

THE IMPORTANCE OF U.S. SUPPORT FOR AFRICAN AGRICULTURE AND THE INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Statement by

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**Before the Sub-Committee on Domestic and International Monetary Policy,
Trade and Technology
House Committee on Financial Services**

September 12, 2006

Mr. Chairman, Ranking Member and Members of the Sub-Committee:

Thank you for this opportunity to testify about the importance of U.S. support for African agriculture through the International Fund for Agricultural Development (IFAD). In my statement I will also discuss the critical importance of agriculture in African economic development and the role of other organizations working to foster broad-based, agriculture-led rural economic growth in Africa. I represent the Partnership to Cut Hunger and Poverty in Africa (“the Partnership”), which was founded in 2001 by African Union Commission Chair and former President of Mali Alpha Konaré, the Presidents of Uganda, Ghana and Mozambique, former USAID Administrator Peter McPherson, former Cong. Lee Hamilton, Senator Robert Dole, Rev. David Beckmann and others. The Partnership is an independent US-African coalition of public and private organizations that advocates for greater and more effective investment in Africa’s agriculture and rural sectors.

These are the key points of my statement:

- Agriculture is pivotal in the fight against hunger and poverty
- Agricultural assistance to Africa requires broad interventions
- IFAD focuses on the critical role of agriculture in meeting the Millennium Development Goals
- The U.S. under-invests in African economic growth relative to social spending; and aid effectiveness is further limited by earmarks, fragmentation, and lack of coordination
- Out-of-balance OECD spending threatens sustained progress on hunger and poverty
- The U.S. should take the lead, with IFAD, in correcting imbalances in assistance in order to facilitate broad-based economic growth in Africa

Agriculture is pivotal in the fight against hunger and poverty

The divide between the world's rich and poor has never been more glaring. In our world of plenty, half of the people on earth live in poverty and one in six go hungry. Poverty and hunger are particularly acute in sub-Saharan Africa. Nearly half its people try to sustain themselves on less than one dollar a day; a third, or about 200 million, confront hunger daily; and Africa is the only region of the world where poverty and hunger are worsening. Over the past decade, these harsh realities have triggered a global recommitment to eradicate poverty and hunger and a new push to identify the steps necessary to achieve this goal, especially in the world's poorest countries.

A global consensus now recognizes not only the moral imperative to tackle poverty and hunger in poor countries but also the self-interest of rich countries in doing so. This new commitment was reflected in the 1996 World Food Summit's pledge to reduce by half the number of undernourished people by 2015, which was reinforced by adoption of the United Nations' Millennium Development Goals in 2000. During the last five years, the global community has been reminded of the critical importance of addressing severe inequalities of income and opportunity, or risk conditions that can foster increased terrorism.

The recommitment to poverty reduction has been accompanied by a reaffirmation of the essential role of agriculture. For millennia, agriculture provided the foundation for economic well-being and growth worldwide, and it has reemerged today as the key driver of strategies to reduce poverty and hunger in rural Africa, where 70% of Africa's population lives and works. This recognition is grounded in the great potential of Africa's vast land and creative people to produce not only an abundance of food but genuine wealth through modern, market-oriented agriculture and agribusiness.

In fact, never before has the opportunity been so great to construct a foundation for sustainable economic growth in Africa. At their July 2003 African Union Summit in Maputo, African heads of state endorsed the Comprehensive African Agriculture Development Program (CAADP) developed by the New Partnership for Africa's Development (NEPAD). They also pledged to allocate 10% of their national budgetary resources to agriculture based on their conclusion that "agriculture must be the engine for overall economic growth in Africa." The United Nations has made eradication of extreme poverty and hunger the first of the Millennium Development Goals (MDGs) and called specifically for public investment in such areas as agricultural research, extension, and market infrastructure. Former USAID Administrator Natsios and other agency leaders, including World Bank President Paul Wolfowitz, have also strongly endorsed a renewed focus on agriculture-led economic growth strategies to combat poverty.

Agricultural assistance to Africa requires broad interventions

Today in Africa, the development challenge is more difficult than elsewhere in the world. Historically, in developing countries of Asia and Latin America, agricultural development was assistance for on-farm improvements in productivity, such as improved seed, farming practices, and extension services for small-scale farmers. This understanding stems in part from the Green Revolution begun in the 1960s, when the

development and dissemination of improved inputs – supported by the Rockefeller Foundation, the United States, and other donor governments, spawned rapid progress in agriculture and improved the lives of millions of people.

However, sub-Saharan Africa lacks much of the physical infrastructure (e.g., roads and other transport facilities) and institutional capacity (for research, governance, and functioning markets) that helped make the Green Revolution happen in other regions. Thus, for Africa, it is necessary to take a broader view of agricultural development assistance to include the range of activities that help foster agriculture-led economic growth, from natural resource management and improved farm productivity to rural roads and trade policy. Enhancing farm productivity remains important, but for African countries to achieve sustainable economic growth and reduce poverty and hunger, farmers must have access to markets and be able to sell their products at prices that adequately reward investment of scarce time and resources. Off-farm employment opportunities stemming from more productive agriculture must also be generated. Public assistance from developed countries is critical to creating the conditions that foster private investment and entrepreneurial activity.

IFAD focuses on the critical role of agriculture in meeting the Millennium Development Goals

Of the three Rome-based UN agencies, IFAD is most effectively focused on long-term agricultural development for the rural poor. Formed as an international financial institution in 1977, IFAD was an outcome of the 1974 World Food Conference that responded to the African food crises of the early 1970s. In recognition of the fact that food insecurity is due more to poverty than to inadequate food production and that the majority of the world's hungry live in rural areas, IFAD's mission is stated broadly as: "enabling the rural poor to overcome poverty...by fostering social development, gender equity, income generation, improved nutritional status, environmental sustainability, and good governance." In Southern and Eastern Africa, for example, IFAD's regional strategy focuses on generating growth in the smallholder economy through promoting efficient and equitable market linkages, developing rural financial systems, improving access to and management of land and water, and creating a better knowledge, information and technology system.

IFAD finances agricultural development in developing countries, primarily through loans. Since it started operations in 1978, IFAD has invested more than \$8.5 billion in 676 projects and programs that have reached more than 250 million rural poor people. IFAD member countries make annual contributions in accordance with periodic replenishment agreements. The U.S. is the largest contributor to IFAD's annual budget, providing about \$15 million per year or 7-8% of IFAD's total annual budget. IFAD leverages the impact of its resources by seeking partnerships and opportunities for co-financing projects. For every dollar invested by IFAD, partner organizations have contributed an additional two dollars, for a total investment by partners of approximately \$23.7 billion. Its current portfolio of projects and programs total \$6.1 billion, of which IFAD's investment is \$2.8 billion. IFAD is increasingly active at the policy level,

facilitating the development of farmer organizations and their participation in policy formulation and discussions at national, regional and global levels.

The U.S. under-invests in African economic growth relative to social spending; and aid effectiveness is further limited by earmarks, fragmentation, and lack of coordination

The Partnership documented actual U.S. spending on African agricultural development assistance since 2000 in a report released one year ago, *Investing in Africa's Future*.¹ We found that, despite a policy-level embrace of agriculture-led economic growth, U.S. financial support for African agriculture has stagnated since 2000 and lags far behind substantial increases in foreign aid for other purposes.

Total U.S. agricultural development assistance for Africa grew only by an estimated 2% in real terms since 2000 (\$459 million in 2000 to \$514 million in 2004). In stark contrast, USAID health programs in Africa grew by 61% in the same time period, from \$295 million to \$474 million. This increase does not include the additional, substantial funding contributions to health issues from the Bush administration's commitment of \$15 billion over five years to fight HIV/AIDS and U.S. participation in the Global Fund to Fight AIDS, Tuberculosis, and Malaria.

About 80% of U.S. funding for African agriculture is provided directly through U.S. agencies (USAID, USDA, African Development Foundation, Trade and Development Agency). The remaining 20% of funding for African agriculture is channeled through international organizations including IFAD, United Nations Food and Agriculture Organization (FAO), World Food Program (WFP), World Bank International Development Association (IDA), and African Development Fund (ADF) of the African Development Bank.

USAID is the lead development agency through which more than 75% of all U.S. development assistance and the preponderance of agricultural assistance flows. USAID increased its available development assistance funds for African agriculture by 9% (real terms) from 2000 to 2004. But this gain occurred in one year (FY 2002-FY 2003). We are greatly concerned that it has already reversed, as there was an absolute decline in estimated funding in 2004, with further cuts predicted for 2005 and 2006.

Between 2000-2004, USAID's gains were offset by absolute reductions in funding for African agriculture through USDA food aid programs, the second largest source of US funding for agriculture-related projects, which declined by 17% from 2000 to 2004. U.S. funding of agriculture through multilateral channels increased slightly, due almost entirely to increases in World Bank IDA commitments, especially for roads.

Competing policy and political considerations limit the total amount of resources available for agricultural development assistance and also how most resources can be

¹ *Investing in Africa's Future: U.S. Agricultural Development Assistance for sub-Saharan Africa* by Michael R. Taylor and Julie A. Howard. Partnership to Cut Hunger and Poverty in Africa. September 2005. Executive Summary and Full Report may be downloaded at www.africanhunger.org.

allocated. Strong congressional earmarks direct how at least 90% of USAID's Development Assistance account must be spent. Some earmarks relate to rural Africa, but restrict programming flexibility because of their terms. These include earmarks for trade capacity, micro-enterprise, biodiversity, fertilizer, and plant biotechnology. These are important areas in general for agricultural development but may not match specific country priorities. The impact of the congressional earmarks is to reduce the flexibility of development assistance programs to respond to the most important needs at the field level and, thus, undermine the effectiveness of assistance.

Fragmentation of resources also raises questions about the coordination of agricultural development assistance within USAID, among U.S. agencies, and with other donor countries and international institutions. For example, within USAID, the Bureau for Africa and Food for Peace traditionally have operated in parallel but independently. There is no U.S. government mechanism in place to closely coordinate agricultural development strategy, resource allocation, and on-the-ground activity with USDA or multilateral development institutions.

The extreme fragmentation of development assistance project portfolios spreads aid resources very thin while absorbing a disproportionate amount of donor and recipient country administrative capacity. USAID Africa Bureau agriculture assistance averages only \$6 million per country per year. This country-level funding is then further subdivided among multiple contractors and grantees. Country efforts are not coordinated well with regional programs, programs of other U.S. agencies or other donors. The result is a large number of relatively small, separately managed projects. From our discussions with country partners in Africa, we know that the problems of tied assistance and fragmentation are not limited to U.S. programs but are pervasive.

Some of these challenges could be eased if the Millennium Challenge Corporation (MCC) fulfills its considerable potential. The MCC is a new government corporation that operates under a different institutional and policy framework and receives funds that are not earmarked thus far. It has the potential to become a significant funder of agricultural development in Africa because African countries make up about half of the Millennium Challenge Account (MCA)-eligible countries. The experience of MCA indicates when countries are allowed to choose assistance priorities for themselves they choose to fund programs that stimulate broad-based economic growth. The three MCA Compacts signed in Africa thus far – Madagascar, Ghana and Benin – all have significant agriculture components. But MCA remains largely untested as a vehicle for development assistance, and it is currently focused on a very limited number of countries.

Domestic political considerations increase the costs of U.S. development assistance, including the costs incurred to procure food in the United States and ship it to Africa in U.S.-flagged ships, tying aid to procurement from U.S. sources, and using predominantly U.S. contractors to implement development projects in Africa.

Out-of-balance OECD spending threatens sustained progress on hunger and poverty

OECD spending on agricultural and rural development assistance mirrors the imbalance in US priorities. While overall bilateral assistance from OECD countries grew by 74% from 2000-03 and absolute agriculture-related Official Development Assistance (ODA) gained by 20%, the **share** of agriculture-related assistance in overall development assistance actually declined, from 13% to 9%. By contrast, health-related bilateral ODA for developing countries grew by 115% in the same period and ODA for education increased by 77% .²

African political leaders and strategic plans place high priority on rural-led economic growth, on changing archaic, near-subsistence agricultural economies into progressive, dynamic, entrepreneurial and profitable businesses. When countries have an opportunity to direct development assistance to the priorities they have identified, as demonstrated by early experience with the MCA, they invest in rural economic growth.

However, because domestic resources are scarce and countries rely on external donors for 40-90% of funding to implement their strategic plans, in fact agriculture often competes unfavorably with other sectors, notably education and health, for Poverty Reduction Strategy Paper (PRSP) funding. In the focus countries for our study, Ghana, Mali, Mozambique and Uganda, the proportion of PRSP expenditures dedicated to agriculture, and actual domestic spending on agriculture and rural development, was expected to decline between 2000 and 2004 because funds were not available.

The U.S. should take the lead, with IFAD, in correcting imbalances in assistance in order to facilitate broad-based economic growth in Africa

Mr. Chairman, while increased expenditures for health and education are important, the current ratio of investments will not enable African countries to sustain their health and education systems over the long term. Food, health and education are all high priorities and highly interdependent. Without adequate food, people will never be healthy and children will not be prepared to learn. And without growing their rural economies, African nations will always be reliant on external assistance.

In my statement today I have noted opportunities for the U.S. to improve the effectiveness of its assistance to Africa. I have also highlighted IFAD's important role in redressing the current imbalance between investments in broad-based rural economic growth relative to social service improvements, and improving the effectiveness of agricultural assistance. I offer several recommendations from our recent report, *Investing in Africa's Future*.

- **Invest More in Economic Growth** - Assistance to African agriculture should grow at least as fast as overall foreign development assistance and at least double to 10% or more of U.S. development assistance by 2009.

² *Beyond Good Intentions for Africa's Rural Poor: An Agenda for Transatlantic Collaboration on Investment in Pro-Poor Economic Growth*. German Marshall Fund of the United States Trade and Development Working Paper. December 2005. The Full Report may be downloaded at http://www.gmfus.org/trade/publications/article.cfm?id=158&parent_type=P.

- ***Foster Local Ownership of the Development Process*** – The U.S. should expand its program and budget support funding for agricultural development in countries that have committed to a clearly defined development strategy and have installed the systems required to manage resources with transparency and accountability.
- ***Reduce Political Overhead*** – Congress and the administration should review the policies governing sourcing and shipping of food aid, U.S. procurement preferences, and reliance on U.S.-based vendors so that more of the resources appropriated for agricultural development assistance reach the ground.
- ***Reduce Fragmentation*** – The U.S. should mount larger and more focused programs within countries and within the region, taking advantage of all available U.S. resources and managed by fewer vendors, to ensure that the U.S. investment adds up to meaningful improvement in the public goods required to build a successful agricultural system.
- ***Develop a Coordinated U.S. Strategy to Support Agriculture-Led Economic Growth in Africa*** –The U.S. should have a cross-agency plan that defines funding priorities and outlines how agricultural development resources will be spent in a coordinated manner to foster broad-based economic growth and poverty reduction.
- ***Improve Transparency, Accountability, and Focus on High-Impact Programs with Longer Time Horizons to Achievement*** – The U.S. should develop and implement a consistent reporting mechanism that documents levels of U.S. assistance for agriculture-led economic growth and poverty reduction in Africa on an annual basis, across all agencies with related programs; progress against indicators of substantive progress established in the comprehensive cross-agency plan; and assesses the projected long-term impact of funded projects.