

What can we learn from experiences in donor harmonization with investment in agricultural and rural development?¹

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Introduction

Successful efforts to reduce rural poverty depend on transfers and investment coming from external sources. However, rural development is chronically underfinanced. There is relatively low public spending to combat rural poverty, as national governments in developing countries usually pursue policies with an urban bias (OECD 2006).

Although resources available for agriculture declined sharply over the last 20 years, official development assistance (ODA) still plays a crucial role. Against the background of renewed attention to this sector, donors will need to work effectively with their partners to promote sustainable development that recognises the important contribution of agriculture to pro-poor growth. There is a growing consensus among international development partners that national and global poverty reduction targets will not be met unless poverty in rural areas is reduced.

Many agencies have recently taken stock of their experiences and redefined their approaches and commitments to poverty reduction and economic growth in rural areas and agriculture. The global consensus on the strategic directions needed to deliver rural poverty reduction is, however, fragile. There are differences in development policies, the scope and modality of intervention and the institutional arrangements. Effective and systematic lesson-learning between agencies and a consensus among stakeholders on what works and what works less well in rural development is lacking. However, as the traditional approaches to support agriculture and rural development are increasingly under scrutiny, many agencies have embarked on processes to increase aid effectiveness and to reduce transaction costs of aid delivery and management. For example, the Global Donor Platform for Rural Development offers a forum for joint learning, aiming at implementing the agencies' commitments to harmonisation and alignment.³

This policy brief outlines the rationale behind the move towards programmatic approaches in aid delivery and management and summarizes some of the experiences in agriculture and rural development over the last decade.

The rationale for programmatic approaches

A recent World Bank report has provided evidence that the international aid architecture has evolved into a complex structure which is barely manageable for recipient countries. Overall ODA has grown substantially over the last decade, but there is widespread concern about aid effectiveness. Although not fully known yet, it is reasonable to assume that transaction costs have increased substantially. This means that the additional aid money is not fully available to recipient countries. (World Bank 2007)

The concerns about the capacity of donor agency and partner country administrations to absorb additional ODA funds are reflected in the discussion on good governance. Donors have insisted that new aid money will be increasingly tied to provisions that ensure accountability on the recipient side. The African Peer Review Mechanism of the New African Partnership (NEPAD) of the African Union is a prominent example.

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³ See www.donorplatform.org.

However, increasing aid effectiveness implies that the funding side also has to review its procedures. Transaction costs of aid delivery can have various forms, such as the following:

- Financial assistance is tied to procurement from the donating country. Although many donors have been reducing this conditionality, the practice remains widely prevalent. UNDP (2005) estimates that the costs of tied aid for low-income countries at \$ 5 - \$ 7 billion per year. Sub-Saharan Africa alone pays a tied aid tax of \$ 1.6 billion.

- Aid delivery by individual donors is highly fragmented into single projects and programs, resulting in increased cost for management, monitoring and supervision, both at the donor's and the recipient's part. For example, in 2005 donors fielded 10,453 missions in 34 countries, an average of 307 missions per country per year (OECD 2007). The total number of interventions or activities increased from 20,000 in 1997 to almost 60,000 in 2004. At the same time, the average size of donor funded activities decreased from \$ 2.5 million in 1997 to \$ 1.5 million in 2004, in constant 2004 prices (World Bank 2007). Also, the management cycle of funding assistance is not aligned to budget procedures of the recipient country, increasing transaction costs on the recipient side. This practice produces indirect costs as there are inconsistencies between donor funding and other public spending, and opportunity costs as available capacities of the administration might have been used for alternative approaches (Klingebiel et al. 2007).

- The number of donor agencies per country acting in a sector has increased, thus increasing the efforts for coordination. Not only the average number of donor per country rose from 12 in the 1960s to about 33 in the 2001 to 2005 period, there are currently over 230 international organisations, funds and programs (World Bank 2007).

- There has been a proliferation of themes and topics, often followed by separate lines of reporting and accountability to the source of funding. For example, support to productive agriculture may be covered under topics such as private sector development, local economic development, decentralisation, food security, natural resource management. In addition to these "sectors", there are a growing number of vertical funds addressing single issues with substantial relevance for agriculture and rural development, such as the Global Fund for Aids, Malaria and Tuberculosis or the Global Environmental Facility. Most recently, private foundations have entered the field as well such as the Bill and Melinda Gates Foundation.

The international development community has recognised the need to address the problem of increasing transaction costs. An important step is the Paris Declaration, which is the outcome of the 2005 Paris High-Level Forum on Aid Effectiveness. 60 partner countries, 30 donor countries, and 30 development agencies committed to specific actions to further this agenda including a set of indicators to measure progress towards 2010.

The aid effectiveness agenda entails five broad areas: ownership, alignment, harmonisation, managing for results and mutual accountability (OECD 2006). *Ownership* refers to the degree by which partner countries exercise effective authority over their development policies, strategies and coordination. *Alignment* means that donors agree to base their overall support on partner countries' national development strategies, institutions and procedures. Partner country strategies should be linked to multi-year expenditure frameworks and the national budget. With *harmonisation*, donors commit themselves to implement common arrangements at the country level for planning, funding, disbursement, monitoring, evaluating and reporting to government on donor activities and aid flows. *Managing for results* focuses on strengthening performance and accountability in the use of development resources. Donors and partner are *mutually accountable* for development results.

The Paris Declaration implies a mutual commitment to achieve common targets for 12 selected indicators by 2010. The 2006 baseline survey shows that significant efforts are needed, e.g. in the areas of reducing parallel project implementation units and coordinating field missions (OECD 2007). This involves changing deeply rooted institutional behaviors.

The Paris Declaration marks a clear shift from a focus on single projects towards programmatic approaches in aid delivery and management. Programmatic or so-called programme-based approaches (PBAs) are a way of engaging in development cooperation based on the principles of co-ordinated support for a locally-owned program of development, such as a national development strategy, a sector program, a thematic program or a program of a specific organisation. PBAs share all four of the following features: a) leadership by the host country or organisation, b) a single comprehensive program and budget framework, c) a formalised process for donor coordination and harmonization of donor procedures for reporting, budgeting, financial management and procurement, d) efforts to increase the use of local systems for program design and implementation, financial management, monitoring and evaluation (OECD/DAC 2006).

From the donor's point of view, frequently expected benefits of programmatic approaches include stronger country ownership and leadership in developing sector policies and strategies as well as in implementing aid programs, a greater focus on results instead of inputs and transaction controls, reduced fragmentation and duplication, more rational and efficient resource allocation, strengthened country capacity, systems and institutions, and better opportunities to scale up benefits by improving linkages between innovative pilot schemes and large-scale implementation.

For recipient countries, programmatic approaches may provide benefits under certain conditions (Rogerson 2005, Klingebiel et al. 2007):

- Well-performing low-income countries facing a large number of donors and high aid dependency are likely to gain most from programmatic approaches in terms of more flexible and predictive aid.
- In fragile states and other countries with severe restrictions in terms of governance capacity, the preconditions for country ownership are rarely fulfilled and donor stances are usually more guarded. However, there is likely scope to enter in arrangements such as silent partnerships where one donor cedes control over the implementation of its resources to a second one.
- Middle-income countries often prefer to steer the relationships with each donor individually. In these countries, the government has sufficient administrative capacity to plan, monitor and evaluate aid contributions. Hence, these countries typically opt for project-type aid delivery. It is likely that for these countries the benefits of bargaining with donors over individual projects outweigh the increased transaction costs.⁴

Experiences with programmatic approaches in agriculture and rural development

In the 1990s, programmatic approaches started with Sector Investment Programmes. These evolved quickly into sector-wide approaches (SWAPs). With the onset of the poverty reduction strategy papers (PRSPs) as national frameworks for achieving the Millennium Development Goals, SWAPs were conceived as one possible way to operationalize poverty reduction efforts at the sectoral level (IFAD 2005).

The most recent estimate points to about fifteen SWAPs in agriculture and rural development (ARD) at different stages of policy formulation and implementation. Most SWAPs are in an almost continuous state of evolution (see the example of Ghana in box 1).

Evans (2007) reviews seven countries with significant SWAP experience, namely Ghana, Tanzania, Mozambique, Uganda, Nicaragua, Cambodia and Vietnam. Starting conditions varied, but there seems to be not yet enough conclusive evidence about the benefits of the approach. The findings suggest that progress on alignment is probably the most advanced. Harmonization efforts are ongoing, but tangible results are harder to spot. The time taken to yield results is generally greater than anticipated. Heavy management structures have been

⁴ See Rogerson (2005) for an analysis of the degree of donor fragmentation in aid delivery.

created, including a pronounced focus on indicators. Line ministries were generally positive about the programmatic approach, but the number of parallel implementing project units had not yet decreased significantly over time. Government leadership of the process has been weak in some cases, while in other countries parliaments questioned the perceived closed-door arrangements of the donor/government sector working groups.

SWAPs concentrate almost exclusively on the way resources are channelled to the ministry of agriculture. They fail to recognise the importance to stimulate linkages with other sector ministries and non-state agriculture stakeholders. Not surprisingly, the private sector and non-governmental organisations have been largely left out.

Although donors and governments have been partners in developing SWAPs, there may have been diverging expectations on the result of the exercise. For many donors, reducing transaction costs might have implied to achieve more results by an equal or even reduced amount of funding, while the governments have seen SWAPs as a vehicle to reverse the downward trend in development assistance to agriculture.

Box 1: Sector Wide Approach in Agriculture – the Case of Ghana:

Despite some disillusionment with the outcomes of the sub-sector investment programme in the late 1990s, the Ghanaian government is currently undertaking a renewed effort to establish a sector-wide approach in agriculture. The Ministry of Food and Agriculture (MoFA) sees the preparation of a revised policy framework as an opportunity to bring agricultural policy in line with the Ghana Growth and Poverty Reduction Strategy (GPRS II) while at the same time strengthening its capacity to coordinate and absorb the development partner support in the sector. The roadmap to SWAP includes the development of a six-year sector plan based on the policy. A Memorandum of Understanding between MoFA and donors is planned for March 2008. The SWAP is not meant to focus exclusively on extending existing budget support. MoFA foresees that aligned projects and programs will be used to increase implementation capacity. A mix of support instruments will allow for better joint learning. Policy dialogue will be enriched by drawing on field level implementation realities.

The agriculture SWAP fits into an overall programmatic approach. The Ghana government and 16 donors have signed a joint assistance strategy in October 2006. It covers about US \$ 5 billion of assistance for the period 2007-10. The share of budget support in total ODA is 35 percent.

Source: GTZ (2007b)

Some lessons learned

Programmatic approaches have worked best where the key constraints on sector development are the responsibility of a single ministry, such as in health and education. Agriculture and rural development requires co-ordinated interventions across sectors. The sector approach may have a limited role in delivering better focused agricultural services, but fundamental policy questions need to be resolved as well. This is more likely if support for reforms is channelled through central economic ministries and other bodies outside the agriculture ministry (Brown et al. 2001). An example is the pending public sector reform in Ghana which may have a large impact on the operational performance of government agencies in the agriculture sector (GTZ 2007b).

Experiences from SWAPs in Africa suggest that the scope of the programme should strike a balance between comprehensiveness and coherence on the one hand, and the need to define operational packages that can be managed on the other. Trying to capture all elements that influence agriculture and rural development into a single program framework may lead to institutional log jam. Program components under a common policy framework need to have sufficient autonomy to be implemented independently. (GTZ 2007a)

Embarking on a SWAP may result in a re-centralisation of government authority. In agriculture, decentralising decision making on public spending to lower administrative levels

has not been easy. Experiences from Tanzania and Ghana suggest that predictability of fund transfer from the central to the district level is low. District agriculture administrations depending entirely on the central level have been frequently severely constrained in implementation (Evans 2007). Ironically, “stand-alone” donor projects outside the SWAP came to the rescue and supported operational capacity at the field level by covering recurrent expenses such as fuel and per diem for staff.

There is little doubt that SWAPs so far have performed less well in agriculture than in the social sectors. Many problems stem from the more limited, more contested and shrinking role of the state in the agricultural sector. Often a clear vision about the role of agriculture in development and the responsibility of the government is lacking (Cabral and Scoones 2007).

Although some donors offer budget support and other types of financial assistance together with technical assistance, capacity development is most often neglected. A common understanding among donors of the concept of capacity development is still lacking. As the role of the state is limited in agriculture and rural development, capacity development is needed in and outside the public sector. Capacity development in the context of program approaches has often been biased towards government at national level (GTZ 2007a).

Programmatic approaches in ARD may be most effective where different aid modalities can be combined and used in a judicious and targeted way. Budget support may be appropriate where government’s core functions are concerned. It may be less ideal in situations where support to stakeholders outside the government is needed. Project support may be useful where non-state actors are concerned, e.g. for capacity development or to pilot innovative approaches. (GTZ 2007a)

Conclusions and outlook

In many countries, increasing aid effectiveness is crucial for reducing rural poverty, as aid dependency is high. The mixed results with programmatic approaches so far pose some challenges which need to be addressed. Experiences suggest that the principles leave enough flexibility to tailor solutions that are adapted to the specific country and sector needs. While there are signs that most recent commitments by donors such as the Paris Declaration will most likely result in increased transaction costs for a considerable time period, there is also mounting pressure on donor organisations to discontinue the traditional aid modalities and to streamline their fragmented aid delivery and management procedures.

Results of the SWAP experiences in agriculture and rural development in a number of countries suggest that strengthened government leadership and improved dialogue between donors and government have been achieved in some cases. Key is the capacity of recipient countries to coordinate the contributions. Donor harmonization without capacity development of the recipient side is of little benefit.

Research should pay more attention to the political economy of donor assistance mobilisation and implementation. Recognising that donor harmonization in aid delivery and management produces winners and losers, both on the donor’s and the recipient’s side, will most likely lead to a more careful and inclusive management of the process, thus avoiding unintended side-effects.

For those donor agencies with continued interest in ARD, it will be crucial to use the dynamics created by the World Development Report 2008, to continue coordinating their interventions, and to limit the extent of conditionalities for the recipient countries. Most likely, recipient countries will increasingly force donor agencies to specialise on their individual strengths. For example, some donors may find a role in steering and mediating the negotiation process between government and donors in sectoral working groups. Others may focus their interventions towards establishing collaborative links with institutions in their home countries, e.g. in areas where specific technical expertise is available.

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