences. Totals may differ marginally from 100 due to rounding.

The deployment of development assistance to agriculture has also changed during the past 20 years. Several trends can be noted:

- Assistance for direct support to agriculture, notably for agricultural inputs, agricultural services (including finance), agricultural education and research, has fallen. This partly reflects changing perceptions of the role of the public sector in the provision of agricultural inputs and services. Very few development agencies (with the notable exception of Japan) now provide agricultural inputs such as fertilisers, chemicals, seeds and machinery.
- Assistance through area-based or crop-focused projects has declined while support to agricultural policy and administration has risen.
- Assistance to land resources, forestry and fisheries has increased in relative terms.
- Assistance to irrigation and drainage projects has remained fairly constant, but there is reduced enthusiasm for large-scale engineering projects and greater sensitivity to environmental and social aspects.
- Support to bilateral research has fallen but it has been replaced to some extent by support channelled multilaterally, such as through the Consultative Group on International Agricultural Research (CGIAR).

There have been similar changes in multilateral assistance. A comparison of World Bank lending approvals (which provide a good proxy for the multilaterals as a whole) between 1979–81 and 1999–2001, showed the largest declines have occurred in relation to two areas: a) perennial crops and agro-industry, where there has been a shift away from supporting parastatal enterprises (a major focus of development efforts in the 1960s and 1970s); and b) agricultural credit, where the focus has moved away from commodity targeted credit in favour of broadening and deepening general financial services.

Interestingly, World Bank lending to irrigation and drainage has maintained its share of total lending at around 30–33% (World Bank, 2003), despite a major reduction in bilateral assistance in this area. There has, however, been a shift away from new large-scale infrastructure investments towards rehabilitation and improved management and, more recently, towards small-scale community managed systems (World Bank, 2004).

The World Bank's 'From Vision to Action' strategy (1996–2002) prompted a broadening of the scope of lending in the agriculture sector. The review highlights significant changes in the Bank's focus in agriculture over the strategy period. Since 1996, lending for agricultural adjustment, agency reform and community-based rural development have grown considerably, while lending for forestry and research/extension has declined. The share of agribusiness and credit, commodity programmes and irrigation and drainage has remained constant. However, when reviewing the World Bank's 'From Vision to Action' strategy, it

was recognised that: 'Lending to the rural space as a proportion of overall Bank lending was not congruent with the greater incidence of poverty in rural areas' (World Bank, 2003).

## 2.4 How is ODA to agriculture distributed geographically?

Tables 7 and 8 outline changes in the geographical focus of agricultural assistance. Figure 5 shows trends in regions where poverty is concentrated.

In absolute figures, ODA to agriculture decreased substantially between 1980 and 2002 in all regions of the developing world except South America. Between 1980 and 1985, the figure increased and the largest share went to South and Central Asia (especially to India), reflecting investment in the Green Revolution. After 1985, although the total figure fell, there was a relative increase in the proportion of ODA going to sub-Saharan Africa. Between 1980 and 2002, ODA to agriculture halved in sub-Saharan Africa and decreased by 83% in South and Central Asia. In the 1990s, support actually decreased slightly more rapidly in sub-Saharan Africa than in South and Central Asia.

**Table 7: Regional Distribution of ODA to agriculture, 1980–2002 (constant 2002 US\$ million)**

	1980	1985	1990	1995	2002
Sub-Saharan Africa	1450.0	1872.8	2035.2	1108.4	713.6
North Africa	378.3	146.4	221.0	157.4	42.4
Middle East	175.4	104.9	35.4	42.0	18.1
Far East Asia	944.0	882.2	1064.2	636.4	479.8
South and Central Asia	2593.4	2608.8	1400.9	632.8	442.2
South America	220.0	580.5	238.9	95.8	213.9
All developing regions	5761.1	6195.6	4995.6	2672.8	1910.0

Source: OECD (2004a)

**Table 8: Regional Distribution of ODA to agriculture, 1980–2002 (% of total)**

	1980	1985	1990	1995	2002
Sub-Saharan Africa	25.2	30.2	40.7	41.5	37.4
North Africa	6.6	2.4	4.4	5.9	2.2
Middle East	3.0	1.7	0.7	1.6	0.9
Far East Asia	16.4	14.2	21.3	23.8	25.1
South and Central Asia	45.0	42.1	28.0	23.7	23.2
South America	3.8	9.4	4.8	3.6	11.2
All developing regions	100.0	100.0	100.0	100.0	100.0

Source: OECD (2004)

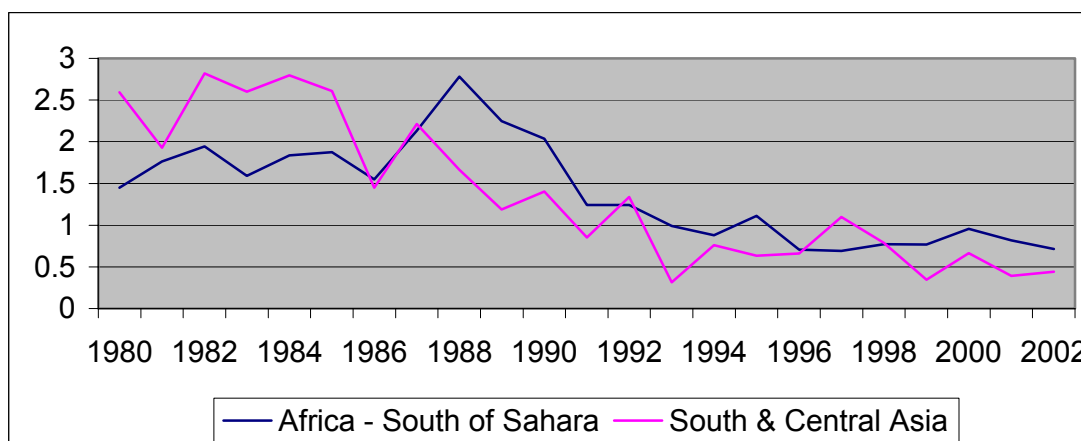


Figure 5: ODA to agriculture in sub-Saharan Africa and South and Central Asia, 1980–2002 (constant 2002 US\$ billion)

Source: OECD (2004)

The OECD figures are complemented by the World Bank lending portfolio (World Bank, 2003). This shows that South Asia and Sub-Saharan Africa each invest about 25% of total rural investments in agriculture, whereas the other regions direct about 40% of Bank funds to agriculture. Analysis of regional trends in total World Bank aid allocations between 1996–8 and 1999–01 show a drop of 50% in funding to South Asia, an increase of 74% to the Middle East and North Africa, and a smaller increase of 15% funding to sub-Saharan Africa.

## 2.5 Why is assistance to agriculture declining?

There is no obvious single reason for the downward trend in ODA to agriculture. A number of factors may be involved and these are discussed below.

### Changes in definitions

As noted earlier, some changes have occurred in the definitions applied to ODA flows to agriculture. None of these, however, are sufficiently significant to account for the decline.

### Changed donor perceptions: loss of confidence in agriculture

During the Green Revolution of the 1960s and 1970s, rapid agricultural development took place due to new technology, improved productivity and increased provision (often by the public sector) of key support services. At the same time, there was a marked reduction in poverty. In such a dynamic and optimistic situation, development assistance to agriculture seemed to be a sound investment that generated real returns for development agencies.

The involvement of public institutions provided development agencies with large and familiar counterparts to work with. This meant that the costs of delivering assistance to agriculture – the ‘transaction costs’ – were relatively low. In such a favourable and successful environment, agriculture was bound to be viewed – by donors and recipients alike – as an appropriate means of giving development assistance.

The 1980s and 1990s (particularly the 1990s) were very different. The novelty of the Green Revolution was wearing off, and the picture of almost unqualified successful investment in

agriculture was increasingly being replaced by disappointment and frustration, particularly in Africa. Major agencies performed a number of highly unfavourable evaluations concerning the impact, sustainability and cost-effectiveness of general support to agriculture and specific approaches, such as integrated rural development projects. In addition, the 'training and visit' system of agricultural extension, which had absorbed large amounts of money, was announced as a failure. This clearly dented the enthusiasm of development agencies and recipient governments for investing in agricultural development. Governments, particularly in Africa, devoted progressively less of their own resources to the sector (World Bank, 2002; FAO et al., 2002).

## **Changes in development policy and approaches**

The 1980s and 1990s also witnessed a fundamental change in the policy approach to agriculture. Wider economic reform processes associated with structural adjustment saw the dismantlement, particularly in Africa, of institutions associated with state intervention in the agriculture sector in favour of more market-led approaches. Dorward and Kydd (2001) suggest that the decline in aid to agriculture is largely related to this policy change, which reduced the apparent need for assistance since the institutions through which it had been channelled were no longer there.

## **Perceived high transaction costs and complexity**

As noted above, in the 1960s and 1970s, the state often provided an easy, and apparently cost-effective, route through which to invest in agriculture. The 1990 policy reforms and clearer distribution of public and private roles eliminated many of these investment routes, such as parastatals (World Bank, 2003), which had helped to keep transaction costs low for development agencies interested in investing in agriculture.

As development assistance to agriculture has moved away from the comparatively simple technical fix or resource transfers that characterised the Asian Green Revolution, transaction costs for development agencies have inevitably increased. For many agencies, particularly in an era of declining real aid flows and pressure to increase effectiveness, agriculture is a risky, expensive and complex area in which to invest for apparently dubious returns. In addition, there are no 'simple' routes through which to channel resources, as is the case with public services such as health and education.

Moreover, development agencies often have difficulty in identifying development partners, since potential stakeholders (e.g. responsible line ministries and the ministries of finance or planning) do not necessarily have homogeneous views on rural priorities.

## **Weaker developing country demand**

It is also important to acknowledge that changing priorities from international development agencies can divert the attention of developing country governments from their own agricultural sectors (von Braun et al., 1993). Unfavourable changes in development agencies' perceptions about effectiveness and transaction costs have been matched by weaker demand for assistance to agriculture from many developing country governments. In many countries, particularly in Africa, governments operate under tight fiscal constraints and are spending less of their own resources on agriculture (Foster et al., 2000).

## **Shifting emphasis in development assistance**

As discussed earlier, an increased proportion of ODA now goes to 'social infrastructure and services'. Assistance to the health and education sectors offers development agencies a number of attractions. It can be channelled through large public sector entities, either as programme support to ministries or as general budget support. Transaction costs are therefore minimised. More importantly perhaps, assistance can be clearly linked to increased delivery of basic services, which in turn can be relatively easily linked or at least associated with progress towards achieving internationally agreed development targets such as the Millennium Development Goals (MDGs). This increased attention on health and education may have contributed to a tendency to reduce assistance to other areas, including productive sectors such as agriculture and infrastructure, which often have long gestation periods and lack the same clarity of linkages between aid expenditure and outcomes (OECD, 2004; FAO, 2002). With the increased emphasis on social sectors, agriculture must therefore compete for resources.

Concerns have been expressed about the recognition and funding of productive sectors, including agriculture, in Poverty Reduction Strategy Papers (PRSPs). The OECD (2001) notes that the relative exclusion of agriculture from the poverty reduction agenda of the 1990s could explain some of the decline in assistance flows.

### **BOX 2. Emerging Conclusions Regarding Trends in ODA to Agriculture**

In summary, four key conclusions emerge in respect of trends in ODA allocation to agriculture:

- bilateral and multilateral assistance to agriculture increased during the 1970s and 1980s, but has declined significantly in real terms during the 1990s;
- agriculture's share of all bilateral and multilateral development assistance has also fallen over the same period;
- regionally, the largest proportional reductions in assistance (both bilateral and multilateral) have occurred in Asia. Africa's share of assistance has increased, but this has been an increasing share of a decreasing total. In real terms, official development assistance to African agriculture is less than it was in 1980; and
- no single clear reason emerges for the decline in ODA to agriculture.

## **3. The efficacy of ODA to agriculture**

How important, in terms of real outcomes for the poor, are the trends in development assistance? We now consider this aspect of the debate.

### **3.1 Emerging concerns regarding quality**

Assistance to agriculture has had mixed results. As discussed below, the nature and focus of assistance has changed substantially over the past 40 years, making definitive judgements or counterfactual assessments of impact difficult. However, assessment of the

past can help to identify lessons that can be taken forward to improve the quality of future assistance to agriculture.

### **Productivity**

There are major successes; a prime example is the Green Revolution, which was highly dependent on development assistance. This agricultural transformation was based on the work of international agricultural research institutions, who developed more than 500 new varieties of grain. These varieties have increased average yields by 75% since 1970 (World Bank, 2002).

### **Sustainability**

There is, however, a growing consensus in many countries and amongst development agencies that support to agriculture has too often yielded poor results. For example, the 'training and visit' model of agricultural extension was promoted globally by the World Bank from 1975 to 1995 and, at its peak, was in place in 22 African countries. The model was based on working with a few contact farmers, but the cost of this approach was 25–40% higher than the public extension system that it replaced (Anderson and Feder, 2003). When the Bank finally stopped supporting the model, many countries were left with a smaller extension budget but more staff (Eicher, 2003).

Many aid agencies have reviewed their rural development policies over the past five years (Maxwell, 2003). The main finding of the World Bank's own assessment of performance (which would be shared by many other agencies) is that lending to agriculture has been associated with persistent problems of sustainability and institutional development (World Bank, 2004). Generally, less than 50% of agricultural projects are rated as 'likely to be sustainable', while just over 40% are rated as contributing to 'substantial institutional development'. This poor performance is attributable to a variety of factors relating largely to project design, including:

- weak specification of objectives;
- weak translation of objectives into outcome-focused design, e.g. in a sample of 177 projects approved between 1999 and 2002, only 20% were rated as satisfactory in terms of poverty analysis;
- poor policy and institutional design; and
- frequent adoption of a relatively homogeneous approach to rural areas that are highly diverse in terms of resources, livelihoods and people.

Most of these findings could be applied to assistance in any sector – agriculture does not have a monopoly on failed development projects. Moreover, many assessments of performance are anecdotal. Little evidence exists regarding the relative advantages and effectiveness of different aid instruments or mechanisms for agricultural development, which is a far more fundamental and important question.

## **3.2 Phases in development assistance to agriculture**

This section traces the evolution of different approaches to assistance to agriculture, which reflect wider shifts in development thinking. The description provides a useful platform from which to look ahead and assess how the latest developments in aid delivery strategies will affect agricultural development.

Table 9 summarises the thinking about appropriate agricultural strategies that has evolved in tandem with dominant development paradigms since the 1950s.

**Table 9: Evolution of development thinking and agricultural strategies**

Period	Dominant development paradigm	Agricultural strategy
1950s	Growth through industrialisation	Community development
1960s	Growth through industry and agriculture	Green Revolution technologies
1970s	Redistribution with growth and basic needs	Integrated rural development
1980s	Structural adjustment	Rural NGO development <sup>1</sup> /Emergency relief
1990s	Poverty reduction	Small-scale credit/sustainable livelihoods/farmer participation

Source: Maxwell (1998)

<sup>1</sup> Non-government organisations

Agriculture has received a large amount of ODA over the past 40 years. During this period, we can identify five broad, but overlapping, trends in the provision of assistance. This analysis is inevitably somewhat stylised. For some development agencies (particularly the smaller ones), little has changed in their approach over the years. However, the analysis generally holds true for the multilaterals and the larger bilateral donors, including DFID.

### **1960s to early 1980s: production and productivity focus**

The period from 1960 to the early 1980s represented a 'golden age' of development assistance to agriculture. Rapid productivity gains, based largely on the adoption of new technology supported by the provision of effective government support services, provided a highly effective model – at least in high productivity areas of Asia – for agricultural-based growth and poverty reduction. Development assistance was directed largely towards increasing agricultural production and productivity through expansion and intensification.

In the 1960s and 1970s, assistance was primarily channelled through state organisations to increase productive capability (for example through major irrigation investments) and assist the management of agricultural development programmes. During this period, governments played a significant role in input supply, transport and distribution, trade and management of markets. Donors provided significant direct investment to parastatals and public marketing to facilitate this role.

However, these investments disappeared in the 1980s and 1990s when these systems "fell into disgrace". Since the late 1980s, there has been a steady fall in financing directed through parastatals, in line with the World Bank's thinking that the public sector is not well suited to 'picking successful commodities'. Lending was then focused on reform and adjustment. Direct investment was left to the private sector.

## **Mid-1980s to mid-1990s: integrated rural development projects**

By the mid-1980s, many economists had come to the conclusion that aid programmes that focused on promoting economic growth were having limited effect on improving the lives of the rural poor. As a result, many donors shifted their priorities (a trend that began during the 1970s) and provided direct assistance to the rural poor through supporting integrated rural development projects, basic needs and smallholder agriculture (Lele, 1979).

Integrated rural development projects were, on the whole, considered to be unsuccessful. They lacked coordination between sectoral agencies and the project design was often too complicated. The poor performance of these projects, agricultural credit programmes and state-led parastatals, together with a growing food crisis, led donors to shift their aid focus back to economic growth and market liberalisation (Eicher, 2003).

## **Adjustment lending: return to the market**

The failure or lack of sustainability of many World Bank programs led to a rethinking of the role of the state in the agricultural sector. There followed a surge in adjustment lending (to support policy and institutional reform conducive to growth) by the World Bank in the 1980s. From 1990 to 2003, World Bank agricultural adjustment lending totalled US\$ 5 billion (World Bank, 2004). However, in many cases, capacity for effective implementation of policy and institutional reforms is still lacking.

## **Mid-1990s: sector-wide approaches and PRSPs**

By the 1990s, donor-funded development projects were still being criticised for their 'cocooned' approach, reliance on technical assistance and lack of sustainable impact. Donors increasingly recognised that when aid is delivered through a variety of projects, it results in a fragmented approach to agricultural development (World Bank, 2004). Even if individual projects are well designed, the multiplicity of donors, objectives, management systems and procedures make it difficult to absorb and manage aid efficiently.

In response, the 1990s saw wide support for Poverty Reduction Strategy Papers (PRSPs) and sector-wide approaches (SWAPs) as a basis for donors to contribute more coherently to budgets and processes designed by governments (DFID, 2003).

### **Sector-wide approaches**

Since the mid-1990s, SWAPs have been adopted in many countries as a way of achieving better coordination of government and donor assistance in support of a common sector policy and expenditure framework, with government leadership. The majority of sector programmes have been implemented in the social sector, where there has been a certain degree of success. On the whole, however, agricultural sector programmes have mainly been implemented in highly aid-dependent countries in Africa and their achievements have been limited. A report by Foster et al. (2000) focuses on the fundamental characteristics of the agricultural sector that make developing and implementing a SWAP more difficult in this sector than in more homogeneous sectors, such as health or education. These shed some light on the poor past performance of agricultural SWAPs:

- the role of government in supporting agriculture is much wider than simply allocating public expenditure and relates to exchange rates, trade policy, tax policy and land reform;
- the direct role of the state may be significant, but is relatively less important than in health or education for example;
- public expenditure to support agriculture includes other sectors, such as infrastructure (i.e. building roads to improve market access);
- agriculture is highly diverse and, unlike health, education or infrastructure, no single technology can be applied across the sector with only minor adaptation;
- donors do not agree fully amongst themselves, nor with governments, on the role of the state in agriculture;
- many important government actions influencing agriculture are concerned with policy rather than service delivery, and need cooperation between several ministries, with agriculture not always in the lead.

Some positive experiences highlighted by the same review include:

- improved cooperation between government and donors (e.g. Mozambique, Zambia);
- better harmonisation of donor procedures (e.g. Mozambique, Zambia);
- strengthened decentralisation through the use of decentralised work plans and budgets (e.g. Ghana, Mozambique, Zambia);
- specification of sector goals that are beneficial to the poor (e.g. Kenya, Uganda, Zambia); and
- progress towards recognising a cross-sectoral livelihoods approach (e.g. Uganda).

In conclusion, there may be a role for SWAPs in specific contexts, but an overall agricultural strategy is an essential prior step (Foster et al., 2000).

### **Poverty Reduction Strategy Papers**

PRSPs offer new opportunities to raise awareness of the needs of the rural poor. However, agriculture (and the productive sector more widely) has been weakly reflected in PRSPs to date, partly due to the Highly Indebted Poor Country (HIPC) initiative's focus on increasing social sector spending. A major drawback of the rural strategies in PRSPs is the lack of a systematic and consistent approach to analysing and addressing core rural issues, such as agriculture (Proctor, 2002). A preliminary review by the World Bank's Poverty Reduction and Economic Management (PREM) unit showed that, overall, there is little quantitative information provided on sources of income, distribution of land assets and participation in various markets. In general, the rural poor are seen as a homogeneous group (Cord et al., 2002). There is little analysis of the impact of policy on the lives of the poor, and rural actions are not prioritised or sequenced. In addition, the involvement of agencies often considered to be the champions of rural development in the PRSP processes (such as ministries of agriculture or rural development, rural NGOs and community-based groups) was felt to be weak (World Bank, 2003).

The links between PRSPs and on-going rural strategies varies, but good examples exist. In the case of Mozambique, the rural strategy in the PRSP is based on Proagri, a public investment program for the agricultural sector (Cord et al., 2002). In the Uganda PRSP, the

rural strategy is derived from the official Plan for the Modernisation of Agriculture. However, the PRSPs reviewed to date in the context of rural development and agriculture have not been used to any great extent to initiate major policy reforms (Proctor, 2002). Proctor highlights the need to improve participatory processes, poverty diagnostics and identification of priority public actions for investment.

In recent years, the pendulum of opinion in many aid agencies has swung away from project-based assistance and towards new forms of programme, most notably direct budget support (Eicher, 2003). Poverty Reduction Budget Support (PRBS) is the aid counterpart of the PRSPs. It is an initiative of the World Bank and International Monetary Fund, and is designed to encourage borrowing countries to set their own development agendas. Its purpose is to support countries in implementing their PRSPs, and to do so in the framework of a medium- or long-term partnership (Booth, 2004). It also aims to promote policy dialogue and the use of a policy matrix to accompany Poverty Reduction Strategy Credits (PRSCs) and other forms of PRBS.

Where countries have clear strategies to prioritise pro-poor expenditure, this approach is seen to be more efficient in transferring resources. PRBS relies on governments’ own allocation, procurement and accounting systems, but recognises that there may be a need to strengthen them. It is expected to improve donor coordination and the predictability of aid flows, enhance the allocation efficiency of public policies and enhance public sector performance and accountability (Ruffer and Lawson, 2002). PRBS generally contains few elements of conditionality, rarely earmarks donor contributions for particular sectors, and is subject to public expenditure priorities.

In DFID, the proportion of country programme expenditure as PRBS accounted for 16% of total country programme expenditure in 2002–03. Experience of PRBS is still at an early stage, however, a recent DFID review in Asia concluded that the main benefits of using DBS have been supporting and giving incentives for reforms, and providing a basis for broader policy dialogue, rather than resource transfer (DFID, 2004b). As Table 10 shows, the proportion of DFID funding for rural livelihoods through DBS channels is low and declining compared with other sectors (which is perhaps explained by the greater relative ease of channelling funds for other more well defined sectors, such as health and education).

**Table 10: DFID funding through Poverty Reduction Budget Support**

<b>Sector</b>	<b>2000/01</b>	<b>2001/02</b>	<b>2002/03</b>
Education	27	11	21
Health	14	7	14
Economics	30	47	38
Governance	12	15	19
Rural livelihoods	7	5	3

In recent years, increasing numbers of development professionals have questioned the extent to which budgetary support is appropriate to agriculture and, if it is, in what way and under what conditions. Some of the arguments against include:

- PRBS has tended to result in a shift in decision-making processes and resource allocations that work against investments in agriculture. Decisions about resource

allocation are increasingly left in the hands of ministries of finance. Ministries of agriculture are invariably the weakest of the sectoral ministries and may not be capable of making a convincing case with the finance minister for scarce budgetary resources.

- Technical assistance expenditure (which needs to be substantial in the agricultural sector) can distort countries' national development budgets if included in the budget ceiling (DFID, 2004).
- Moving towards budget support is associated with the risk of becoming less engaged in dialogue with other donors in the agriculture sector and losing the opportunity to engage with the private sector and civil society (DFID, 2004a).

### Projects

PRBS is likely to remain as one instrument among many (DFID, 2004b). DFID's 2004 policy paper on Poverty Reduction Budgetary Support highlights that "projects can perform a number of functions beyond the reach of PRBS, as they can be:

- Strategic (changing the wider institutional environment);
- Act as policy experiments;
- Demonstrate alternatives;
- Transfer Skills; and
- Can assist the non-state sector.

## 4. Implications of changing ODA mechanisms

Changes in aid modalities since the mid-1990s have resulted in numerous debates concerning the effectiveness and relevance of recent aid instruments for the promotion of pro-poor agricultural growth. In his review of 50 years of aid to agriculture in sub-Saharan Africa, Eicher (2003) poses the question: 'Why have new aid modalities and multi-sectoral lending programs marginalised agriculture on a continent where two-thirds of the people depend on agriculture for their livelihoods?' Table 11 summarises some of the perceived advantages and disadvantages of the main aid instruments.

**Table 11. Advantages and Disadvantages of Main Aid Instruments**

Instrument	Pros	Cons
Projects	<p>New approaches can be piloted and lessons learned</p> <p>Provide for policy experiments</p> <p>Flexible</p> <p>Support can be offered to non-state sector</p> <p>Provide for transfer of skills</p>	<p>Limited government ownership</p> <p>Creates parallel systems</p> <p>Limited sustainability and impact</p> <p>Lack of coordination – donors acting in isolation leading to high transaction costs</p> <p>Rely on Technical Assistance and create salary distortions for government staff</p>
SWAPs	<p>Coordinate donor assistance and reduce transaction costs</p> <p>Common implementation arrangements</p> <p>Coherent sector policy framework</p>	<p>Cross-sectoral issues not easily addressed – reducing contribution to poverty alleviation</p> <p>Limited involvement of private sector</p> <p>Can be a prolonged process of</p>

	Upstream – focus on policy Earmarked towards specific sectors Government acts as sector leader Results oriented	dialogue Capacity constraints in lead ministries Not universally appropriate
PRBS	Coordinated donor assistance and reduced transaction costs in the longer term Government ownership and uses government's own systems Strong domestic accountability Scope for greater resource transfers Allows a policy dialogue on key expenditure priorities and measures	Reduced capacity to earmark investments in the development budget for specific sectors Risk losing seat at the table to engage with private sector and civil society as mainly focused on government delivery and services Fiduciary risk Difficult to assess and attribute impact to sectors Less predictable than expected Not universally appropriate

Clear lessons for ODA for agriculture include:

- Country context and appropriateness of different aid instruments varies enormously. There will often be a need to 'blend' modalities on a country-by-country basis (DFID, 2003). Without some earmarking of resources it will be difficult to ensure that the agricultural sector receives the resources needed to stimulate and maintain its growth.
- There is scope to give budget support as well as participating actively in the agriculture sector, ensuring that we do not lose our voice and seat at the table to engage with private sector and civil society (DFID, 2004a).

## 5. Conclusions

In conclusion, available development statistics suggest that there has been a decline in both the share and value of aid to agriculture over the past few decades. However, if the target of reducing extreme poverty and hunger by 2015 is to be achieved, the share of ODA going to agriculture and efforts to improve the effectiveness of aid to agriculture will need to better reflect agriculture's importance in generating livelihoods for the majority of the rural poor.

For countries most in need of support to agriculture, ODA is likely to continue to be the major source of external flows (FAO, 2002). However generating additional donor funding and aid volumes will be insufficient. Aid effectiveness is a critical dimension. Recent shifts in modes of aid delivery towards PRSPs and PRBS present both opportunities and possible risks (reduction in learning and innovation) for agriculture. Given the recognised weaknesses of PRSPs to date and their ascendancy in the international architecture of aid, it will be critical to identify ways in which PRSP processes can more accurately reflect the role of agriculture in growth and poverty reduction. Based on the World Bank's preliminary reviews, there is an obvious need to ensure that policies and interventions supporting the drivers of pro-poor agricultural growth become more central to PRSP dialogue and

implementation. There are important opportunities emerging for better integration of pro-poor agricultural growth policy thinking into second and third generation PRSPs.

Despite the inherent difficulties of attribution, greater understanding is required about the impact of PRBS on agriculture. Whilst PRBS has a number of advantages, the particular characteristics of the agricultural sector suggests that it will be important to achieve a balance of different aid instruments (i.e. project, SWAP, and budgetary support), and to assess their utility on a country-by-country basis.

In the last few years, developing agency policies have increasingly shown a strong poverty focus and have placed greater emphasis on the role of agriculture and natural resource management in poverty alleviation (Maxwell, 2003). With agriculture's unique contribution to wider growth and poverty reduction, commitments to agriculture will need to remain a high priority and long-term focus for donor agencies and developing country governments alike.

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