IDDRI

ISSUE BRIEF

N°05/17 • JULY 2017

Transformation Pathways And Investment Needs For The Multi-Purpose Agricultural Sector

Marie-Hélène Schwoob (IDDRI)

To meet the challenges of the 2030 Agenda for Sustainable Development, agricultural and food systems requires fundamental changes. The FAO, the IFAD and the WFP (2015) estimate that around 60% of the additional investment required to meet the SDGs will need to be publicly financed. Public policies remain at the cornerstone of the agricultural sector's transformation for the potential leverage effect on private investment, their capacity to build enabling environments through the provision of public goods, and their ability to reassure investors, by providing stability, transparency and predictability.

This paper, based on research conducted in the framework of the project TISD (Transformative Investment for Sustainable Development) which brings together key development actors to contribute to the French, European and global conversation on development financing around particular key sectors, identifies the conditions of success of national programmes—a number of which were partly supported by official development assistance (ODA)—aimed at developing political ecosystems conducive to sustainable agricultural practices, and derives recommendations for ODA providers.

KEY MESSAGES

- ODA programmes supporting policy planning should focus on the development of practical and detailed agricultural development policies **establishing clear priorities**, both for **long-term objectives** and step-by-step **courses of action**. **Backcasting** is a useful approach to frame such policies and establish the links between long-term objectives and courses of action, targeting specific subsectors, areas and agricultural models.
- Assisting policy development processes without **supporting local collective action processes** will fail to achieve results. It is important to provide all communities with appropriate resources to organise themselves and interact with others communities, and especially producers' organisations or farmers' cooperatives that have proven difficult to set up in developing contexts. More efforts need to be directed towards (i) ensuring the existence of a political will to foster the development of such institutional arrangements through national dialogues, and (ii) developing **more adapted ODA financial tools** (such as smaller tickets) directly targeting grassroots organisations.
- There is no silver bullet for designing effective agricultural development programmes. Stakeholders engaged in agricultural development, from both public and private spheres, need virtual and real **knowledge exchange platforms** to meet and discuss the initiatives, programmes and projects they have implemented in their own countries, as well as the outcomes. ODA should support the development of such learning platforms.

This article has received financial support from the French government in the framework of the programme "Investissements d'avenir", managed by ANR (the French National Research Agency) under the reference ANR-10-LABX-01.

www.iddri.org

Institut du développement durable et des relations internationales
27, rue Saint-Guillaume
75337 Paris cedex 07 France

SciencesPo

I. ESTABLISHING CLEAR PRIORITIES

Following the Maputo declaration in 2003, when African Union Heads of State committed to allocating at least 10% of their national budgetary resources to agriculture and rural development, the Comprehensive Africa Agriculture Development Programme (CAADP) became one of the most important international initiatives aimed at triggering the issuance of agricultural transformation programs.

Each country joining the CAADP is required to develop a roadmap signed by key players (CAADP Compacts) and to formulate a national agricultural investment plan (NAIP). The approach puts emphasis on participatory processes, and requires country roundtables to be convened in order to assess the situation and develop a suitable roadmap for the future, identifying priority areas for investment through a CAADP Compact agreement. By the end of 2015, 42 countries had signed CAADP compacts, 39 had developed investment plans and 25 had convened their high-level business meeting.

The CAADP process has had positive impacts, notably in recognizing the importance of the agricultural sector to the economy and the strengthening of regional alliances. Yet, the agricultural sector is still underperforming in many African countries and food security is still a key issue (FAO 2015), likely to become even more pressing in the future, given the current demographic trends and the impacts of climate change. Four criticisms are usually put forward to explain why CAADP plans have underperformed:

- The failure to set priorities: "National strategy was so permissive that almost anything that could reasonably be proposed would align." (ODI, 2011); "Agricultural strategies and even investment plans are 'catch all'." (Poulton *et al.*, 2014). Failure to prioritise is a significant weakness in the planning process, which often leads to overlaps and losses, and to failure to allocate the appropriate human and financial resources.
- The low state capacity for implementation of national investment plans, including underfunding or a lack of institutions and human resources (strongly linked to the failure to prioritise).
- Short-term thinking. Experience shows that transformation in the agricultural sector is a "slow and painstaking business" (Brock & Wellard 2014) and is difficult to align with short-term political processes. Poulton *et al.* (2014) identify that in Rwanda and Ethiopia, the fact that the governments were unlikely to be ousted at the next election enabled policymakers to expand the time horizon for political programmes, such as investment in public goods likely to yield high returns over the medium term.
- Low involvement of stakeholders. Although country roundtables were supposed to be a key step of CAADP processes, various experts have denounced the fact that they had "increasingly adopted existing strategies and plans, with limited checks or amendments to ensure that these are CAADP-compliant" (Poulton *et al.,* 2014).

The decision of some governments to join the CAADP was in fact motivated by the hope of securing funds from international donors, according to Brock and Wellard (2014). The conclusions drawn from the CAADP experience seem to confirm that there is a need for more effective pathways to trigger investment in the agricultural sector, based on a stronger theory of change taking into account the long term. Two initiatives are worth exploring to address this question: the Agricultural Transformation Pathways Initiative in Uruguay and the Green Morocco Plan.

II. SUPPORTING LOCAL COLLECTIVE ACTION PROCESSES

At the end of 2014, the Agricultural Programming and Policies Office (OPYPA) of Uruguay's Ministry of Agriculture, Livestock and Fisheries (MGAP) and the Instituto Nacional de Investigacion Agropecuaria (INIA) decided to engage in the Agricultural Transformation Pathways Initiative (ATPi). Conducted under the auspices of the UN SDSN, the initiative aims to give countries support in building, adopting and implementing national long-term pathways to achieve transformative shifts towards more sustainable agricultural and food systems.

The methodological approach is based on two main pillars: a step-by-step methodology based on "backcasting" (a term denoting a process in which a target is fixed for a future date, and then a pathway towards achieving that target is identified by moving backward in time); and a participatory approach involving key stakeholders to assess the situation, set priorities for the future and establish levels of ambition for the sector's transformation.

Discussing productivity and environmental targets and corresponding pathways for the beef production sector in Uruguay (a major sector both for the economy and for its impact on the environment) enabled the country team to elaborate an adapted course of action likely to minimise a range of environmental impacts. Indicators reflecting productivity, carbon footprint, nitrogen and biodiversity were selected to monitor such a transformation. Different options to achieve ambitious yet achievable targets for these selected indicators (+25% productivity, -25% carbon footprint, -27% nitrogen losses, 0% grassland variation) were discussed, leading to the selection of a course of action with win-win effects both for productivity and the environment.

Discussions also evolved around the question of how to implement the course of action, identifying levers to address lock-in factors within each category of action or for each identified target, leading to practical implementation roadmaps (such as the establishment of regional technology transfer task forces for the beef sector, aiming at bridging the gap between the average and the best-performing farmers, disseminating process-based technology and results obtained by the most efficient farmers). The country expert team has launched similar developments of pathways for rice and is now working with producers and industries organisations towards a new strategic plan incorporating 2030 targets and indicators. Similar work is also undergoing for the dairy sector. As a whole, the initiative has enabled the mobilisation of a variety of stakeholders around common goals: setting targets that establish a common vision of the future, discussing practical courses of action to achieve them and analysing levers and roadblocks.

In other countries, especially in less developed countries where food-chain stakeholders do not always have the means to self-finance capacity building, implementation could have to take other forms, such as public financial incentives. The following analysis of the Green Morocco Plan, which is also based on the setting of targets as an initial stage, provides additional input for this reflection.

III. ADAPTING PUBLIC FINANCING TOOLS TO REACH OUT THE MOST IN NEED

In 2008, the Green Morocco Plan (GMP) put the agricultural sector at the core of the country's economic growth. Scheduled to continue until 2020, the plan sets three main objectives: (i) raise the agricultural GDP from 70 to 100 billion Dirhams; (ii) create 1.5 million jobs in the sector; and (iii) double or triple the income of 3 million rural dwellers. The GMP relies on two action pillars: the development of "high-value-added agriculture" (i.e., productive or high potential agriculture in Morocco's "irrigated perimeters"); and the support of "solidarity agriculture" (for agriculture located in marginalised or mountainous areas).

The GMP sets quantitative targets for the cultivation area, production, transformation, consumption and exports, set by sub-sector and signed by representatives from different ministries and from inter-branch organisations. The GMP also evaluates investment needs, states the Government's pledged contribution, and includes a breakdown of the strategy into 16 regional agricultural plans establishing quantitative production targets by 2020. The pledged financial support of the State is quite high, based on the rationale that public investment is a way of leveraging private investment in the agricultural sector. Between 2009 and 2015, the Moroccan Government allocated 66 billion dirhams to the Green Morocco Plan, which would have levered 22 billion dirhams from private investors and 12.3 billion dirhams from international donors.

For Pillar I projects, the GMP insists on the need to rely on private investment. To encourage private investment, the Moroccan State, through the Agricultural Development Agency (ADA) and the Agricultural Development Fund (FDA), has put in place several support schemes, for the implementation of aggregation projects or for the purchasing of farm equipment, certified seeds, transformation units, etc. This private investment model supported by public subsidy schemes is attractive for high-value-added agriculture located in areas where the potential to develop such agriculture is strong. However, for Pillar II projects located in marginal zones, the model is unlikely to provide the expected leverage effects. Recognising this, the Moroccan Government decided that the bulk of investment (70 to 80%) for Pillar II projects was to be allocated by "national and international sponsors"—the rest being covered by the FDA.

The model of the Credit Agricole du Maroc (CAM) (one of these main "national sponsors"), that emerged along the implementation of the GMP, provides valuable insights on how key adapted institutions are for the implementation of agricultural programs. Created in the 1960s, the CAM is a leading bank for farmers and the agribusiness in Morocco. It operates through its parent company, which funds "bankable" agricultural projects (covering only 10%-20% of Moroccan farms), its microcredit company (ARDI Foundation), which could only provide short-term financial services, impeding small farms to engage in long-term investments such as tree planting; and the subsidiary Tamwil El Fellah (TEF). TEF became a key institution to fund the projects of small farms from 1 to 5 hectares (80–90% of Moroccan farms). The TEF benefits from key advantages: a large network of 250 CAM agencies, which considerably lowers the transaction costs of reaching out to small farmers, improves the quality of support when individuals set up project proposals, and enables close monitoring during the term of the loan; the long-standing expertise of agricultural activities, which enables the bank to provide appropriate services and to evaluate projects at a lower risk; backing through other CAM activities such as current bank accounts, which eases the pressure on TEF to generate sizeable profits. To unlock the potential of TEF, its prudential rules were adapted to the specific conditions of small agriculture. In addition, a stabilisation fund was created to ensure the sustainability of the institution, brought at risk by TEF's portfolio comprising mostly small-scale agricultural projects.

CONCLUSION

A close look at national target-setting programmes suggests that one or several of the following key success factors are often missing: (i) clear priorities, both for objectives and actions, which could take into account the long term to ensure that investments are channelled into the right paths that will prove to be the most sustainable in the future; (ii) inclusion of stakeholders early in the discussion of priorities and pathways, to ensure buy-in at later stages; (iii) tangible and detailed courses of action, including adapted financing facilities to reach out the people most in need.

More research is needed to identify the key communities and institutions that can play a role in achieving transformation. Food chain approaches such as contract farming have recently attracted attention from donors and governments, and abundant literature offers recommendations to ensure environmental and economic sustainability (Burnod & Colin, 2012; Prowse, 2012). On the other hand, institutional arrangements such as producer organisations or farmers' cooperatives have proven difficult to set up in developing contexts. More efforts need to be directed towards ensuring the existence of a political will to foster the development of such institutional arrangements through national dialogues and to developing more adapted ODA financial tools directly targeting grassroots organisations (such as the "Missing Middle Initiative" of the Global Agricultural and Food Security Program (GAFSP)).

The process of developing political ecosystems able to unlock investment has to be implemented in line with the specific conditions in each country: where the investment potential is mostly to be found with farmers, there is a need to involve them to build a common vision for the future and exchange on roadblocks and levers; where farmers face excessive constraints in terms of investment, there is a need for strong government leadership, for priority-setting and for support policies to leverage private-sector investments (including investment from farmers, still the major source of investment in the sector). No single model can unlock investment in the agricultural sector, and although the above-mentioned recommendations seem key to us, it is more likely that countries will "muddle through" to find their way out of under-investment in agriculture. In order to circumvent this difficulty, it is crucial that countries share their knowledge with others, regarding the conditions necessary for change but also the challenges that they have faced. Such exchange platforms are already developing and it is essential that they keep on being promoted in the future.

REFERENCES

Brock, L., Wellard, K. (2014). *Policy processes and agriculture: what difference does CAADP make?* Future Agricultures, CAADP Policy Brief http://www.future-agricultures.org/policy-engagement/policy-briefs/1874-policy-processes-and-agriculture-what-difference-does-caadp-make/file

FAO (2015). *Regional Overview of Food Insecurity: Africa : African Food Security Prospects Brighter Than Ever*, 35PP. http://www.fao.org/3/a-i4635e.pdf

FAO, IFAD & WFP. (2015). *Achieving Zero Hunger: The Critical Role of Investments in Social Protection and Agriculture*. Rome: Food and Agriculture Organization, International Fund for Agricultural Development and World Food Programme. http://www.fao.org/3/a-i4777e.pdf

ODI (2011). *Platform Knowledge Piece on Policy Coherence in Agriculture & Rural Development (PKP I)*, Prepared for the Global Donor Platform for Rural Development by the Oversees Development Institute.

Poulton, C., Berhanu, K., Chinsinga, B., Cooksey, B., Golooba-Mutebi, F. and Loada, A. (2014). *The Comprehensive Africa Agriculture Development Programme (CAADP): Political Incentives, Value Added and Ways Forward.* Future Agricultures Working paper n°77 http://www.future-agricultures.org/publications/research-and-analysis/1833-the-comprehensive-africa-agriculture-development-programme-caadp-political-incentives-value/file

Prowse, M. (2012). *Contract farming in developing countries: a review*. À Savoir, Agence Française de Developpement, http://www.afd.fr/jahia/webdav/site/afd/shared/PUBLICATIONS/RECHERCHE/Scientifiques/A-savoir/12-VA-A-Savoir.pdf