



Report

External finance for rural development

A synthesis of country perspectives

Annalisa Prizzon, Yunnan Chen, Maria Ana Jalles d'Orey, Hetty Kovach and Javier Pereira

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Cover photo: Machine operators at the Bhattarai Masala factory in Surkhet in Western Nepal. Photo: Sanjit Das/Panos for IFAD

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Acronyms

AGRA	Alliance for a Green Revolution in Africa
AfDB	African Development Bank
AsDB	Asian Development Bank
AVC	agriculture value chain
CAADP	Comprehensive Africa Agriculture Development Programme
CAT-DDO	Catastrophe Deferred Drawdown Option
CRS	Creditor Reporting System
CSO	civil society organisation
DAC	Development Assistance Committee
DRC	Democratic Republic of Congo
EAC	East African Community
EAP	East Asia and Pacific
FAO	Food and Agriculture Organization of the United Nations
FONCODES	Cooperation Fund for Social Development
G20	Group of 20
GDP	gross domestic product
GNI	gross national income
GPG	global public goods
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IDA	World Bank's International Development Association
IFAD	International Fund for Agricultural Development
IFI	international financial institution
IMF	International Monetary Fund
IOE	Independent Office of Evaluation
LAC	Latin America and the Caribbean
LDC	least-developed country
LIBOR	London Interbank Offered Rate
LIC	low-income country
LMIC	lower-middle income country
MDB	multilateral development bank
MENA	Middle East and North Africa
MIC	middle-income country
NEPAD	New Partnership for Africa's Development

NGO	non-governmental organisation
ODA	official development assistance
ODF	official development finance
OECD	Organisation for Economic Co-operation and Development
OOF	other official flow
PPP	public–private partnership
PRGT	Poverty Reduction and Growth Trust
R&D	research and development
RTA	reimbursable technical assistance
SDFP	Sustainable Development Finance Policy
SDG	Sustainable Development Goal
UMIC	upper-middle income country
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
WAEMU	West African Economic and Monetary Union
WHO	World Health Organization

Executive summary

Many governments in low- and middle-income countries see improving rural development as a way to achieve critical national development objectives: economic transformation, eradication of poverty and greater equality. This is understandable, given that in many countries most people live in rural areas, and the number of poor people is often far higher in these areas than in towns and cities.

A lack of finance, however, constrains the full implementation of national public policies for rural development. Several studies have, for example, mapped the vast scale of the financing gap that threatens the achievement of the Sustainable Development Goals (SDGs) by 2030. This gap spans many areas and sectors that contribute to rural development, including agriculture.

Expectations are high that external development assistance will help to narrow this finance gap and support project design and implementation when public finance and technical capacity are lacking. However, access to external development finance changes, and even dwindles, as economies move up the income-per-capita ladder. As their economies grow, countries have to move away from grants towards more expensive options and, ultimately, are no longer eligible for the resources that are the most concessional.

As their access to funding evolves, so do their needs. The focus of demand for external assistance tends to shift away from financial resources to fill gaps in government budgets for project implementation, and towards knowledge sharing and technical assistance to support the development of more sophisticated programmes. At the same time, a debt crisis is looming for many economies, and they are putting the brakes on their borrowing in an attempt to keep their debts down to sustainable levels. And every one of these already pressing challenges is now being exacerbated by the impact of the Covid-19 crisis.

This report aims to answer two key questions. First, will recipient country governments in low-income (LICs), lower-middle-income (LMICs) and upper-middle-income countries (UMICs) continue to demand external development assistance for inclusive and sustainable rural development over the next five to 10 years, and if so, to what extent? And second, what financial and non-financial terms and conditions will be seen as acceptable or desirable?

To answer these questions we interviewed more than 200 government officials, development partners and experts in 20 countries, spanning LICs, LMICs and UMICs, between April and July 2020. We also analysed responses to an online questionnaire that reached nearly 400 stakeholders in governments and donor countries across 30 LICs, LMICs and UMICs.

Five main answers emerged from our research.

Public investment in agriculture and rural development is still vital and will be even more important as countries recover from the Covid-19 crisis

Respondents in LICs and LMICs tended to see agriculture and rural development as a higher priority for their governments than respondents from UMICs. The national plans for LICs and LMICs, for example, aim for a shift from subsistence to commercial agriculture. This is only to be expected: countries see rural development as a way to reach their national goals, and agricultural reform dominates the rural development agenda in most countries.

Similarly, it is no surprise that projects and programmes to support the transformation of the sector have been identified as government priorities. These include agriculture value-chain (AVC) development, rural basic infrastructure, agriculture technologies and climate-resilient agriculture practices. All of these aim to

address the key challenges with which many of our interviewees grapple on a daily basis: how to increase the profitability of crops to improve rural livelihoods and create more jobs? How best to expand and maintain rural basic infrastructure, particularly electrification and irrigation? And how to boost crop productivity, as well as crops and methods that can withstand the impact of climate change?

In response to the crisis prompted by the Covid-19 pandemic, the governments of the countries we analysed – with a few exceptions – are expected to continue to prioritise agriculture and rural development in their recovery packages. This is prompted by an emphasis on these areas to help countries build their way out of this crisis. Agriculture and rural development will be at the heart of efforts to support economic recovery and livelihoods; to ensure food security and reduce reliance on imports; to reduce income inequality between urban and rural areas; and to give countries access to vital foreign exchange where the demand for other exports has collapsed.

Given the pressure on public budgets to respond to the health emergency and to fund multi-pronged recovery packages at a time of unprecedented uncertainty, it is hard to predict the extent to which the share of public finance for agriculture and rural development will increase. However, the results of our country cases studies and our literature review are clear: policy prioritisation does not always guarantee greater resources.

While our interviewees expect public finance to remain critical, they will continue to seek external assistance, particularly those from LICs

Most respondents across LICs, LMICs and UMICs expect that inclusive and sustainable rural development will be funded largely by government budgets over the next five to 10 years. This expectation is stronger in UMICs and lowest in LICs, as might be expected, given that LICs may be more dependent on aid flows.

Interviewees also stressed, however, that governments will continue to seek external development assistance for rural development

(and agriculture), with demand increasing in the next few years and across all income groups. This even applies to countries that have access to international capital markets (Mexico, Morocco, Peru) and to those, like Ghana, that aim to reduce their dependence on aid.

Expectations of rising demand for external assistance for agriculture and rural development, and a recognition that these sectors will continue to rely on public finance in most countries, raise two key questions for policy-makers and development partners. First, how can these two sources of funding complement each other? And second, what type of projects should be supported by external development assistance, and with what kind of financial terms and conditions?

Respondents express a greater preference for grants and (highly) concessional loans for agriculture and rural development

The largest share of respondents, including those in UMICs, have signalled a strong and growing preference for assistance received as grants and highly concessional loans for agriculture and rural development. There are two motivations for this preference.

First, our respondents say that most country governments do not perceive agricultural and rural development projects as generating enough revenue to service loans: these are seen as ‘soft’ sectors, more akin to health and education. There is, therefore, a preference to fund them via concessional resources. This is supported by data showing that projects in agriculture and rural development in the countries we reviewed are more likely to be funded by ‘more concessional’ external development assistance than other sectors. Respondents were open to borrowing external assistance – even at non-concessional terms – but only for certain areas of agriculture and rural development, such as basic infrastructure development and AVC development that usually generate greater economic returns.

Second, respondents were concerned about the impact of new borrowing on future debt sustainability, with financial modalities that reduce the net present value of a loan seen as

particularly important when negotiating with development partners. Some governments simply refuse to borrow if loans are not concessional (Bangladesh) or if they exceed their own debt ceiling (Brazil, Peru, Viet Nam). Others aim to ‘blend’ concessional and non-concessional resources across financiers to reduce the overall debt service of the loan.

A preference for grants and highly concessional loans in several countries should be grounded in the reality that these resources from donors remain highly constrained and finite. And that is likely to hold true during the recovery from the Covid-19 crisis. The volume of external assistance and the type of projects that can be funded are both limited by rules about areas that can only be funded by concessional finance and by prudent debt management policies to keep the costs of borrowing as low as possible. More blending of concessional and non-concessional resources across financiers, plus a clear assessment of the economic returns of projects in agriculture and rural development, could boost demand for borrowing, including for non-concessional finance.

Respondents in LICs and LMICs, in particular, value concessional finance more than technical assistance and policy dialogue

Our respondents report that governments see access to financial resources at below market rates as the most valuable characteristic, and that this drives their demand for external development assistance across all three income groups. There is a more pronounced preference for technical assistance and policy advice from UMICs than from countries in the other two income groups. But even so, the transfer of financial resources at below-market rates to fill funding gaps in the government budget is still high on the priority list for every country.

These findings pose two challenges for development partners. First, how should resources be allocated across the spectrum of income groups and, in particular, what criteria should drive the allocation of finite resources

– especially those that are concessional? This is a key question for UMICs, where the needs might not be as great.

Second, policy advice and technical assistance to UMICs do not erase the demand for financial support, even though these economies have very limited access and eligibility to concessional resources. This mirrors earlier analysis showing that government officials in UMICs still value financial transfers – even when their public budgets have greater fiscal space than those of lower-income economies. This is because development projects and programmes are perceived as the only way to access knowledge and expertise from bilateral and multilateral development partners.

Respondents prioritise assistance that supports national priorities for agriculture and rural development and that is long-term and sustainable: attributes that are reflected in demand for specific financial instruments

The principle of alignment with national priorities is a pillar of the global development effectiveness agenda and is linked to the concept of country ownership of development programmes. Respondents in the LICs and LMICs analysed in our research expressed a strong preference for budget support and programme approaches that have longer timeframes and that are more flexible. In some cases, this preference for flexibility stems from a country’s vulnerability to external shocks and crisis.

Our research also revealed a demand for multi-phase project lending and for results-based lending that is driven by qualitative preferences for long-term, sustainable and flexible finance. Demand for project-preparation facilities, particularly in LICs, is often motivated by a lack of domestic capacity to identify and develop projects (e.g. Liberia and Senegal), limited financial resources, or financial regulations that make it complicated to devote national resources to such preparation (e.g. Bangladesh, Morocco and Peru).

In conclusion

The volume and type of external assistance for agriculture and rural development is certain to vary across countries, reflecting the priorities of different governments, the degree of prudence in public debt management policies, and diverse access to and eligibility for financing sources and instruments. However, this study shows that countries across the income spectrum are still keen to benefit from financial transfers, technical assistance and policy advice from bilateral and multilateral partners for projects and programmes in agriculture and rural development.

The shocks caused by the Covid-19 crisis have reinforced every conclusion in this study, with the vulnerability of rural populations in many countries heightened by its economic impact. As a result, demand for external assistance is more likely to increase.

Public revenues are projected to fall in comparison to pre-pandemic estimates, and the

competition between priorities is mounting as governments respond to the health emergency and define their multi-pronged economic recovery plans. Governments are now under even greater pressure to hold their public debt at sustainable levels. They will either borrow at greater cost, with rising debt service payments squeezing other budget lines, or they will decide not to borrow at all, and scale back their public investment programmes.

Development partners have a clear role to play in responding to these challenges at this crucial moment. They can do so by expanding their grants and loan portfolios, their technical cooperation programmes, and their policy dialogue initiatives for agriculture and rural development. In this way, they can help countries to manage multiple demands at the same time, support the transformation of the agriculture sector as well as livelihoods in rural areas.

1 Introduction

This synthesis report analyses whether and to what extent governments will continue to demand external development assistance to support inclusive and sustainable rural development and, if so, its terms and conditions. It also explores governments' main preferences for the delivery of such assistance.

The report is based on a review of, and results from, an online survey conducted in 30 countries, and the evidence from 20 country studies (published separately). Our analysis is motivated by a perceived large funding gap for rural and agricultural development that needs to be filled, the evolution of access to finance as countries move up the economic ladder, and a looming debt crisis for many economies that will curtail their borrowing options. All of these challenges have been exacerbated by the crisis prompted by the Covid-19 pandemic that swept across the world in early 2020 and continues to this day.

While our project focuses on the demand for external development assistance for inclusive and sustainable rural development, there are no consistent data available, as definitions of rural development vary from country to country. As a second-best option, we rely on quantitative and qualitative data on agricultural development, recognising that while agriculture is a major component of rural development, it does not capture non-farm activities. We will highlight the limitations of this approach throughout the report.

1.1 Context

Agriculture and rural development worldwide rely heavily on private funding, but the public sector has a key role to play in providing both investment and policy support to address market failures. These include the under-provision of public goods (such as infrastructure, and research and development (R&D)), negative externalities (such as the need to adapt to and mitigate the effects of climate change), informational asymmetries and risks (such as the development of rural financial markets) and the lack of protection for vulnerable people through, for example, social protection.

Far more finance is needed to achieve food security and promote agricultural development in line with SDG 2 'Ending hunger'. Several studies have mapped the sheer size of the finance gap for the achievement of all SDGs by 2030 (UNCTAD, 2014; Schmidt-Traub, 2015; Manuel et al., 2018; Gaspar et al., 2019; Sachs et al., 2019). Although estimates vary on the additional finance required to achieve agricultural development and food security, given the differences in methodologies, they all agree on one thing: the need is enormous.¹ The United Nations (UN, n.d.) estimates that an extra \$267 billion per year is required to achieve every SDG2 target that relates to agricultural development and food security: almost twice as much as total official development assistance (ODA) each year from all donors combined.

1 In relative terms, Sachs et al. (2018) calculated an annual funding gap of 19% of gross domestic product (GDP) for countries whose income per capita is below \$1,100, which is broadly in line with the estimate of additional spending of 15.4% of GDP in 2030 for low-income countries (LICs) in Gaspar et al. (2019).

Policy commitments to agriculture as a route to economic transformation were revamped in the 2000s.² The interest in agriculture in sub-Saharan Africa, for example, was heightened in the early 2000s and gathered pace with the African Union's Maputo Declaration on Agriculture and Food Security in 2003 and the food price spike of 2007/2008. When the caucus of African Agriculture Ministers met in Maputo in 2003, they made a commitment to accelerate agricultural growth to 6% a year by allocating 10% of their public budgets to the agriculture sector.³ A few months after the Maputo meeting, the Comprehensive Africa Agriculture Development Programme (CAADP) was launched to plan and coordinate efforts to achieve those aims (NEPAD, 2003).⁴ Since then, there has been growing consensus among agriculture ministries, key associations, international donors and academics on the policies and investments needed for agricultural development, with agricultural growth seen as an essential part of economic transformation.

Current public spending and external development assistance to close the financing gaps for agricultural and rural development fall far short of what is needed. Since 2001, central governments have allocated less than 2% of their annual expenditure to agriculture (FAO, 2019a).⁵ African governments that had committed to spending 10% of their budgets on agriculture at Maputo in 2003 were typically spending half or less than this percentage. Donor

funds were also well below the amount needed (Fan et al., 2006; 2007). Official development finance (ODF)⁶ (disbursements) to agricultural and rural development rose slightly, from \$10.2 billion in 2015 to \$10.9 billion in 2018.⁷ This is only a fraction of the total ODF disbursements of \$254 billion in 2018 (OECD, 2020). Public expenditure on agriculture development also remains low (FAO, 2019b).

We are also seeing a clear shift away from concessional finance and grants to non-concessional loans, and from social to productive sectors. Many countries have moved up the ladder of income per capita and have better access to international capital markets. This often translates into a country's graduation from the 'soft' borrowing windows of MDBs, meaning a hardening of the terms and conditions that countries can negotiate, including shorter maturities and higher interest rates. Bilateral donors usually scale down the volume of their ODA to countries that are moving up the economic ladder, phasing out country programmes or shifting their financial support away from grants and towards loans and technical assistance (Engen and Prizzon, 2019; Jalles d'Orey and Prizzon, 2019; Calleja and Prizzon, 2019).

In addition, countries' demand for external development assistance across all sectors evolves as they move from concessional to less concessional finance or are reclassified as MICs. In a review of eight LMICs, Engen and Prizzon (2019) found that their governments tended to

2 From a policy perspective, distinguishing between investments and policies for agricultural development and those for rural development is complicated by their considerable overlap.

3 This was reaffirmed by the Malabo Declaration of June 2014.

4 Other key moments and members of the consensus include the 2006 Alliance for a Green Revolution in Africa (AGRA), which was formed under leadership of Kofi Annan and supported by the African Union, the New Partnership for Africa's Development (NEPAD), multilateral development banks (MDBs), bilateral donors and multilateral agencies plus some private firms and the Gates Foundation. Leading academics and think tanks, policy and research centres and specialists on agricultural development have also contributed to this growing consensus.

5 Data on ODA and public expenditure on rural development are covered only marginally in cross-country databases.

6 The sum of ODA and other official flows (OOFs): the latter flow from bilateral and multilateral donors that do not meet the concessionality criterion for ODA eligibility (see Section 2.3).

7 Disbursements, constant prices.

be reluctant to borrow for social-sector projects because these do not tend to generate immediate financial returns, and that loans are more likely to be spent on infrastructure. Gatti and Mohpal (2019) confirmed that, as countries graduate from their membership of the World Bank's International Development Association (IDA) and lending terms harden, investment in 'soft sectors' – those related to human development, such as education, health and social protection – declines. Rogerson and Jalles d'Orey (2016) explained why governments – and particularly their finance ministries – might be reluctant to borrow for education projects and programmes. They may believe that returns to public investment in education are too uncertain or too remote and diffuse, and that any returns may not be enough to service loans. Governments also have other national priorities for borrowing, and the competition from other sectors for scarce concessional resources is overwhelming.

The transition away from grant financing and concessional loans has implications for demand for assistance to support agriculture and rural development. A paper by Morris and Lu (2019) assessed whether hardening the terms of loans affects country-level demand for projects in agriculture. The authors considered agriculture (which includes fishing and forestry) as a 'soft investment' that encompasses social-oriented and small-scale investments. In contrast, 'hard investments' included large-scale and/or commercial-oriented investments.⁸ They found that, as countries graduate from IDA, there is a shift away from 'soft' sector investments as different financing instruments become available.⁹ The share of the portfolio invested in agriculture tended to fall during the transition from IDA to International Bank for Reconstruction and Development (IBRD) loans, and the authors pointed out that when countries did borrow for agriculture, they tended to invest in 'hard' agricultural projects rather than 'soft' projects:

prioritising initiatives that were more commercial, that were focused on infrastructure and that were larger in financial terms.

In contrast, the Independent Office of Evaluation at the International Fund for Agricultural Development's Independent Office of Evaluation (IFAD IOE, 2018) found that changes in government policy priorities and the needs of the rural poor were far stronger determinants of the type of investments and projects chosen by borrowers than any changes to IFAD's own financing terms. This matters, as it suggests that there is an appetite in some countries for borrowing more, and on harder terms, for the agricultural sector. The study found that the demand for IFAD funding in many countries exceeded the size of its programme of loans and grants. It also sounded a cautionary note, however: demand for funds does not translate automatically into their use, usually the result of country-specific challenges (such as fragility, conflicts, and changes in government or government priorities).

Many governments of LICs and MICs now have a greater choice of financing options. The global development finance landscape has evolved over the past 15 years (and prior to the Covid-19 crisis), and financing options to support national strategies and plans in LICs and MICs have expanded in what has been termed an 'Age of Choice' for development finance (Prizzon et al., 2016b). While some recipient governments might see their ODA flows stabilise or decline, they often have access to a larger set of other financing sources and instruments.

Evidence suggests that, as countries move up the ladder of income per capita, their demand for external development assistance moves from financial support towards technical assistance, knowledge sharing and policy dialogue on specific issues. This often happens as countries graduate from the 'soft' windows of the MDBs and when bilateral donors close down their

8 Although we are aware that this distinction might be subject to criticism, we reproduce the terms used by these authors.

9 The authors considered agriculture (which includes fishing and forestry) as a 'soft investment' that encompasses social-oriented and small-scale investments. In contrast, 'hard investments' included large-scale and/or commercial-oriented investments. Although we are aware that this distinction is subject to criticism, we reproduce the terms used by these authors.

programmes as countries are reclassified to UMIC status (Calleja and Prizzon, 2019; Piemonte et al., 2019). However, countries, including UMICs, still see a role for external development assistance from members of the Development Assistance Committee (DAC). As they become less dependent on ODA, many identified the need for ‘target, policy-oriented assistance from DAC sources in the future’ (Davies and Pickering, 2015).

There are concerns about debt crises and constraints to borrowing in the future too. Even before the Covid-19 crisis began, several borrowing countries were heading towards a debt crisis. For example, 22 LICs were classified as being either in debt distress or at high risk of debt distress in 2015. That number had doubled to 44 by 2019 (IMF, 2020a). Pressure on future debt sustainability could limit the ability of a government to borrow.

The crisis prompted by the Covid-19 pandemic is likely to affect external finance supply and demand. It is inevitable that the fiscal space of many countries – recipients and donors alike – will shrink and that economic support measures to strengthen health systems will be prioritised for public expenditure. Governments might be less willing to borrow, especially at non-concessional terms, given the implications for future debt servicing. While MDBs have expanded their support as an emergency response to the Covid-19 crisis, many bilateral donors have already started to cut or reprogramme their budgets (Miller et al., 2020; Carson et al., forthcoming).

1.2 Objectives

This report analyses the willingness of governments to obtain external development assistance to fund public investment in inclusive and sustainable rural development. It also explores their preferences for this support, as well as the conditions under which it is seen as acceptable.

More specifically, this report has three main and interlinked objectives and areas of investigation:

- to map likely demand from recipient country governments for external development assistance from official donors to support public investment in inclusive and sustainable rural development over the next five to 10 years
- to analyse the financial terms and conditions of such demand, taking into account a country’s eligibility for different sources of external development assistance and, more specifically, review the degree of existing demand for public investment in inclusive and sustainable rural development by donors
- to understand the preferences of governments for such investment – namely qualitative aspects such as speed of delivery, ownership, alignment to national priorities – and to explore the type of instruments that governments want to access or scale up to support public investment in inclusive and sustainable rural development.

This research report builds on the quantitative country-level and cross-country analyses by Morris and Lu (2019), as well as the IFAD IOE survey (2018) mentioned above. We also analyse whether and how these trends and preferences are affected by the short-term (emergency) and medium-term (economic recovery) measures to address the Covid-19 crisis.

This report focuses on public investment for inclusive and sustainable rural development. As mentioned, agriculture and rural development rely heavily on private funding, but the public sector has a key role to play in addressing market failures. Our research has focused on the demand for external development assistance, usually provided directly to central and local governments, and this has motivated our focus on public investment. We also prioritise the expenditure that (in principle) generates economic and financial returns in the medium to long term (i.e. capital rather than recurrent expenditure) (see Sections 2.2 and 2.3 for more details on the definitions used in this report and their limitations).

1.3 Structure

This report is structured as follows.

- Chapter 2 outlines the research study, including our questions, definitions and methodology.
- Chapters 3 to 7 are the core parts of this synthesis report, summarising the evidence across 20 country case studies and the responses to our online questionnaire:
 - Chapter 3 sets out government priorities for public investment in inclusive and rural development.
 - Chapters 4 and 5 explore how these priorities are and will be funded, considering both public expenditure and external development assistance.
 - Chapter 6 examines the criteria and policies for borrowing external development assistance for rural development.
 - Chapter 7 analyses government preferences for external development assistance in the sector and the demand for specific instruments.
- Chapter 8 summarises the main points emerging from the analyses illustrated in Chapters 3–7 across country income groups (LICs, LMICs and UMICs).

2 About the study

This chapter summarises our research questions; the definitions used in this report (and their limitations); and our methodology (see Annex 2 for more details). Most of the research took place between March and June 2020 – a particularly challenging time as a result of the Covid-19 pandemic, with limitations on access to informants, travel restrictions and, most importantly, evolving government priorities and financing options.

2.1 Research questions

We considered five groups of research questions to map the future demand for external development assistance supporting public investment for inclusive and sustainable rural development, summarised in Figure 1. Chapters 3 to 7 of this report present the findings from the four main groups of research questions and patterns emerging across country groups, mainly by income classification (LIC, LMIC, UMIC). The fifth group of research questions – on the impact of the Covid-19 crisis on government priorities and their financing – is cross-cutting and is covered throughout Chapters 3 to 7. The same structure was applied to our 20 country case studies for ease of reference and comparison.

First, we started from the main priorities for inclusive and sustainable rural development outlined in national and sectoral strategies. They set the ambition, define the main sectors of intervention and outline the main challenges a government aims to address. The scale of the plan and priority activities also shape the volume and type of resources required for implementation.

Second, we mapped how these priorities will be funded, looking at past trends and future

expectations. The focus is on the demand for external development assistance but the share of the government budget is often the litmus test for the actual prioritisation of a sector. In addition, the main source for public investment is government revenue in most countries, rather than external development assistance. We also reviewed costed national development plans and strategies, but these were only available for a small number of the countries analysed for this project. Individual country case studies include this information, if available.

Third, we analysed the policies and criteria that inform the borrowing of external development assistance for rural development. Decisions on new loans are under greater scrutiny than grants as loan repayments reduce the room for manoeuvre in future budgets. Loan financing is usually associated with larger amounts than grants and prioritised for specific sectors and projects (Engen and Prizzon, 2019). By terms and conditions we mean, for example, commitment fees, front-end fees, loan size, interest rates, maturities, grace periods, differentiated pricing and currency denomination.

Fourth, we analysed the aid modalities that recipient country governments prefer and their demand for specific instruments from development partners to support public investment in inclusive and sustainable rural development. By preferences we mean the attributes and characteristics of aid that governments value when negotiating and securing support for development projects from official donors. Qualitative preferences for external development assistance can influence government decisions about projects and programmes with development partners and their acceptance or rejection (Prizzon et al., 2016b).¹⁰

10 These preferences build and expand on what are usually defined as the ‘principles for development effectiveness’ (OECD and UNDP, 2019) but also include other priorities found in studies such as Prizzon et al. (2016b), Davies and Pickering (2015; 2017) and Custer et al. (2015; 2018) and from interviews with government officials. We offered various options in the online questionnaire (see Annex 3) but kept the questions open-ended in the semi-structured interviews (see Section 2.4 on the methodological approach).

Figure 1 Research questions and approach



Cross-cutting: the short-term and long-term implications of the Covid-19 crisis

- How are government priorities for public investment in sustainable rural development going to change as a result of the emergency and the economic recovery?
- How will the demand for external development assistance for sustainable rural developing evolve, in terms of volumes, preferences and instruments?

We also asked our survey respondents and interviewees whether they saw any limitations in the current instruments provided for projects in the sector and whether they had a demand for a specific group of them. This was an open-ended question in our semi-structured interviews but a few options were offered in the online questionnaire, notably the catastrophe drawdown option (CAT-DDO),¹¹ guarantees, multi-phase programme lending,¹² policy-based lending, project-preparation facilities, regional projects, reimbursable technical assistance (RTA), results-based lending¹³ and weather-index based insurance. The selection of these instruments is based on two criteria: those currently offered by MDBs across their client base, and the list of innovative financing instruments classified by the Commonwealth Secretariat (2014). We also asked respondents to name any instruments that were not covered in the questionnaire.

Finally, the Covid-19 pandemic has shifted government actions and policies, the composition of public spending and the allocation of external development assistance. For this reason, we considered a specific set of questions on the short- and long-term implications of the Covid-19 crisis (Sub-section 2.6.1 elaborates on the hypotheses).

We faced two main hurdles in answering these questions: first, defining what we meant by public investment for inclusive and sustainable rural development; and second, how financing for inclusive and sustainable rural development programmes could be measured. The next section explains how we navigated these methodological challenges.

2.2 Defining public investment for rural development

The first hurdle for this comparative study was how to classify such a complex area as inclusive and sustainable rural development. This task was

complicated by the all-encompassing nature of interventions to address rural poverty and food security (from education and health programmes to secondary roads and irrigation projects). The literature does not provide a clear-cut definition of the activities that contribute to inclusive and sustainable rural development or transformation. Most studies either take a narrower approach (agriculture, e.g. Morris and Lu, 2019) or a much broader remit of food security (SDG2, e.g. Gertz and Kharas, 2019; Rampa et al., 2019). Governments also have their own definition of rural development.

Agricultural development is often seen as one of the main drivers of rural development, given the heavy reliance of the rural economy and labour force on this sector. This means that the two are often regarded as synonymous, despite the growth in rural non-farm activities (World Bank, 2017a). This problem is compounded by the lack of an internationally agreed standard to classify rural development projects. As this is a comparative study, we needed to apply a standardised approach for this synthesis report and the individual country case studies. As a second-best approach, we will often refer to public spending on agriculture as a measure of the government's effort; to agricultural strategies when a rural development strategy is not available; and to the Organisation for Economic Cooperation and Development (OECD) data for external development assistance for both agricultural and rural development (see Section 2.3 on the limitations of OECD external development assistance data on rural development).

For rural development and transformation to be inclusive, a proportion of its interventions should reach the poorest and most vulnerable people. While the definition of 'vulnerable' differs across countries, we consider investments that focus on vulnerable groups in rural areas such as women, indigenous people, youth and people with disabilities (see IFAD, 2008).

11 A CAT-DDO is a contingent credit line that provides immediate liquidity in the aftermath of a natural disaster.

12 Multi-phase programme loans provide long-term support that requires more than one project cycle to reach its development objectives. The phases of eligible programmes are independent and are approved independently, but the compliance of one phase triggers the next phase.

13 With results-based lending, disbursements are linked to the achievement of agreed programme results rather than to expenditure.

For sustainability, we refer to rural development and transformation programmes that include a component to strengthen the environmental sustainability and climate resilience of rural development practices. We reflected both components in our questions on government priorities on rural development in Chapter 3 (sectors of activity and prioritisation) and in Chapter 6 (motivations for borrowing external development assistance).

The public sector has a role to play in correcting market failures to support inclusive and sustainable rural development.¹⁴ While rural development is supported, very largely, by the private sector (including small household farmers and private investors), we focused on the public sector as the main counterpart for the vast majority of official development partners. To correct market failures in the rural economy, we started from the viewpoint that the public sector could use the following policy criteria to boost economic growth in agriculture and the rural non-farm economy, focusing on social inclusion.

- **Rural investment climate.** Ensure that it enables and encourages investment and innovation. Evidence shows that when the investment climate is (highly) adverse, agriculture and other rural activity stagnate.
- **Rural infrastructure and agriculture R&D.** Invest in mixed public goods in rural areas that are not adequately provided by private firms: physical infrastructure (e.g. roads, irrigation, electrification); investments in people; and the generation of public technical knowledge. The literature shows high returns to such public investments, particularly in the early stages of development.
- **Climate-smart and environmentally sustainable agricultural practices.** Increasing research shows the high costs of unsustainable farming and the effects of global warming on agriculture. Analyses show very high returns to action in this area, mainly in averting losses in the future.
- **Correcting failures in rural markets through farm inputs and rural finance.** Evidence shows that farmers use fewer external inputs, such as improved seeds and fertilisers, than are economically justified and often have no access to formal financial services. Suppliers also face high transaction costs in rural markets. Direct state provision can substitute for the market, but often at a high cost, and is vulnerable to the politics of patronage. The alternative is institutional innovation to correct the market failures. This may not require much state investment, but facilitating innovations, funding pilots and disseminating promising models are relatively low-cost public functions.
- **Capital and social transfers.** These are important to protect vulnerable rural people on low incomes from destitution, and particularly for low-income farmers in view of their poverty, their lack of access to formal finance, and their need to adapt when investments include new technology. There is growing acceptance of the need for social protection, and greater interest in how to do this effectively and economically.

We also considered these activities as outlined in IFAD's 2016–2025 strategic guidelines. Some of IFAD's activities are linked to and overlap with those outlined above. As the only UN agency and international financial institution (IFI) specialising in rural development to reach the poorest people, IFAD has its own definition of activities that contribute to inclusive sustainable rural development (IFAD, 2016a).

We focus our analysis on the main components of public-sector investment in rural development to address market failures (under-provision of mixed goods and asymmetries and risk): environmental sustainability; investment in public goods (physical infrastructure and technology/R&D); support to the rural investment and environment climate and one component that encompasses all of these dimensions as AVC development. By AVC development we refer to the activities designed to process agriculture

14 We are grateful to Steve Wiggins for this paragraph.

products to markets, from processing facilities to marketing. Given the medium-term perspective of our analysis of future demand for external development assistance, we concentrated on development rather than recurrent expenditure. Therefore, we excluded social protection programmes and subsidies – even though they cannot be disentangled from the data on public expenditure and external development assistance.

Applying all these criteria, we found that the priorities for public investment for inclusive and sustainable rural development in six main groups of activities, all of which were covered in the interviews with stakeholders and the online questionnaire (see Section 2.4 on methodology) and which we use as proxy definitions in this report as follows:

- access to agricultural technologies (R&D) and production services
- AVC development, e.g. crops, livestock, fisheries
- climate-resilient agricultural practices
- rural basic infrastructure, e.g. water and irrigation systems, local roads, local energy generation
- rural financial services
- rural investment environment, e.g. policy, legal and regulatory frameworks.

While we aim to analyse these components distinctly, we will often refer them simply as rural development, or will consider both rural and agricultural development or transformation, especially when the latter is the main component that could be analysed. This is the case of the analyses in Chapters 3 and 6.

In Chapters 3 and 6, we refer to ‘soft’ and ‘hard’ areas of agricultural and rural development, the first referring to programmes that support social development, and the second to productive and economic development (Morris and Lu, 2019). While there is no strong and clear-cut evidence on how to classify each activity, these terms emerged strongly in our interviews.

2.3 Defining official development finance and concessionality

Our focus is on ODF as a proxy for external development assistance. Throughout this report, we analyse future trends for government demand for external development assistance from bilateral and multilateral development partners and its terms and conditions. Our main focus is government-to-government or multilateral organisation-to-government projects and programmes.

2.3.1 What we mean by official development finance

Because our focus is on public investment and the contribution of official bilateral and multilateral donors, we exclude private-sector investment, as well as the contribution of non-state actors such as non-governmental or philanthropic organisations. To measure past trends in external development assistance to each country (and to the rural sector in particular), we consider the broad measure of official ODF, which has two main components: bilateral ODA, and disbursements of multilateral concessional loans and OOFs.

The ODA eligibility of projects and programmes is based on strict criteria (see OECD, 2020), including assistance that is for the sole purpose of development (or welfare enhancement), that goes to eligible countries (all LICs and MICs) and that is concessional according to the OECD definition.¹⁵

OOFs are all official flows that do not meet at least one of these criteria (usually that of concessionality). Members of the DAC have made commitments to an ODA/gross national income (GNI) target as an incentive for comprehensive and accurate reporting of ODA-eligible flows. Conversely, OOFs tend to be under-reported. It is also worth noting that bilateral ODF flows are those from the 30 DAC member countries or from countries that report to the DAC. This does not, therefore, include large emerging

¹⁵ The definition of concessionality is based on the share of the grant element. With the 2014 reform, the grant element varies according to the income per capita of the ODA eligible country to be counted as ODA: at least 45% for LICs, 15% for LMICs and 10% for UMICs. The International Monetary Fund (IMF) discount rate (5%) is also adjusted by income per capita group: 1% for UMICs, 2% for LMICs and 4% for LICs, including least-developed countries (LDCs).

economies like Brazil, China or India that also provide development cooperation. We analysed the contribution of these donors in our individual country case studies but not in this report, given the lack of comparable data across countries.

2.3.2 Concessional and non-concessional official development finance and commercial finance

Concessional external development assistance refers to ODA grants and loans from bilateral and multilateral donors, which meet the concessionality criteria for ODA eligibility. Non-concessional flows are loans that do not meet the ODA concessionality criteria but are still well below market rates.

For example, loans provided by the World Bank's IDA are defined as concessional (with no interest payments, a service charge of only 0.75% of the loan, a grace period and long maturities). Lending from the IBRD window of the World Bank is classified as non-concessional (with interest rates 2–3% above LIBOR,¹⁶ shorter maturity and no grace period). By commercial loans, we mean loans from the private sector or international capital markets (a few countries do not have a credit rating high enough to be able to borrow in international capital markets). For interviewees who were less familiar with these terms, we used the concepts of highly concessional loans (for concessional loans) and less concessional loans (for non-concessional) but explained them during the meeting.

A further complication is that individual countries have their own definition of the projects defined as concessional (often linked to the IMF rule of a minimum 35% grant element) or use an intermediary concept of semi-concessional loans (in the case of Senegal, a grant element of between 15% and 35%, see Delalande and Gaveau (2018)). We specify when that is the case in our country case studies, and in Chapter 6 of this synthesis report.

2.3.3 Interpreting the OECD data on rural and agriculture development

We have no data that measure external development assistance for inclusive and

sustainable rural development for each of the six main activities that we use as proxy definitions in this report, or these data are not readily available from the OECD Creditor Reporting System (CRS) dataset. This dataset – the main data source on ODF validated across members of the DAC – does not reflect this classification at the activity level, which means it is not possible to build a separate data-set without extensive validation from national counterparts and a review of the coding of projects that is far beyond the scope of our research, which is forward-looking. The coding of projects under 'rural development' is also residual and cross-cutting and might not include all 'non-farm' activities.

Our second-best approach does, however, ensure a consistent measurement and unit of analysis for this comparative study. As noted, we did not include figures for countries like China and India that do not report to the DAC because we wanted to ensure comparability across country analyses. These figures are included in the individual country case studies if captured in the desk-based reviews and interviews. Unless specified, we considered ODF data on disbursements rather than commitments to reflect grant and loan agreements that have materialised. When measured as disbursements, ODF figures do not include all development partners that report to the DAC, such as IFAD, so the figures in this report are underestimates. To address this, the interviews for each country case study aimed to triangulate this information.

2.4 Methodology

We used country case studies to examine government demand for external development assistance for inclusive and sustainable rural development and its terms and conditions. Our research questions and the comparative approach prioritised the breadth of countries' policies and priorities, rather than in-depth individual studies.

The analysis of individual countries was informed by adapting the political economy framework initially developed in Greenhill et al. (2013) for aid negotiations. The key element

16 London Inter-bank Offered Rate.

of this framework is that context (economic, political, governance and social) shapes the negotiating capital for a recipient country and a provider and, in turn, the supply, demand and type of external development assistance.

For example, countries that are less aid-dependent are likely to be in a stronger negotiating position with providers of development assistance than those that are heavily aid dependent, while those with weaker governance may find it more difficult to negotiate. The ability of countries to access external development assistance, the decision to borrow, and the conditions of loans from development partners all depend, very largely, on a country's economic performance, its eligibility for different donor funding and the depth of its development challenges. While country context does not determine the outcome of negotiations in a mechanistic sense, it does present recipients and providers with constraints that they need to consider in deciding what can be achieved through negotiation and the likely results in terms of demand and supply. Jalles d'Orey and Prizzon (2017) adapted this framework, initially designed across sectors, for the case of infrastructure development.

We adapted and applied this framework to 20 country case studies, and this synthesis report compares the resulting analyses, drawing on desk-based reviews and interviews, to complement results from an online survey.¹⁷

We held semi-structured interviews with a total of 222 stakeholders across finance and planning ministries; line ministries that work on rural development, agriculture and environment; development partners; and experts working in

these countries. We submitted an online survey to each stakeholder in these countries before the interviews and to respondents in 10 additional countries, receiving 347 valid responses – a 73% response rate.¹⁸ Survey responses were unweighted, i.e. they do not take into account the size of the country or of its rural population. The survey results presented in Chapters 3–7 reflect responses across all 30 countries (see Annex 2 for more on the methodology).

2.5 Country case studies

This section outlines the criteria for the selection of case study countries and the composition of the sample, as these have implications for the interpretation of the findings in Chapters 3 to 7.

2.5.1 Criteria and filters for country selection

We focused on LICs and MICs, as being eligible for ODA, applying a series of filters to generate a shortlist.¹⁹ We excluded countries with fewer than 500,000 people, as these economies face a diverse set of challenges, their government apparatus is smaller and, in general, few development partners operate in them. We also ruled out countries with a population of more than one billion: their larger civil services, sub-national governments that work directly with development partners and more complex economies would have required far longer analysis than this project allowed.

We also considered election cycles, excluding countries that had elected a new government from a different political party from October 2019: the newly appointed administration would have had time to roll out its new policies

17 Each country case study took a total of three full weeks, from review of the literature to data analysis, from stakeholder selection, scheduling and follow-up to meetings to interviews to the draft of the individual note. The country case studies are published separately.

18 Having a larger number of countries in the survey than the 20 selected for country case studies helped to address the risk of a low response rate for statistical analysis as well as the possibility that country case studies might be cancelled at some point during the project (as a result, for example, of natural calamities, elections called earlier than expected, corruption scandals, etc.). We did not change the country selection as a result of the global crisis generated by the Covid-19 pandemic (see Section 2.6 for a discussion on the implications of the pandemic for the findings and the methodology of the study).

19 The only exception is Panama, classified as a high-income country (HIC) but only since 2017. We include it among the UMIC group in this report when analysing survey results by income per capita groups.

before the start of our country case studies in March 2020.²⁰ We also excluded countries that were planning elections before October 2020 (the finalisation of the first draft of this study), as a potential change in government might affect the set of priorities defined for rural development by the previous government.

The volumes, terms and conditions and preferences for external development assistance evolve across the spectrum of income per capita (see Engen and Prizzon, 2019; Jalles d'Orey and Prizzon, 2019; te Velde et al., 2015). We built our sample, therefore, to ensure that the LICs and MICs included would reflect different access to external development assistance and its terms and conditions. We considered the classifications defined by the World Bank, as these are usually – with small differences – applied by other MDBs. An explanation of the different lending terms and conditions of the MDBs is covered in Box 1.

To reach a final list of 30 countries, we also wanted to ensure that our sample was proportional to the number of countries in each region and the number of fragile countries (based on the World Bank Harmonized List of Fragile Situations FY19). In other words, we selected the countries so their percentage in the sample reflects that of the overall number of LICs and MICs. We also tried to keep the sample proportional to the entire number of LICs and MICs in the overall group of 30 countries and across all 20 country case studies.

Our country selection also included pragmatic criteria, particularly to distinguish between countries that would have a dedicated country case study and those that would have only the survey.²¹ These criteria were the ODI team's existing networks; the presence of an IFAD country office to support us in identifying key stakeholders and provide logistical support (which proved difficult, given the travel

restrictions imposed by the Covid-19 pandemic); geographical proximity (as a team member was meant to make two or three country visits); and countries without sub-national governments, given the potentially large number of stakeholders for each level of government to be contacted, particularly during an initial country visit (the exceptions being Brazil and Mexico).

The final list of countries is included in Annex 1 and summarised in Table 1.

Table 1 Countries selected for case studies

Country case studies and survey	Survey only
Bangladesh	Afghanistan
Brazil	Angola
Comoros	Cambodia
Democratic Republic of Congo	Nicaragua
Egypt	Nigeria
Ghana	Pakistan
Indonesia	Panama
Kenya	Philippines
Liberia	Rwanda
Mexico	Turkey
Morocco	
Mozambique	
Nepal	
Niger	
Peru	
Senegal	
Solomon Islands	
Uganda	
Uzbekistan	
Viet Nam	

20 Afghanistan was the exception, as the political crisis was resolved in May 2020, following the elections in December 2019. However, the presidential appointment did not change with the latest elections.

21 The list of countries and the split between country studies and survey-only countries were finalised in February 2020 before the start of the Covid-19 pandemic. The team was expected to conduct 10 country visits, with the other 10 country analyses done remotely.

Box 1 Access to concessional and non-concessional finance based on operational classification

Borrowing terms and conditions are based largely on a country's eligibility for specific lending windows.ⁱ In a simplified framework, countries eligible for finance from the IDA can borrow at concessional terms; blend countries can do so at both concessional and non-concessional terms; and countries eligible for support from the IBRD only at non-concessional terms.

Given the low interest rates in capital markets, the difference between IDA and IBRD loans is probably smaller than ever before, but IBRD lending remains classified as non-concessional.ⁱⁱ More specifically:

- **IDA countries eligible for concessional finance** – these are LICs and LMICs that cannot borrow in or that have limited access to international capital markets. In other words, they are not yet ‘creditworthy’ in the jargon of MDBs. They can access finance at concessional terms only from the IFIs. Non-concessional borrowing is rare and occurs only under specific circumstances, defined at the project level and for those with high development impact. Concessional finance from IFIs is usually allocated on the basis of country ceilings. Some of these countries have, however, borrowed in international capital markets (e.g. Ghana and Senegal), but with volumes restricted under the non-concessional borrowing policy and borrowing limited to projects with high returns.ⁱⁱⁱ
- **Blend countries** – these are LMICs that can borrow at both concessional and non-concessional terms (the latter without a binding ceiling/country allocation) from IFIs. When a blend country borrows at non-concessional terms it often indicates that the country is suffering from concessional lending constraints (i.e. no remaining funding at concessional levels). It may also signal that it is less sensitive to pricing, and willing to borrow at more expensive rates to fund its national development priorities. In our sample of 20 country case studies, Kenya and Uzbekistan are classified as ‘blend’.^{iv}
- **IBRD countries** – these can borrow at non-concessional terms only from the IFIs. IBRD countries are usually UMICs or are in the upper range of the LMIC group. They are assessed as ‘creditworthy’, i.e. able to borrow in international capital markets. In the case of IBRD lending, there is no explicit country ceiling as there is for IDA country allocation, although a surcharge on the interest rate applies for large IBRD borrowers (e.g. Indonesia and Mexico among our country case studies).

i Exceptions are made for specific projects, under the 2014 African Development Bank (AfDB) Credit policy or the World Bank non-concessional borrowing policy, as of July 2020, defined as Sustainable Development Finance Policy (SDFP). Under the SDFP, ‘countries assessed at high risk or in debt distress would in principle be assigned a zero ceiling on non-concessional borrowing. In these countries, non-concessional borrowing would be allowed only under exceptional circumstances. For example, exceptions could be granted to finance critical infrastructure projects with strong development impact and strong financial and social rates of return, when concessional financing would not be available. Under the SDFP, such exceptions would be granted on a case-by-case basis and would require the borrower to share comprehensive information on the financing’ (see World Bank, 2020c: 35).

ii IDA has a service charge (not an interest rate) of 0.75% of the value of the loan, and the interest rate on an IBRD loan is usually LIBOR plus a spread of up to 4.5%, depending on maturity and currency.

iii For a review of graduation policies see Prizzon et al. (2016a).

iv The small representation in our sample is because there are only 15 ‘blend’ countries in total across all low, middle and high economies borrowing from the World Bank (59 countries are IDA and 70 IBRD as of July 2020) (World Bank, 2020d).

2.5.2 A snapshot of our case study and survey-only countries

More information about the economic, social and governance context of specific countries is included in our country case studies, while Annex 1 provides more figures for individual countries.

- **Income classification.** We considered a total of 30 countries: eight LICs, 17 LMICs and five UMICs. Our country case studies reviewed six LICs, 11 LMICs and three UMICs.²²
- **Operational classification.** Of the 30 countries considered, 15 are IDA-eligible, four have access to blend terms and 11 to IBRD terms. For the 20 country case studies, the figures are 11, two and seven respectively. Box 1 elaborates on the operational classifications mean and their implications for our analysis.
- **Regional classification.** We aimed for regional representation too: five countries in East Asia and Pacific (EAP), including three country case studies; 12 in sub-Saharan Africa, including nine country case studies; two in the Middle East and North Africa (MENA), both of them country case studies; two in Europe and Central Asia, including one country case study; four in South Asia, two of them country case studies; and five in Latin America and the Caribbean (LAC), three of them country case studies.
- **Fragility.** We selected seven countries classified as fragile across the 30-country sample, six of which were analysed through a country case study: Comoros, Democratic Republic of Congo (DRC), Niger, Liberia, Mozambique and Solomon Islands.
- **Rural poverty.** Data for rural poverty are patchy so we did not use this as a criterion for case-study selection. However, our sample covers a range of depth of poverty in rural areas, from 14.4% of the rural population living below the national poverty line in Morocco to some 67.7% in Kenya (based on World Bank (2020a) data).
- **Role of the agricultural sector.** The role and contribution of agriculture to the economy vary across our sample countries. As a percentage of GDP – and as expected, given a stronger role of productive and service sectors in more advanced economies – the agriculture sector is smallest in the Latin American countries in our sample, and lowest of all in Mexico, where agriculture generates only 3.4% of GDP (World Bank, 2020a). The share of agriculture is highest in Solomon Islands where it accounts for over 50% of GDP (World Bank, 2017b). The contribution of the agriculture sector to employment was lowest in Brazil,²³ at 9.4% of total employment, and Mexico, at 13% in 2018. In sharp contrast, for Niger, Mozambique, Uganda and Nepal, that figure is around 70%.²⁴
- **Dependence on aid.** Levels of dependence on aid vary across our 30 sample countries. In all, 11 have dependency ratios (defined as the proportion of ODA to GNI in 2017) under 1%, including the case study countries of Brazil, Egypt, Indonesia, Mexico and Peru. And six of the 30 countries have aid dependency ratios of over 10%, the highest being Liberia, at nearly 21% in 2017 (based on World Bank (2020a)).

2.6 Implications of the Covid-19 pandemic for this research

The inception phase for this study took place in January and February 2020, when the team reviewed the literature, defined the research questions, elaborated the methodology and identified the shortlist of country case studies. The core research phase (survey and country studies) was planned for March to June 2020.

Its start coincided with the World Health Organization (WHO) declaration of the Covid-19 pandemic and the application of lockdown

22 Income classifications are based on those in place at the time this study was conducted (March–June 2020). It does not reflect the regular update in July 2020 when Nepal was reclassified as LMIC and Indonesia as UMIC.

23 This share does not include agri-business.

24 75.9%, 71.7%, 71.1% and 69.8% respectively in 2018, based on World Bank (2020a) data.

measures across the world, including most of the countries we reviewed for this study. The pandemic had an impact on every country, reshaping the context for decisions about external development assistance – and affecting negotiations – as well as the methodology of this study.

2.6.1 Implications for country priorities and financing

The pandemic disrupted value chains and trade flows, causing falling demand across many sectors, rising unemployment and putting pressure on government spending at the same time as tax revenues fell. Governments responded by changing their priorities, including for agricultural and rural development, and ramped up the pressure for their financing, resulting in rising demand for external development assistance at the very moment its supply was either stagnating or was being slow to adjust.

Here, we outline our hypotheses about the impact of the Covid-19 crisis on priorities, public finance, external development assistance and preferences for public investment in rural development.

On government priorities in the Covid-19 pandemic, including for rural development and agriculture

- Public spending will be reprioritised to provide fiscal stimuli for the whole economy – well beyond the agricultural sector – with the potential disruption and reallocation of public investment plans (Miller et al., 2020).
- Containment measures will have an economic impact on the rural poor, highlighting a clear role for social safety net/social protection programmes (Wiggins et al., 2020).
The poorest and most vulnerable (often in rural areas) are very likely to be most affected by the economic and social consequences of the Covid-19 pandemic (Valensisi, 2020; World Bank, 2020e).
- The disruption of the agricultural supply chain, food supply and food demand will be highly variable by produce and local context as a result of travel restrictions (on people

and transport of goods) and social-distancing measures in food-processing factories. The crisis is likely to have an impact on access to and the price of agricultural inputs and the possible reallocation of demand across products (Wiggins et al., 2020).

On financing and donor responses

- A greater response is expected by the MDBs, focusing on economic recovery, poverty eradication, social safety nets and global public goods (GPGs). This may mean stretching their balance sheets or reallocating resources to the health emergency, preparedness and the economic recovery. The IMF and many MDBs have already announced sizable assistance packages to developing countries (Miller et al., 2020).
- Bilateral development cooperation budgets are very likely to be cut in favour of other priorities or fiscal retrenchment. Development cooperation budgets could shift towards support to health systems or GPGs (Carson et al., forthcoming). Many aid-recipient country governments have already started to apply for a moratorium on debt-service payments. In April 2020, the G20 Finance Ministers and Central Bank Governors agreed on a Debt Service Suspension Initiative for loans owned to bilateral lenders, to increase fiscal space in these economies (Humphrey and Mustapha, 2020).

Chapters 3–7 test these hypotheses in greater detail.

2.6.2 Implications for the methodology

The Covid-19 pandemic affected the intended methodology for this study. All country studies became desk-based analysis, with interviews carried out by phone, Zoom or Skype. The team was meant to conduct 10 country visits that would include face-to-face interviews. We were unable to run the two pilot projects in March that were intended to test the survey and the methodology before it was applied in all countries.²⁵

The team adjusted the methodology of the interview guide as country analyses progressed, but did not adjust the survey. The design of the

25 March coincided with the early stages of the pandemic in Europe, and our counterparts were not available to contribute to the study.

electronic survey was completed in February and submitted in mid-March, so it reflects the pre-Covid-19 context in most of the countries surveyed (see Annex 3).²⁶

Most importantly, we were meant to meet interviewees in person and complete the survey between March and May 2020. This timeframe

coincided with the peak of the pandemic in many countries, resulting in severe delays to many studies. Inevitably, a large number of stakeholders were either focusing on the response to the crisis, could not be contacted as a result of the lockdown measures or worked in areas with limited internet connection or phone access.

26 We could not modify it subsequently as it would have led to a different and not comparable set of questions.

3 Government priorities

This chapter examines how the governments in our 20 case study countries are addressing rural and agricultural development in their national development plans, policies and programmes.

It is divided into four parts. The first assesses the level of policy priority given to rural and agricultural development across the 20 country studies and the rationale for that level of prioritisation. The second part explores the specific policy priorities of governments for future public investment in rural and agricultural development, drawing on survey data from the 20 case study countries and the additional 10 countries. The third part looks at the extent to which the governments of the 20 case study countries target their policies and programmes in this sector to specific groups and regions. And the final part explores the degree to which government priorities in rural and agricultural development are expected to shift as a result of the Covid-19 pandemic, looking at the anticipated short- and medium-term impacts.

The key findings are as follows.

- All governments of the 20 case study countries pursue rural and agricultural development as a way to achieve critical national objectives on food security and welfare, poverty and inequality and economic growth. Nearly every government had sector-specific policies for agriculture, but sector-wide policies that focused on rural development were rare.
- AVC development is considered the highest priority for government public investment in rural development over the next five to 10 years, according to our survey respondents across all country income groups. The next priority identified was public investment in basic rural infrastructure, followed by agricultural R&D and climate-resilient agricultural practices. Survey respondents across all country income groups ranked

access to rural finance and activities that support a rural investment environment as low priorities for public investment.

- Rural and agricultural development strategies in most of the case study countries included targeting of smallholder farmers. Only a few strategies also do that for women, youth and vulnerable groups, and their implementation to these groups was often still in its early stages. Most of our interviewees for the 20 country case studies expect that the Covid-19 pandemic will sharpen governments' focus on rural development and agriculture in the short and medium term. In the short term, governments are expected to focus on food security and livelihoods. In the medium term, they are expected to boost agricultural production to ensure food security, pursue economic growth and gain access to foreign exchange.

3.1 Level of prioritisation

All 20 of the reviewed countries prioritise rural development and agriculture within their national development strategies (or sector specific strategies) as a way to achieve critical national objectives. Every government pursued rural and agricultural development to tackle food insecurity, improve welfare, reduce poverty and inequality, and drive economic growth.

There are many factors that fuel the pursuit of these objectives via investments and policies for the rural development and agricultural sectors. For example, a significant proportion of the population in each of the 20 countries live in rural areas and, in most of the LICs and LMICs, rural areas account for a large proportion of those living in extreme poverty. Rural areas also contained deep pockets of poverty in the UMICs reviewed for this project. As a result, tackling

rural development is often an imperative for the reduction of poverty and inequality.

In addition, the agricultural sector contributes significantly to the national economies of most of the LICs and LMICs reviewed for this study: anywhere between 12% and 39% of GDP and between 23% and 65% of employment (based on World Bank, 2020a), with the sector often employing far more people than its economic weight would suggest. Even when agriculture is not a major contributor to national economic growth, as in most of the UMICs in our sample, the sector remains a key source of rural livelihoods.

Most governments within this study have sector-specific national policies and programmes on agriculture, but national strategies for rural development – looking beyond agriculture – are rare. Most of the countries reviewed concentrate their plans on agriculture reform as the main way to achieve rural development, often in the form of a shift from subsistence to commercial agriculture. This is not surprising, given the large share of the rural population in the reviewed countries relying on the agricultural sector for their livelihoods.

The vast majority of countries studied, for example, had separate national agriculture strategies to guide government policies and investments. In contrast, only a handful have detailed national rural development strategies that go beyond agriculture itself. The absence of such strategies may reflect the cross-sectoral nature of addressing rural development.

Mozambique is a notable exception, with a separate rural development strategy *Estratégia de Desenvolvimento Rural* (EDR 2007–2025). Viet Nam also has a specific National Target Programme for New Rural Development 2010–2020 and the government is preparing a new rural development plan. Indonesia has a ‘Village Law’, which aims to empower local communities, and improve social services and employment opportunities (across all sectors) for rural populations, as well as a dedicated Ministry of Villages, Development of Disadvantaged Regions, and Transmigration. Uzbekistan is piloting a similar programme to support its rural population called *Obod Qishlo* (a prosperous village), while Peru has set up a Cooperation

Fund for Social Development (FONCODES) that aims to promote rural development and reach vulnerable groups.

While the degree to which governments prioritise agricultural development varies, LICs and LMICs tend to give agriculture higher priority than UMICs in their national plans, viewing it as an engine for economic growth. This is only to be expected, given the relatively high contribution of the agricultural sector to GDP in the LICs and LMICs studied for this report.

Many fragile LICs, in particular, concentrate on boosting productivity via modernisation to improve welfare and create jobs (including DRC, Liberia and Niger). In Niger, for example, agricultural and rural development are at the heart of the government’s national development strategies, with a focus on moving away from subsistence farming, achieving food security, reducing poverty and driving economic growth. This is justified by the fact that the agricultural sector accounts for 39% of GDP and 76% of all employment in the country. Niger also faces high levels of food insecurity, with an estimated 6.8 million people who were chronically food-insecure in 2018 (WFP, 2019).

Stable LICs and LMICs focused on agricultural commercialisation not only to improve livelihoods, but also to achieve national economic growth and job creation (Egypt, Ghana, Kenya, Morocco, Nepal, Senegal, Uganda and Uzbekistan).

In contrast, agriculture is less of a priority in national development plans for many of the UMICs in our study, e.g. Mexico and Peru. This reflects the fact that the sector contributes less than 7% to their GDP (although it often accounts for a greater share of rural livelihoods). In many of the UMICs analysed, the agricultural sector is often seen as an important way to reduce pockets of poverty in the country, address inequality, and improve rural welfare and food security.

3.2 Key priorities

Survey respondents expect AVC development – the provision of services and inputs to add value to crops, livestock and fisheries and achieve greater economic returns for production – to be the highest priority for government public investment over the next five to 10 years.

In all, 78% saw this as the top priority for governments. This finding was consistent across all income groups with the largest share (85%) of respondents who expect AVC development to be prioritised coming from LMICs (Figure 2). It also emerged as a priority in most interviews.

The prioritisation of AVC development reflects the challenges that face many countries across all income groups. These include helping smallholder farmers to move away from subsistence agriculture, improving food security and reducing rural–urban migration, to supporting farmer producer groups to generate greater economic returns or assisting large-scale commercially oriented farms to drive national growth by generating domestic and international revenues.

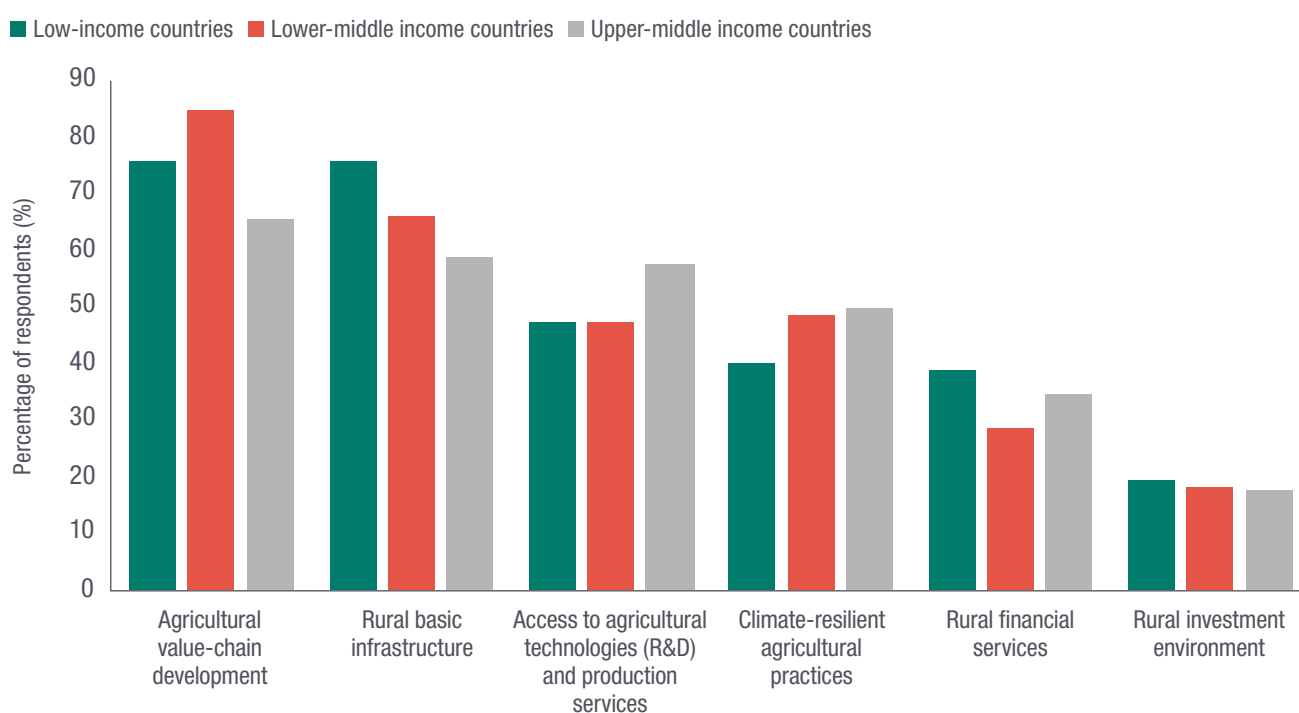
Public investment in basic rural infrastructure – roads, energy and irrigation – was seen as the second-highest priority for governments over the next five to 10 years, selected by 66.8% of respondents. Respondents in LICs gave equal priority (75.6%) to basic rural infrastructure and AVC development. Interviews and desk-based analyses confirmed that this prioritisation was the result of major gaps in rural infrastructure

in many LICs. Interviewees cited inadequate irrigation, roads and unreliable and expensive energy supply as hindering productivity and stopping farmers accessing markets and adding value to their produce.

Basic rural infrastructure was the second most important priority for public investment in LMICs and UMICs, reflecting a deficit in rural infrastructure that is not limited to LICs. Evidence from interviewees and desk-based analyses showed poor rural connectivity (roads and digital) (Solomon Islands), and limited and poorly-maintained irrigation systems (Brazil, Ghana, Indonesia and Uzbekistan) as key issues for LMICs and UMICs.

Access to agricultural technologies and climate-resilient practices were identified as priorities for public investment. Half of all respondents considered public investment in agriculture technology (R&D) as a priority for their governments, and a further 47% also identified public investment in climate-resilient agricultural practices as a priority. Respondents in LMICs considered climate-resilient agricultural practices as a marginally higher priority than agricultural technologies (49% versus 48%).

Figure 2 Governments' expected priorities for public investment in rural development over the next five to 10 years



Note: Respondents were asked to select the top three priorities among the six activities.

Source: Authors' elaboration based on the survey results

Enabling access to agricultural technologies and supporting agricultural R&D is a public good that has proved vital in enabling countries to boost productivity and raise agricultural incomes (World Bank, 2019). It is also closely connected with support for climate-resilient practices, as technology and innovation are often required to help agricultural practices adapt to a changing climate.

Evidence from interviewees and desk-based analyses confirmed that climate change is already a major challenge to progress on rural development and agricultural transformation in most of the case study countries. Bangladesh, for example, is vulnerable to flooding and natural disasters (e.g. cyclones), which are being exacerbated by climate change. In Kenya, climate change is recognised as leading to increasingly adverse weather conditions (droughts and floods) and more pest infestations. In Indonesia, climate change has already had a negative impact on rural livelihoods through coastal erosion and had reduced the production of key crops. Projections show that the situation in Indonesia is likely to get worse in the absence of adaptive measures (IFAD, 2016b). In Senegal, rising sea levels and coastal erosion as a result of climate change threaten the livelihoods of 75% of those who live and work in coastal areas, and increasingly severe droughts in the arid and semi-arid areas of the Sahel also pose a major challenge.

Access to rural credit and supporting an enabling rural investment environment (through, for example, policy, legal and regulatory frameworks) are seen as lower priorities for public investment across all country income groups, according to our survey respondents. The lower prioritisation of these issues was a surprise, given the fact the desk-based reviews and interviewees often identified farmers' lack of credit and the need for policy improvements and changes to the regulatory environment (land reform in particular) as major challenges in many of the country studies.

Some interviewees justified the low rating given to rural finance by arguing that the provision of credit is more amenable to financing from the private sector than the public sector, despite the fact that market barriers often prevent the private sector from funding certain groups. There was no reflection during the interviews

on why a low ranking was given to the enabling environment in rural areas for future public investment. One hypothesis is that respondents perceive the issue as less of a challenge for public investment and more as a challenge for policy, legal and institutional reform.

3.3 Targeting of sectoral policies

In most of the countries reviewed, government policies to address agricultural development often focus on smallholder farmers. Some countries also have specific programmes to assist smallholder farmers. Kenya, for example, has flagship programmes that aim to boost the incomes of smallholder farmers and pastoralists, and Mexico's *Sembrando Vida* (Sowing Life) is also targeted towards smallholder farmers.

A small number of the countries studied include targeting policies to women, youth and vulnerable groups in their agricultural and rural development strategies, but our interviewees noted that implementation is often in its early stages for these groups. However, there were some exceptions. Inclusion is one of the main aims of Nepal's Agricultural Development Plan (2015–2035), for example, and the government has tailored its programmes to meet the needs of different socioeconomic groups of farmers and women, marginalised groups and geographical areas. A dedicated Gender Equity and Social Inclusion Strategy Framework has also been created for the agricultural plan which includes specific gender-related targets. Kenya also has flagship programmes that aim to support youth and women specifically, while Viet Nam's Program for Rural Development and the National Program for Ethnic Minorities (2021–2025) focuses on ethnic minorities.

3.4 Impact of the Covid-19 crisis

Most interviewees from the 20 case study countries expect the Covid-19 crisis to heighten governments' attention on rural development in the short and medium term. However, some interviewees raised concerns about the potential for reduced financing for rural development in the medium term as a result of the economic impact of Covid-19.

Interviewees noted that governments are expected to focus on ensuring food security and livelihoods in the short term in response to the pandemic, leading to a greater focus on rural development. Interviewees raised concerns that travel restrictions (affecting both people and the transport of goods) as a result of the pandemic could break domestic and international supply and demand chains, jeopardising people's access to food and livelihoods. At the time of our country case studies (March to June 2020) many of the countries reviewed were already taking steps to minimise disruption in local supply chains by ensuring markets stayed open, keeping food prices low, and boosting social protection measures to support particularly vulnerable people.

There was also concern about the impact of employment shocks on livelihoods, with urban labourers expected to return to rural areas as job losses hit (Bangladesh, Ghana and Senegal) and concern about how to absorb returning migrants from abroad. In Nepal, for example, the government was actively discussing the potential to employ returning migrants in the agriculture sector.

In the medium term, a drive to boost agricultural production is expected to ensure food security, drive economic growth and gain access to foreign exchange. Many interviewees noted that governments are likely to focus on enhancing agricultural production in the medium term. The main aim may be to help domestic markets tackle potential food shortages, but may also be to tap into foreign markets as a way to boost exports and obtain vital foreign exchange

(Uganda). A fall in non-agriculture commodity prices as a result of the pandemic also means that some countries, like Ghana and Uzbekistan, may have to rely more heavily on agricultural-led economic growth, given the uncertainty around other sources of revenue.

Some interviewees raised concerns about reduced public budgets for rural development in the medium term as a result of the negative economic impact of the pandemic, as governments expand support to the vulnerable and revenues fall. In Kenya, for example, the IMF has noted that the Covid-19 crisis will lead to a severe economic shock, and projects that GDP growth will drop to 0.8% in 2020 from 5.4% in 2019. The IMF also projects that the fiscal deficit will increase to 8.6% in 2020 (IMF, 2020b).

Interviewees in several countries noted that the crisis is likely to increase competition among sectors for public financing. Interviewees were concerned that, while there is likely to be a greater focus on rural development in the short term, rural development and agriculture could lose out in the medium term because of declining public budgets. In Comoros, for example, the country's first-ever National Agricultural Investment Plan has been delayed as a result of the pandemic, and several rural development programmes in Egypt have been put on hold. In Kenya, many interviewees expected that the implementation of its flagship agricultural programmes will be delayed because of fiscal constraints. In Nepal, there was also concern that funding to agriculture could fall.

4 Public expenditure

After reviewing government priorities for investment in inclusive and sustainable rural development, this chapter explores trends in public expenditure that can support these priorities. Despite the role of the private sector, public finance remains a key source of funding for investment in agricultural and rural development in all of the countries reviewed. The ability of a government to support its national development with its own revenues also affects the level of future demand for external development assistance. Therefore, as well as reviewing trends, this chapter examines current levels of public investment in agricultural and rural development. It also looks ahead to examine expectations for the future role of public spending on rural development. This is, of course, an evolving perspective, given the impact of the Covid-19 crisis on government priorities and the economic uncertainty it has generated.

The discussion in this chapter is based on the qualitative and quantitative data collected for our country case studies and through our online questionnaire, complemented by additional sources. Whenever possible, the analysis considers differences across country income groups. The chapter also encapsulates some of the challenges to our analysis posed by the lack of a common definition of agricultural and rural development. While there is some comparable global-level data on public spending on agriculture, there are no data that capture spending on rural development. As a result, this chapter often relies on data on expenditure on agriculture as a proxy.

The main findings are as follows.

- On average, the share of public spending on agriculture across our sample countries falls as income per capita rises (although spending varies from country to country).
- Other factors that contribute to differences in the share of public spending on agriculture across countries include competing priorities (e.g. security spending, social sector commitments) that can keep public spending below the ambition set out in government policies.
- There are expectations that government spending on agricultural and rural development will continue to be funded predominantly by domestic public resources. Our analysis reveals different approaches according to the context, with public spending in agriculture often driven by donors' funding and priorities in countries that are more dependent on aid.

4.1 Public expenditure in agriculture

There are significant disparities in the share of public spending that goes to agriculture across the country case studies, as also confirmed by a review of long-term trends. Figure 3 presents data for 13 of the 20 countries in our sample that are included in the Food and Agriculture Organization of the United Nations (FAO) database. The analysis shows that the share of public spending on agriculture tends to decrease as a country's income per capita of the country increases.²⁷

In some countries – notably Bangladesh, Nepal, Niger and Senegal – ambitious policies

27 The country case studies provide data for additional countries, but these have not been included in the figure, either because it is difficult to ensure that the data are comparable or because it has not been possible to estimate and average for a similar period of time.

and strategies for the agricultural sector have been backed by high levels of public investment in line with international commitments such as the Malabo Declaration (AU, 2014). In Senegal, for example, average spending on agriculture has exceeded 10% since 2011 and reached 30% of the public budget in 2015.²⁸

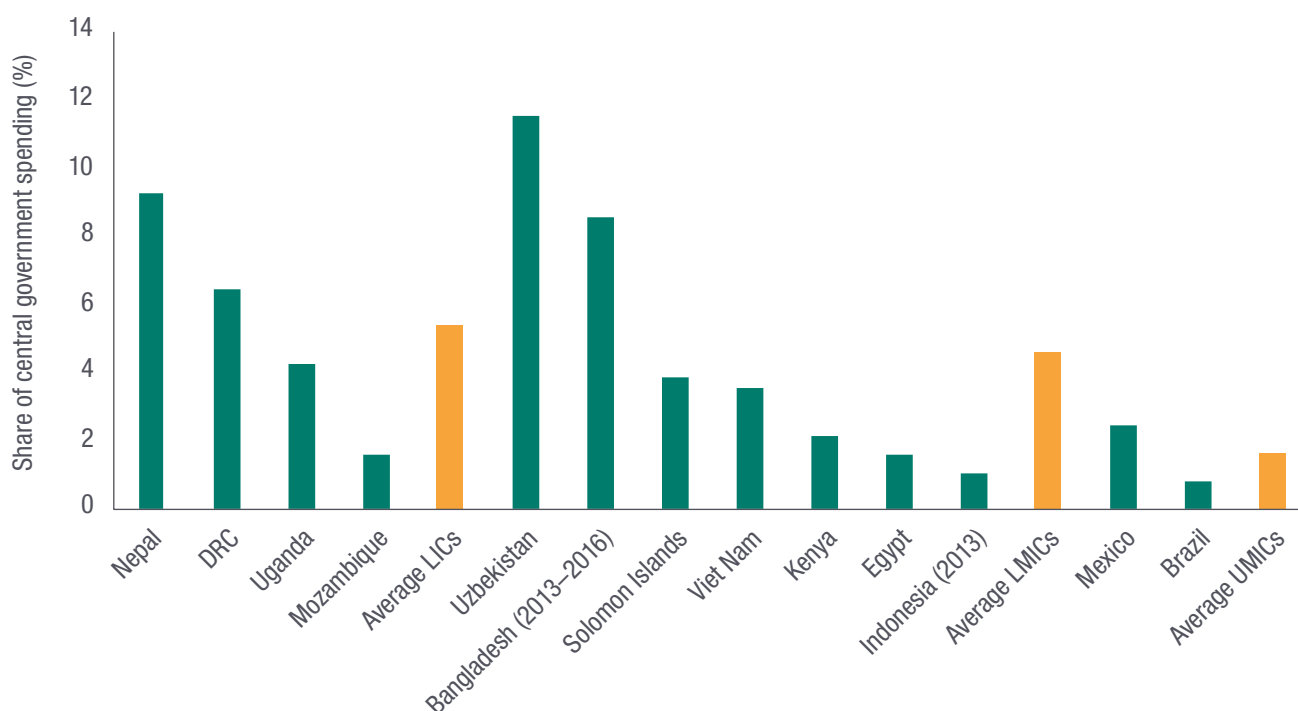
In other cases, such as Comoros, Ghana, Liberia and Kenya, governments have adopted equally ambitious agricultural policies, but funding is low and often far from regional targets (e.g. Malabo Declaration). In Ghana, where data are older, public spending on agriculture averaged 2.1% from 2012 to 2015 (although some contested figures suggest the percentage to be as high as 10% of the total public budget). In Liberia, annual budgetary allocation to the agricultural sector has fallen from 2% in the fiscal year 2010/2011 to 1.1% in 2019/2020. While the figures recorded by FAO and those in the country case studies based on national data are similar for most countries, there are some exceptions. In DRC, for example, the level of spending reported to the African

Union for the monitoring of the implementation of the Malabo Declaration is less than half of the figure recorded by FAO, indicating major differences in the underlying methodology.

Evidence is mixed on whether the Malabo Declaration has had a significant impact on the share of public expenditure to agriculture across countries in the sample. Spending on agriculture across African countries peaked in 2016 and 2017, supporting the hypothesis that the Malabo Declaration, adopted in 2014, may have influenced the share of public spending on agricultural development (FAO, 2019b). However, the second progress report on the Declaration's implementation, released in 2019, indicates that public investment in agriculture had subsequently fallen across Africa (AU, 2019). Of the 10 African countries in our sample, only Comoros, DRC, Niger and Senegal have reported any increase in the share of public spending on agricultural development in recent years.

Low levels of public spending can be explained by competing or emerging priorities or the level

Figure 3 Agriculture share of central government expenditures, average 2013–2017



Note: Average 2013–2017 unless otherwise indicated in the labels.

Source: FAO (2019b) (www.fao.org/economic/ess/investment/expenditure/en/)

28 Information based on the country case studies, not shown in Figure 3.

of economic development. DRC, for example, faces major security challenges, as well as urgent social needs, that make it difficult to increase budget allocations to agricultural development. In Indonesia, the government is mandated to spend 20% of its budget on education, which has an obvious impact on allocations in other sectors.

In UMICs, in general, the low share of public investments in agriculture makes it more difficult to explore the link between government priorities and public spending on agriculture. In countries such as Mexico and Peru, lower shares of public spending on agriculture are explained by larger government budgets, combined with a strong private sector and a more advanced commercial approach to agricultural production in certain areas or crops. As a result, governments play a comparatively smaller role. In addition, government projects and programmes in these countries tend to be more complex and decentralised. They provide more integrated support to the agricultural sector but are also more difficult to capture in spending figures.

High shares of public spending on agricultural development do not guarantee better productivity and added value. In Uzbekistan, high levels of investment are the result of transfers to support the traditional wheat and cotton sectors. However, these investments are not seen as efficient and may limit diversification into crops with higher added value. Similarly, the Government of Niger spending on agriculture averaged 19.6% in the period 2003–2007, but this spending had little impact on agricultural productivity compared to the impact achieved by a lower level of spending in more recent years (Sadio Diallo et al., 2020).

Ambitious policies are built on large funding gaps that are unlikely to be filled by domestic and external resources. This can be seen mostly in LICs and LMICs, where large funding gaps in agricultural strategies are expected to be addressed by donors or the private sector (e.g. Comoros, Ghana, Kenya and Niger), but are not necessarily based on a realistic analysis. In Niger, the government estimated a funding gap for the five-year period 2016–2020 of approximately

\$1 billion when annual development finance to the sector averaged \$90 million in 2014–2016 (Présidence de la République, 2016).

In addition, the dependence of some countries on aid makes spending contingent on donor priorities and decisions, especially when resources are scarce and there are competing priorities. This makes it difficult to fill funding gaps in strategies and plans for agriculture and rural development.

4.2 Future trends in public expenditure

There is a mixed picture in terms of future trends in public investment in agriculture and rural development. Reflecting the case studies, some countries are expected to increase public spending in the sector, including Bangladesh, Comoros, Egypt, Ghana, Morocco, Niger and Uganda.²⁹ In all cases, however, this increase is expected to be small, except for Comoros, where the new agricultural investment plan anticipates tripling public spending, and Morocco, where the government has recently tripled the size of its government budget for agricultural and rural development. Kenya is the only country where spending is projected to fall. It has not been possible to identify a trend in the remaining countries.

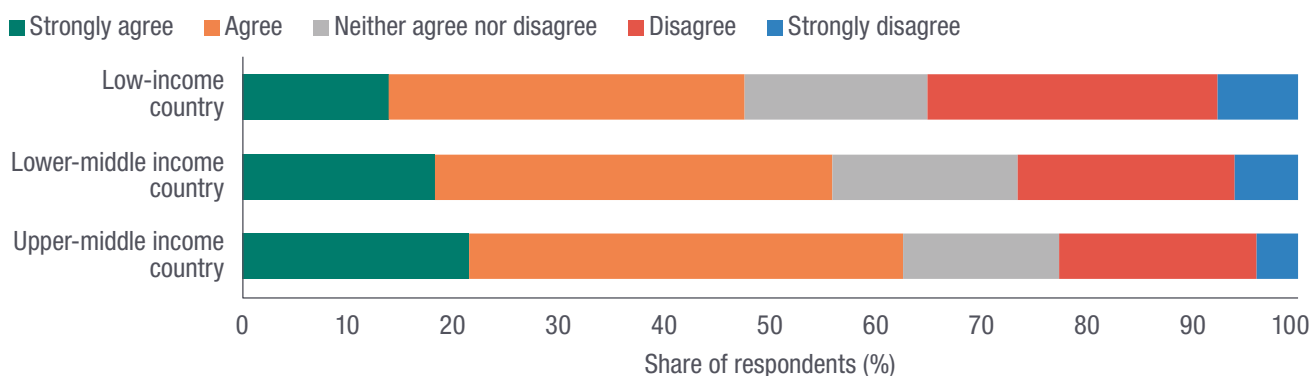
Government spending on agricultural and rural development is expected to continue to be funded mostly by domestic public resources. As shown in Figure 4, most respondents in all three country income groups estimated that funding for inclusive and sustainable rural development will come largely from governments over the next five to 10 years. Support is stronger among UMICs and lowest from respondents in LICs. This is to be expected as LICs may be dependent on aid flows (see Section 2.5).

In Niger, for example, external development assistance accounts for approximately 60% of government spending on agricultural and rural development. In Comoros, donor-funded projects contributed around 92% of total spending over the period 2014–2018. In comparison, external development assistance accounts for a negligible

29 In Bangladesh and Uganda, an increase in the share of public spending to agriculture will represent a change in relation to the dominant trend for the period 2010–2017 as discussed in Section 4.1.

Figure 4 Governments' expectations of funding sources for public investment in inclusive and sustainable rural development

'Public investment in inclusive and sustainable rural development will be funded largely by government budgets in the next five to 10 years'



Note: LIC, low-income country; LMIC, lower-middle income country; UMIC, upper-middle income country.

Source: Authors' elaboration based on the survey responses

share of public spending on agriculture in Brazil and Mexico.

Ambitions to increase spending on agriculture reflect different approaches and face distinct challenges. In some countries, such as Comoros, Ghana and Niger, large investment gaps in public spending on agriculture are expected to be covered by development partners. However, these expectations are not necessarily informed by a robust analysis of the trends among development partners or their appetite for the sector. The situation is different for Bangladesh, as the country plans to increase the share of government spending on agriculture while reducing its dependence on aid.

In some countries, the view is that the private sector will play a bigger role in government plans through public–private partnerships (PPPs) and similar instruments. Our analysis of the survey responses and the case study countries suggests that this type of response is more frequent in the case of LMICs and UMICs. A strong emphasis on the role of the private sector as a source of investment in agricultural and rural development emerged in the analyses for Kenya, Liberia, Senegal and Uzbekistan, across the income groups.

In Kenya, the government's highly ambitious flagship projects for agriculture rely heavily on private-sector funding for their full realisation. In Liberia, the involvement of the private sector

is seen as a major factor in the country's shift from subsistence to commercial farming. In Senegal, the government policy aims to improve the investment environment (e.g. regulatory frameworks and basic infrastructure) to boost private-sector participation in agricultural development. Several respondents in Uzbekistan expected that public funding will be able to attract investment from the private sector for agricultural and rural development – alongside many other government priorities.

Assessing future trends in public spending in agriculture is complicated by the impact of the Covid-19 crisis on public finance. While our country case studies predict that the Covid-19 crisis will have a major impact on public finance, the response to the crisis was more advanced in some countries than others at the time of the research phase of this project, and interviewees were more aware of, or had a better understanding of, its likely impact.

Countries such as Mexico, Morocco and Peru have defined a strategy, approved a costed set of measures and are considering the implications for the government budget and future financing needs. In other countries, such as DRC and Niger, the governments seemed to be less advanced in their planning, with limited assessments about how public spending in agriculture might evolve in response to the Covid-19 crisis.

5 External development assistance

This chapter explores the level of future demand for external development assistance for rural and agricultural development across our 20 case study countries. It draws on OECD ODF statistics (Creditor Reporting System) and analyses from the 20 case study countries, including interviews, and data from our online survey.

It is divided into four parts. The first part examines key trends in the volume and level of concessionality of ODF across all sectors in the 20 countries studied between 2014 and 2018. The second examines key trends over the same period in the share and level of concessionality of total ODF disbursed to rural development and agriculture. The aim is to test whether there are any significant differences between the levels of ODF concessionality across sectors and those specific to agricultural and rural development.

The third part draws on our survey results and interviews to explore governments' future demand for external development assistance for rural development and agriculture by type of resource (grants, concessional and non-concessional loans). Finally, the fourth part examines the added value of external assistance, exploring the characteristics of external development assistance that governments value most. (See Chapter 6 of this report for more on the criteria and policies for borrowing external development assistance for rural development.)

As noted in Chapter 2, ODF captures all development finance flows that countries receive from official bilateral and multilateral donors, including from official creditors at concessional terms (termed ODA by the OECD for both

grants and ODA loans) and at non-concessional terms (called OOFs by the OECD).³⁰ Again, ODF does not include funding from donors that do not report to the DAC, such as China. For some of the countries assessed, including Kenya and Uganda, China is a major creditor of external official bilateral debt but is less visible in the agriculture sector than in others (see Section 2.3 for more on the limitations of the data capturing ODF to rural development).

The key findings are as follows.

- The volume of total ODF (based on constant figures) increased between 2014 and 2018 for most LICs and LMICs assessed within this study – a reflection of their continuing demand for additional finance, even when they have growing access to a wider set of other financial resources, as is the case for LMICs.
- Most of the countries studied (12 of the 20) received a higher share of concessional finance, on average, for agriculture and rural development between 2014 and 2018 than they received across all sectors for the same period. While the difference was often marginal, countries like Egypt and Viet Nam had a clear preference for concessional resources.
- Most of our survey respondents across all income groups expect an increase in government demand for external assistance for rural development and agriculture over the next five to 10 years, and primarily for concessional resources – a preference that, in LICs, can be explained by their limited access to non-concessional resources and borrowing. However, the preference for concessional

30 The term captures bilateral donor's ODA that is concessional and their OOFs (except for export credit), which is non-concessional but often below market rates. It also includes multilateral organisations, ODA and OOF outflows.

resources from LMICs and UMICs reflects the perception that projects in agriculture and rural developments are soft investments that are unlikely to be able to generate enough revenues to service loans, especially those loans at non-concessional terms.

- Access to financial resources at below market rates was the main factor identified as motivating government demand for external development assistance, across all income groups. However, technical expertise from development partners also often drives government demand for external development assistance, especially in UMICs.

5.1 Official development finance

5.1.1 Trends

The total global volume of ODF provided to all LICs and MICs has grown by 25% since 2014 from \$203 billion to \$254 billion in 2018 (based on constant 2018 prices). In line with this global trend, our data show that for the countries we studied, ODF has increased, in particular for most of the LICs, reflecting their limited access to other sources of finance and, very often, their greater needs (Figure 5). Only two LICs bucked this trend – Liberia and Mozambique. Liberia’s

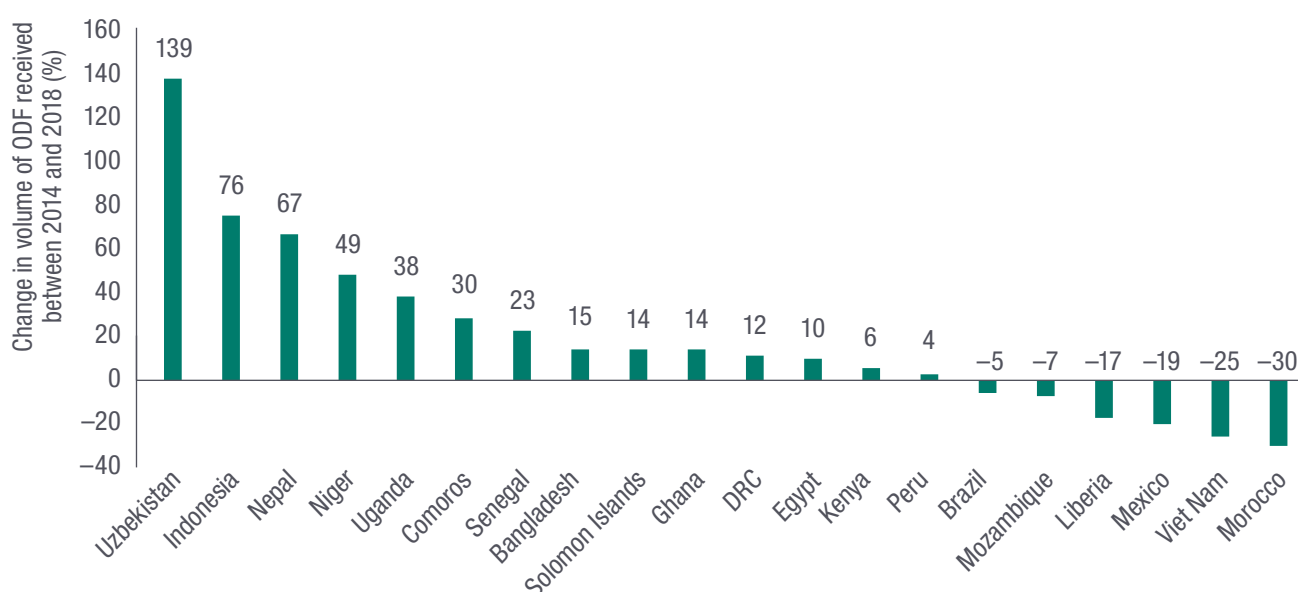
declining volume is probably explained by a spike in ODF in response to the Ebola outbreak in 2014, with ODF falling back to pre-Ebola levels as the crisis subsided. Mozambique’s falling volume of ODF is the result of the suspension of donor funding following the mismanagement of government loans over this period.

In contrast, the majority of the UMICs studied received a decline in the volume of ODF that they received between 2014 and 2018 (based on constant 2018 prices). Peru was the only exception among the UMIC countries reviewed, with a 4% rise in ODF over the same timeframe.

The volume of ODF has risen since 2014 for the majority of the non-fragile LMICs we studied. It might be expected that ODF volumes would fall as countries achieve middle-income status, as economic growth generates greater domestic revenues and there is less need for external development assistance. However, this is not always the case; in seven of the nine non-fragile LMICs assessed in this study, ODF flows grew over the period (based on constant 2018 prices).

Morocco and Viet Nam are the two LMICs in the sample that did not conform to this trend, with significant declines in their ODF flows since 2014. For Morocco, falling ODF can be attributed to the phasing out of major

Figure 5 Change in official development finance between 2014 and 2018



Note: Data show compound rates.
Source: OECD (2020)

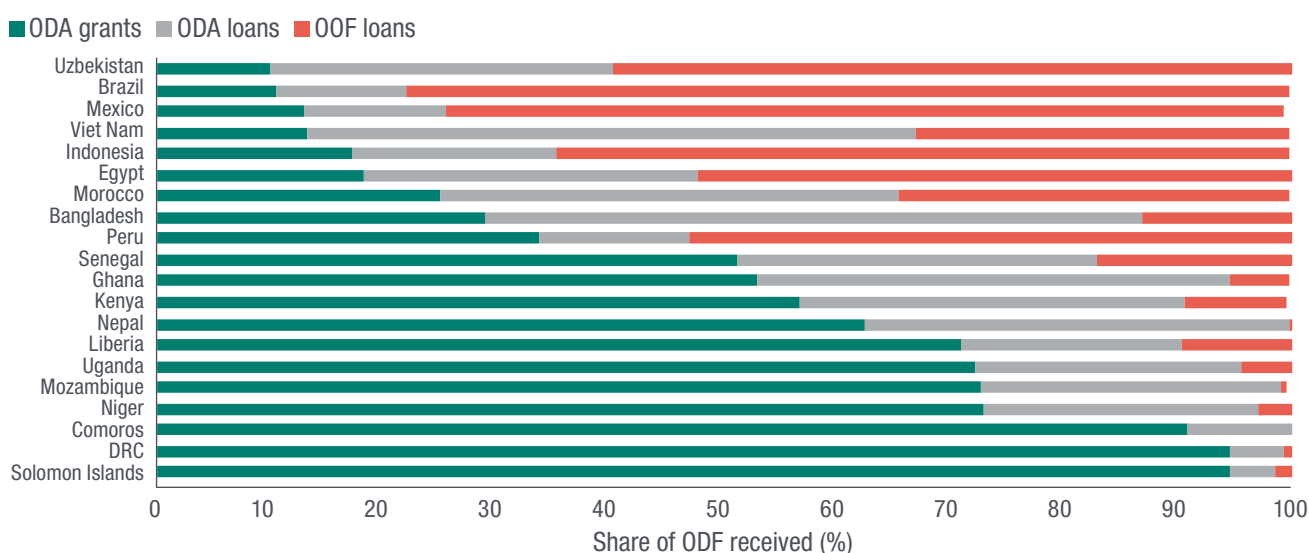
projects, combined with government efforts to reduce debt levels. The drop was, however, seen by our interviewees as mainly circumstantial: ODF was expected to increase again in 2019. In the case of Viet Nam, the country graduated from the World Bank's concessional window in 2017 and no longer receives the concessional loans and grants it once accessed to supplement national budgetary resources. Furthermore, Viet Nam is trying to reduce a deficit that has exceeded legally established ceilings, making it reluctant to take out non-concessional ODF (Sub-section 6.2.1).

5.1.2 Level of concessionality

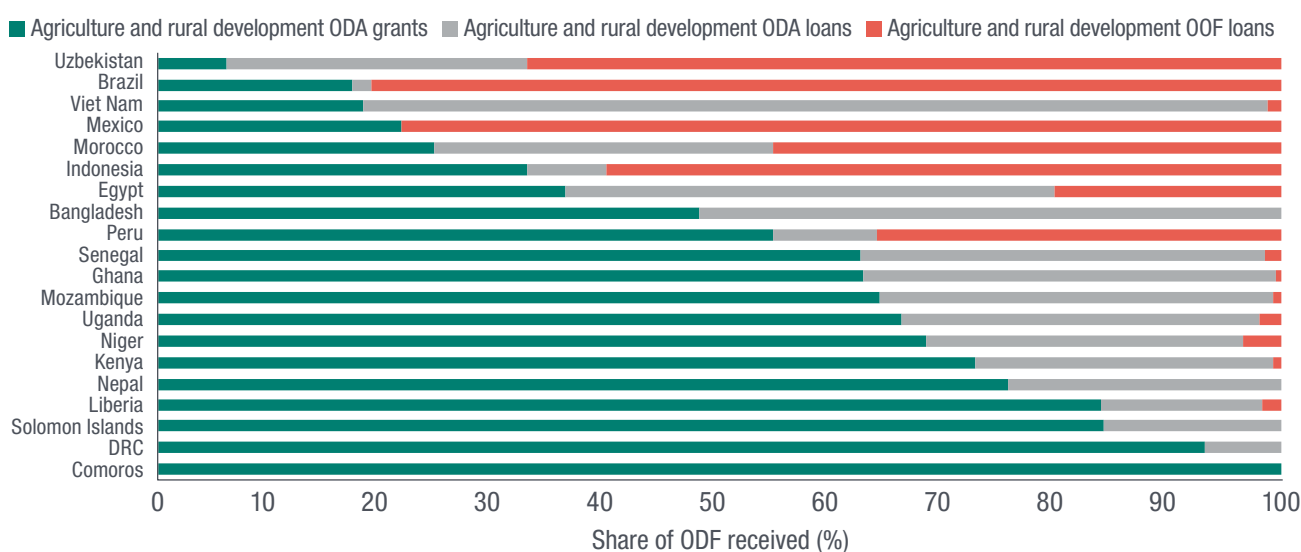
ODA grants accounted for most of the ODF disbursed to LICs and fragile economies, while non-concessional ODF loans made up most of the ODF to UMICs. ODA grants contributed 60% to 95% of ODF flows to all LICs and fragile states reviewed between 2014 and 2018, reflecting their high levels of need and their continuing access to concessional finance (Figure 6). Fragile states topped the list in terms of receiving the highest share of ODA grants, with ODF accounting for more than 90% of the ODA grants to Comoros, DRC and Solomon Islands during this period.

Figure 6 Concessional versus non-concessional official development finance

ODF received across all sectors



ODF received for agriculture and rural development



Note: Figures denote average between 2014 and 2018. ODA, official development assistance; OOF, other official flow.
Source: OECD (2020)

In contrast, the majority of ODF received by the three UMICs reviewed – Brazil, Mexico and Peru – came in the form of non-concessional OOF loans. In Brazil and Mexico, concessional ODA grants accounted for less than 13.1% of their ODF flows between 2014 and 2018. The low level of concessional in the finance provided to UMICs reflects their lack of access to multilateral concessional finance.

There are wide variations in the level of concessional of ODF to stable LMICs. Some are still eligible for multilateral concessional flows, while others are not. Six of the stable

LMICs – all of which have access to IDA or are blend countries – received most of their ODF in the form of concessional finance. ODA grants made up the largest share of ODF received in Ghana, Kenya and Senegal, while concessional loans dominated in Bangladesh, Morocco and Viet Nam.

For Bangladesh, the low risk of debt distress and the continuing access to concessional loans from MDBs means that all multilateral resources from IFIs come in the form of concessional loans (see Box 2 and Chapter 6 on borrowing policies). In contrast, most ODF flows to Egypt,

Box 2 The ‘traffic light’ approach to debt sustainability and the allocation of resources from international finance institutions

The risk of debt distress defines the grant or loan allocation from MDBs.

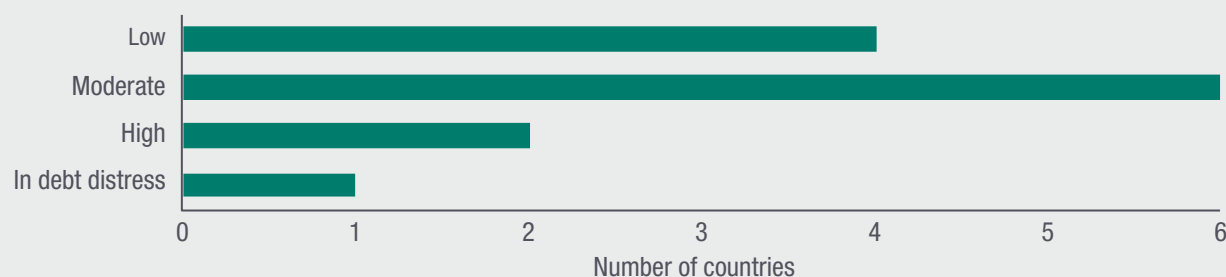
In the countries eligible for concessional assistance from MDBs – primarily the World Bank, AfDB and Asian Development Bank (AsDB) – the split between grant and loan financing depends on the risk of debt distress of the country:

- 100% grant financing if the country is already classified in debt distress or at high risk of debt distress
- 50% grant and 50% loan financing for a country at moderate risk of debt distress
- 100% loan financing for a country at low risk of debt distress (IMF and World Bank, 2020).

The figure below summarises the risk of debt distress across the countries reviewed for this study, when applicable. The risk of debt distress is assessed only for countries defined as being eligible for support through the Poverty Reduction and Growth Trust (PRGT) by the IMF (IMF, 2020c).

Mozambique is the only country in our small sample that is in debt distress, while Ghana and Kenya are the two classified as being at high risk of debt distress.ⁱ This group is less representative than the overall group of countries for which a LIC debt-sustainability analysis is conducted by the IMF/World Bank. For example, 40% of countries across sub-Saharan Africa were either in debt distress or were at high risk of such distress in 2018 (Mustapha and Prizzon, 2018).

Risk of debt distress



Note: This graph reflects the latest update as of 30 June 2020 (it refers to the 13 case study countries whose risk of debt distress is assessed by the IMF/World Bank. The remaining countries are defined as Market Access Countries, using a different methodology).

ⁱ Kenya was reclassified to high from moderate risk of debt distress in May 2020.

Indonesia and Uzbekistan came in the form of non-concessional OOF loans. Egypt and Indonesia only have access to non-concessional multilateral finance, while Uzbekistan is a blend country with access to both concessional and non-concessional resources.

5.2 Official development finance to rural development and agriculture

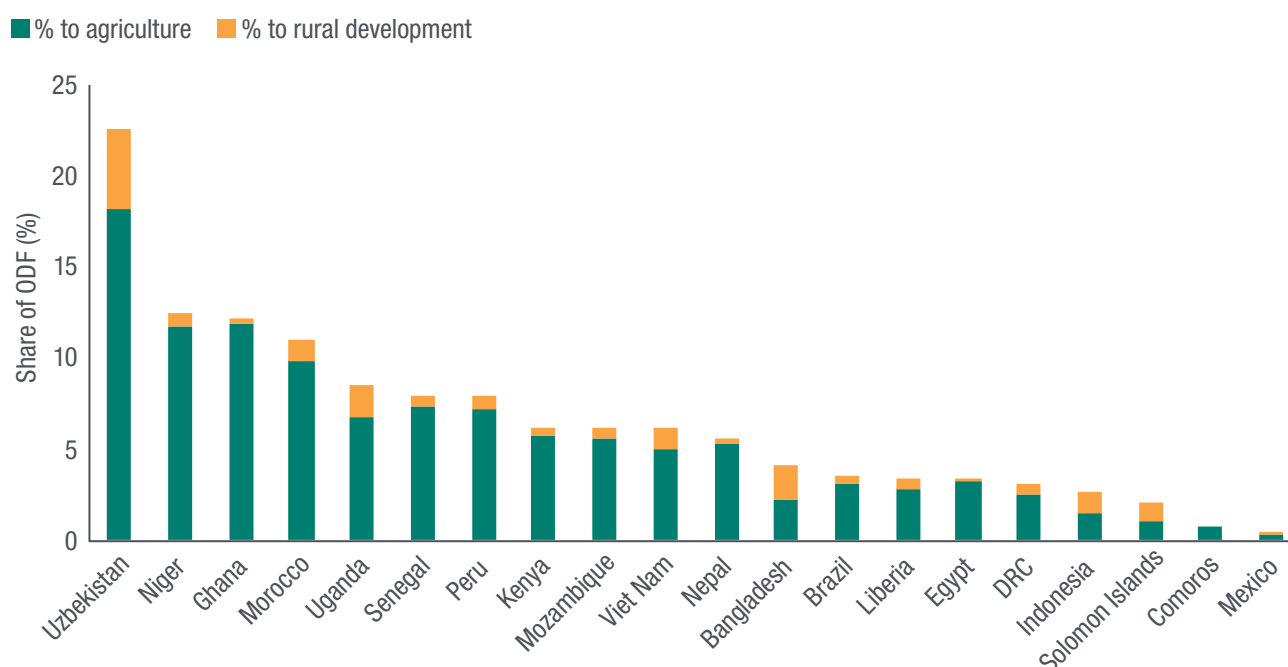
5.2.1 Trends

While most of the countries reviewed received a share of ODF for rural and agricultural development above the global average in 2018, fragile countries bucked this trend, with the majority receiving below the average share. At the global level, across all countries that receive ODF, 5% on average, was disbursed for rural and agricultural development in 2018. Of the 20 countries reviewed for this research, 11 received more than the average global share, with 6% to 23% of their ODF allocated for rural and agricultural development, while nine countries received below the global average (Figure 7).

Our data show that four out of the six fragile countries reviewed – Comoros, DRC, Liberia and the Solomon Islands – received shares below the global average in 2018.³¹ This was despite the fact that these countries have higher shares of their populations living in rural areas compared to other reviewed countries. Mozambique and Niger are the only two fragile countries that received a share of ODF for the sector above the global average.

If ODF was allocated purely on the basis of need, we might have expected to see those LICs and LMICs with high shares of their population living in rural areas and often high levels of poverty in rural areas receiving greater assistance to rural development compared to other countries. Our data show, however, no correlation between the scale of a country's rural needs and the share of ODF received for rural development and agriculture (Figure 8). Niger and Uganda were the only countries with high shares of their population living in rural areas (and in extreme poverty) and high levels of ODF for agriculture and rural development.

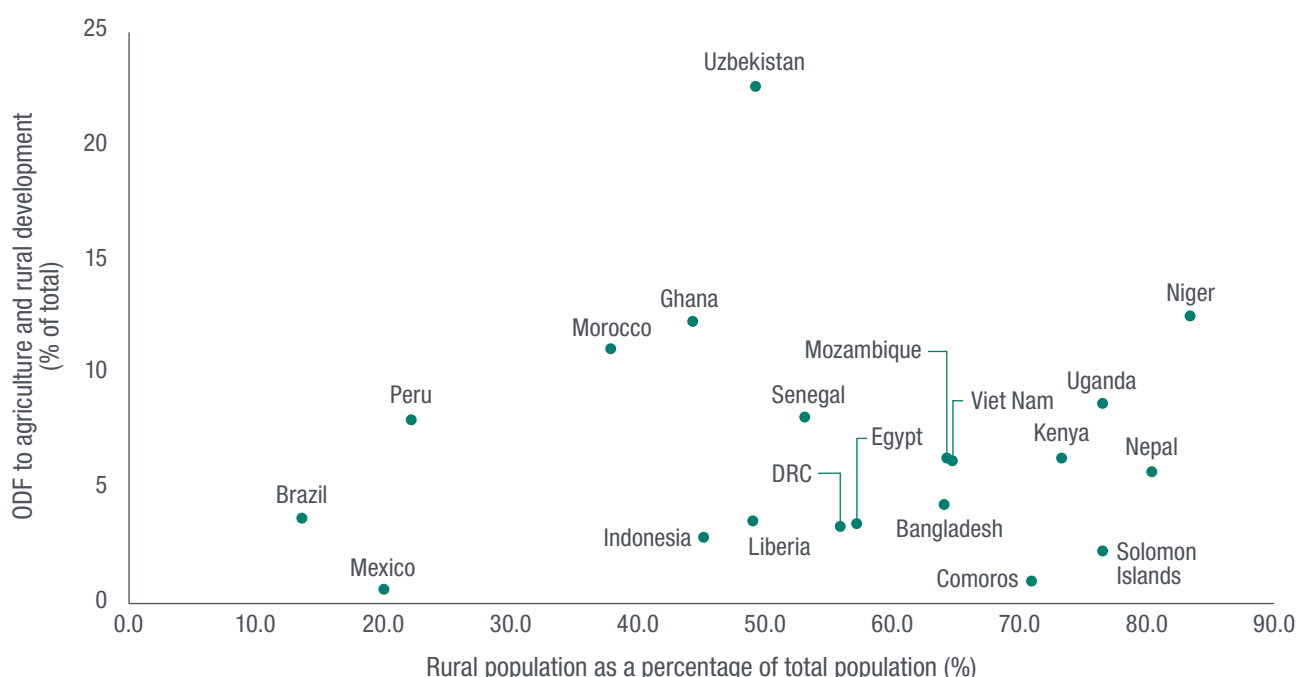
Figure 7 Share of official development finance disbursed to agricultural and rural development in 2018



Note: Percentage indicates total share. ODF, official development finance.
Source: OECD (2020)

31 Please note the country case studies had often used commitments rather than disbursements data in their analysis.

Figure 8 Size of rural population compared to ODF received for agricultural and rural development



Note: Case study country data only. ODF, official development finance.

Source: OECD (2019); World Bank (2020a)

In contrast, Comoros and the Solomon Islands, both fragile LMICs with high levels of poverty and a high share of the population living in rural areas, received below the global average share of ODF for agricultural and rural development. Ghana, Morocco, Peru and Uzbekistan all received relatively high shares of ODF for rural development in 2018, compared to the average across the countries reviewed, but they all have lower shares of their populations living in rural areas than the other countries in our sample.

Among our sample countries, those that prioritise agriculture in their public spending tend to have a higher than average share of ODF disbursed to rural development and agriculture. Uzbekistan, for example, spent 11.9% of its government budget on agriculture on average between 2012 and 2016, according to FAO statistics, making it one of the world's top spending governments on agriculture over this period (FAO, 2019b). The country received 23% of all of its ODF for rural development in 2018, far exceeding the global average share of ODA disbursed.

Senegal also far exceeds the Maputo and Malabo targets of 10% of government

expenditure for agriculture, allocating 30% to agriculture in 2015 (Hummel and Mas Aparisi, 2016) and received a higher share of ODF for agricultural and rural development than the global average. Ghana and Niger also spend close to 10% of their government budget on agriculture, a higher share than the global average (although this is contested in the case of Ghana). Finally, Morocco has recently tripled the size of its government budget for agricultural and rural development and the allocation of ODF to agriculture has also exceeded the global average.

In contrast, the governments of case study countries that tend to spend a relatively low share of their expenditure on agriculture receive a relatively low share of ODF for agricultural and rural development. Since 2013, Mexico has also consistently spent under 3% of its government budget on agriculture and receives less than 1% of its ODF for agricultural and rural development (FAO, 2019b).

This finding should be treated with a degree of caution, however, given that high public expenditures in some of these countries are also the result of significant donor funding that is recorded as part of the budget. This is the case

for Ghana, where development partners were expected to provide 35% of the cost of the agriculture development plan between 2018 and 2020 (GoG, 2017).

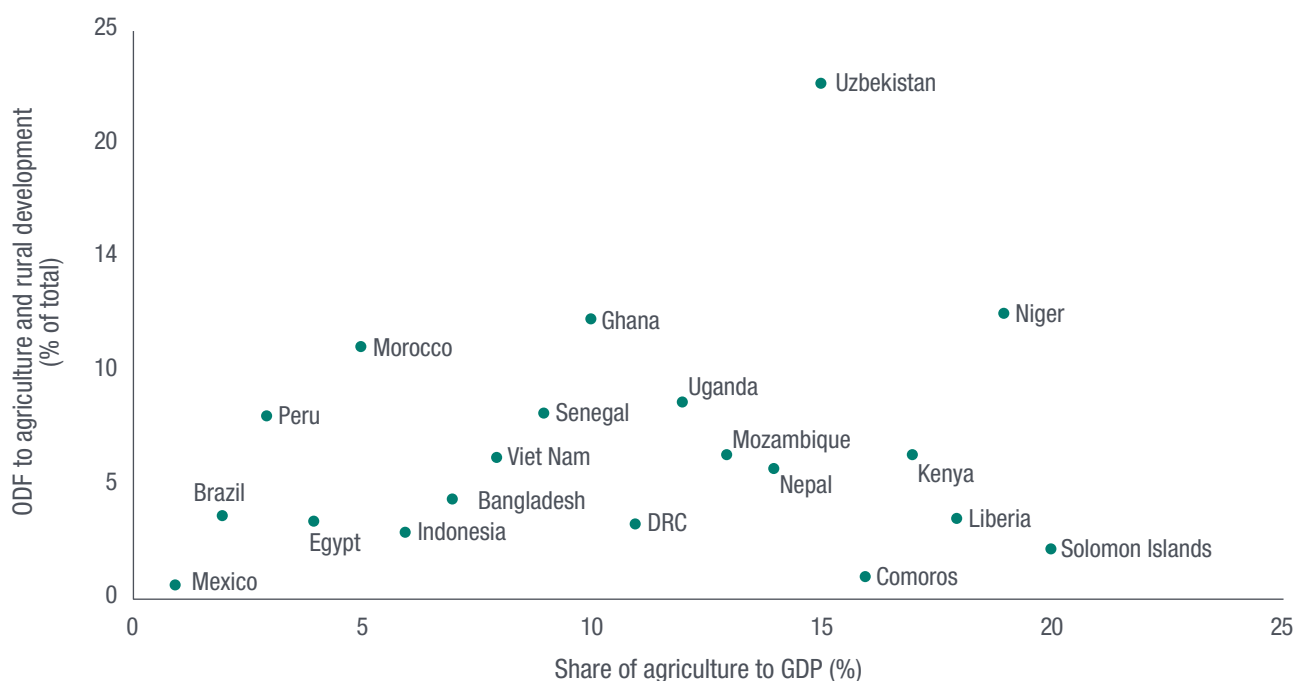
There are also exceptions to this trend. Uganda, which receives a high level of its ODF for rural development, dedicates a low and falling share of public expenditure to agriculture (3.2%). In contrast, Bangladesh spent 8.7% of its government expenditure on agriculture on average during 2012 to 2016 – the world’s fifth largest share – but received a below-average share of its ODF for agricultural and rural development in 2018 (FAO, 2019b).

There is some correlation between case study countries that have economies driven by the agricultural sector (measured as a share of GDP) and ODF for agricultural and rural development, with a Pearson coefficient of 0.28 (Figure 9). The economies of Niger and Uzbekistan, for example, are heavily based on agriculture: they also receive a larger share of their ODF for agricultural and

rural development than other countries. The reverse is true for Mexico, where agriculture makes up a very small share of its GDP and, correspondingly, receives a very small share of ODF for this sector.

There are, however, anomalies. First, in Comoros, Kenya and Liberia, the agricultural sector contributes over 30% of GDP, but the share of ODF to agricultural and rural development is below the average for recipient countries. Second, Ghana, Morocco and Peru have relatively small shares of their GDP generated by the agricultural sector (compared to other case study countries), and yet received a share of ODF for agricultural and rural development above the global average. In the case of Ghana, this is because the government is keen for development partners to fund agricultural development projects, and because of the large proportion of poor people in the country’s Northern regions who rely on this sector for their livelihoods.

Figure 9 Share of GDP attributed to agriculture compared to official development finance received for agricultural and rural development



Note: 2018 data.

Source: OECD, CRS (2020); World Bank (2020a) except for data on the share of agriculture to GDP for the Solomon Islands from World Bank (2017b)

5.2.2 Level of concessionality

The majority of countries reviewed (12 out of the 20 reviewed countries³²) received a higher share of concessional resources for agricultural and rural development between 2014 and 2018 compared to flows received across all sectors. This suggests the agriculture and rural development sectors are often treated as ‘soft’ when it comes to investment (Figure 6). While the difference in the share of concessional finance for agricultural and rural development versus all sectors was often marginal (less than 5%), there were some significant differences.

In Egypt, for example, 80% of all ODF for agricultural and rural development is concessional, compared to an average of 48% across all sectors. This is partly the result of a government focus on non-concessional borrowing for hard projects, including large-scale infrastructure and industrial projects outside the agricultural sector that can generate financial returns. In Viet Nam, 99% of ODF flows towards agricultural and rural development are concessional compared to 67% across all sectors as a result of the government’s strict rules on borrowing. Non-concessional loans may only be used to finance socio-economic infrastructure development and other priority projects as decided by the Prime Minister. In Peru, 63% of ODF to agricultural and rural development is concessional, compared to 47% across all sectors. This reflects concessional finance for climate-related agricultural and rural development programmes.³³

In most countries, the greater share of concessional ODF for agricultural and rural development than across sectors was the result of an increase in ODA grants. Of those countries with a greater share of concessional finance to agricultural and rural development than across sectors, eight received a greater share of ODA grants when compared to all sectors, showing a preference for highly concessional finance for agricultural and rural development (Figure 6). However, in the other four countries (DRC, the Solomon Islands, Uganda and Viet Nam) the increased share of concessional resources for

agricultural and rural development was the result of a greater share of ODA loans than grants.

Only four of the 20 case study countries received a smaller share of concessional finance for agricultural and rural development compared to that received across all other sectors, and all are MICs: Brazil, Mexico, Morocco, and Uzbekistan (Figure 10). With the exception of Uzbekistan, all have access only to non-concessional assistance from the MDBs. Uzbekistan’s high share of non-concessional finance for the sectors is largely due to the fact that the majority of the finance is provided to public banks in the form of credit lines and therefore has a clear revenue stream enabling the non-concessional finance to be repaid.

The share of concessional finance to agricultural and rural development is in line with other sectors in some low-income or fragile countries in Comoros, Nepal, Niger and Mozambique (Figure 10). This reflects the fact that these countries have little or no access to non-concessional finance. Even within this group, however, there are differences. In Comoros and Nepal the share of grants to agricultural and rural development is greater than across sectors, while in Niger and Mozambique the share of concessional ODA loans to agricultural and rural development is greater than to other sectors.

5.3 Future demand for external development assistance

Most of our survey respondents (74%) expect future government demand for grants for rural development to increase over the next five to 10 years. This finding was confirmed by our desk reviews and interviews (Figure 10). A further 71% of all respondents expect demand by their governments for highly concessional loans to the sector to increase in the medium term. These findings are consistent across all country income groups.

This was even true across respondents from UMICs, although the share of the respondents who expect (or strongly expect) an increase falls in line

32 Bangladesh, DRC, Egypt, Ghana, Indonesia, Kenya, Liberia, Peru, Senegal, Solomon Islands, Uganda and Viet Nam.

33 In addition, projects to the sector that are funded via non-concessional finance might not be classified by the OECD as agricultural or rural development programmes in ODF statistics.

with the country's higher income. For example, 56% of respondents from UMICs expected that demand for grants will expand (60% in the case of concessional loans). While this preference can be explained in LICs by their limited access to non-concessional resources and borrowing, preference for concessional resources from LMICs and UMICs may reflect the perception that projects in agriculture and rural development might not be able to generate enough revenues to service loans, especially at non-concessional terms. These arguments are explored in Chapter 6 of this report on drivers for borrowing decisions across the 20 case study countries.

Most respondents from LMICs (39%) also expect growing demand for less concessional finance over the next five to 10 years.³⁴ In contrast, only 26% of respondents from LICs think that their government will demand more non-concessional loans for the sector in the future, with most respondents (36%) disagreeing with the proposition and a large share (35%) neither agreeing nor disagreeing.

Only respondents from UMICs (39%) expect future demand for commercial loans for rural development to rise. In contrast, 49% of respondents for LICs and 36% for LMICs do not expect increased demand.

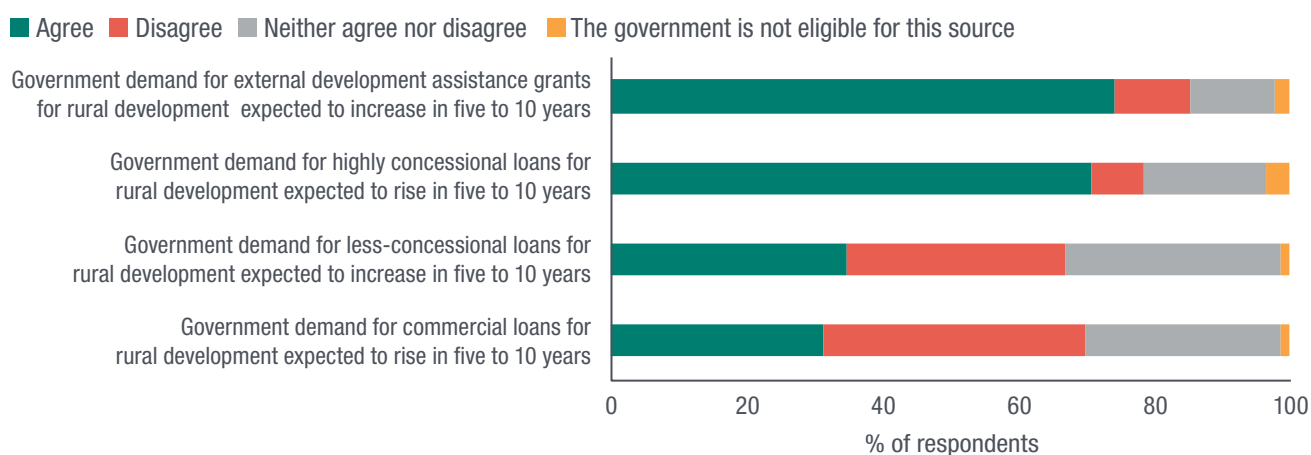
5.4 Added value of external development assistance

Access to financial resources at below market rates is the main factor driving governments' demand for external development assistance across all three income groups (see Figure 11). It is important, however, to unpack the answers based on the detailed analysis made in the country studies, given the differences across country income groups.

In LICs, the strong response rate is explained, in general, by greater dependence on aid than the other income groups (e.g. DRC, Liberia, Nepal, Niger) and limited access to international financial markets (i.e. no other sources of funding). There is also a strong preference for ODA grants and loans, rather than on other forms of borrowing (see Section 5.3).

The situation is different in UMICs. Countries such as Mexico and Peru have good access to financial markets. In this context, and from the perspective of the ministry of finance, a new project or programme makes sense only if finance can be obtained at better conditions than in financial markets. When evaluating these conditions, the project or programme in question is generally considered as a whole, including

Figure 10 Expected future government demand for official development finance for agricultural and rural development



Note: 'Highly concessional loans' refers to concessional loans in the rest of the report and 'less concessional loans' to non-concessional loans.

Source: Authors' elaboration based on the survey results

34 29% disagreed with the proposition and a further 29% neither agreed nor disagreed.

its financial terms and any grants for technical assistance. As a result, access to finance at below market rates is generally seen as a precondition set by the ministry of finance and not as the main driver of the government's interest in external finance.

LMICs generally lie somewhere in between these two groups. Some countries behave more like LICs (e.g. Comoros, Ghana, Solomon Islands) while others adopt a position that is closer to UMICs (e.g. Morocco).

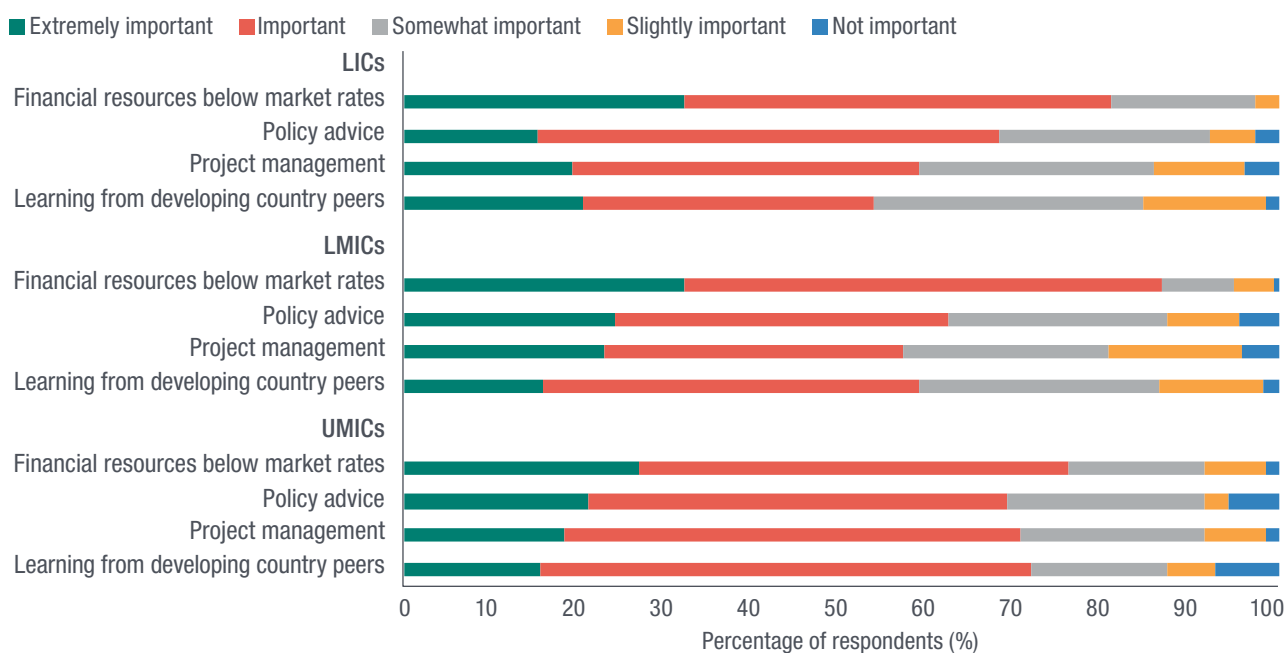
Factors linked to the technical expertise of development partners and their ability to share knowledge and build the capacity of partner countries also play a strong role across all country income groups. The survey and the country case studies tried to differentiate between policy advice, project management and learning from development partners, but it is difficult to draw a clear boundary across these three elements.³⁵ With this caveat, technical capacity and access to knowledge are important factors in external finance operations across many countries.

This is the case for UMICs – although we expected policy advice and project management to be their most valued aspects, in contrast to respondents in LICs and LMICs (see Calleja and Prizzon, 2019).

Some LMICs shared this preference (including Bangladesh, Indonesia and Morocco), while others place an equal value on access to finance at below-market rates and technical aspects (Comoros, Egypt, Kenya, Senegal and Uzbekistan). In the case of Bangladesh, for example, interviewees expressed a strong preference for technical rather than financial assistance, but mainly for knowledge management and innovation.

Some LICs, including DRC and Niger, also highlighted the importance of technical assistance in the areas of project management and policy advice to build local capacity and improve project implementation. In Ghana, falling demand for technical assistance reflected general fatigue about policy dialogue with development partners and frustration about using external experts, with less demand for technical assistance than in the past, according to our interviews.

Figure 11 Factors influencing government demand for external development assistance to fund public investment in inclusive and sustainable rural development



Source: Authors' elaboration based on the survey results

³⁵ Many case studies often refer to development partners' technical assistance and/or their capacity to share knowledge and build capacity within the country, which can have a different meaning depending on the design of the project.

6 Borrowing decisions

In this chapter, we examine the demand for a particular form of external development finance, loan financing, specifically the criteria and policies for borrowing from bilateral and multilateral agencies and explore the factors that influence decisions about negotiating and accepting loans for agricultural and rural development. We treat borrowing decisions separately from those related to acquiring grant financing for two main reasons. First, loans have to be repaid – so governments tend to conduct more thorough cost-benefit analyses of loan-funded projects as repayments will reduce fiscal space in the future as it is within the scope of debt committees in many countries we assessed in this report. Second, the internal power balances and decision-making processes within a government for negotiating a loan and negotiating a grant with development partners are not the same. Decisions about new loans involve both line and central ministries or agencies such as treasuries and finance departments, while grant-funded projects could remain within the responsible line agencies – although, as we have seen in the case of the Mexican administration, grant financing could reduce rather than increase the overall ministerial budget.

Ultimately, the specific economic context in each country shapes its ability to borrow to ensure that its debt remains sustainable in the future. Not all of the countries reviewed in our sample – and this was a deliberate choice at the case-study selection stage – are in a position to borrow from bilateral and multilateral development partners. As noted in Section 5.1, countries like Comoros, DRC, Solomon Islands and Niger, in this order, receive more than 80% of ODF in the form of grants. This is explained by the combination of a high risk of debt distress, restrictions on future borrowing, high levels of poverty, low per-capita incomes or a

fragile situation, prioritisation of borrowing to other sectors or the disbursement of grant funds by large bilateral donors (reducing the incentives for borrowing).

Not surprisingly, a far greater share of the external public and publicly guaranteed debt for several LIC and LMIC IDA comes from concessional sources. Some of the IBRD-eligible countries in our sample (Brazil, Indonesia, Mexico and Peru) are in a position to borrow at reasonable terms from international capital markets, making loans from bilateral and multilateral partners less attractive.

This chapter has three main objectives. First, we summarise the general criteria and policies for borrowing external development assistance as reviewed in the debt management strategies and policies that inform and can constrain borrowing decisions for agriculture and rural development. Second, we analyse the specific conditions in place for borrowing for projects in agricultural and rural development, for which activities and on what terms. Finally, we review the motivations expressed by interviewees and survey respondents that influence borrowing decisions in agricultural and rural development. Throughout this chapter, we draw on the responses to the interview questions and survey, considering differences, if any, across countries and groups of respondents (finance/planning ministries and line ministries).

The key findings are as follows.

- Governments' main preference is to maximise concessional loans to minimise costs and reduce future risks to ensure debt sustainability. This preference is consistent across all three income groups, even when countries can borrow in international capital markets. Some IDA and blend countries are, however, keen to tap into more semi-concessional finance.

- One motivation is the concern about borrowing and future debt sustainability. The vast majority of countries reviewed have established limits to external public borrowing – even at concessional terms – or have policies to reduce debt-to-GDP ratios. However, the crisis prompted by the Covid-19 pandemic means that borrowing policies and approaches have been relaxed or other initiatives have been introduced to free up fiscal space.
- Sectors that support economic growth and can generate sufficient returns to cover debt-service repayments are prioritised for loan financing. Only 30.2% of respondents to our survey agreed or strongly agreed that most investments in rural development can generate the additional tax or fee revenues quickly enough to service their loans, corroborating the discussion in the interviews. In several interviews, rural and agricultural development were considered to be soft sectors – with a preference for grants and concessional loans, and across income groups.
- Keeping this as low as possible was identified as being considered the most important financial aspect for countries when negotiating with development partners to maximise loan concessionality.
- Benefits to the rural poor, food-insecure and vulnerable, and the impact on the wider economy are the main factors that influence borrowing decisions for projects in rural development – a finding that is consistent

across all income groups (even though the impact on the wider economy is the main factor identified across LICs).

6.1 Criteria and policies

6.1.1 Debt limits

The vast majority of countries reviewed have established limits to external public borrowing – even at concessional terms – to ensure external debt remains sustainable in the future. This approach is consistent across the 20 case study countries, regardless of their analytical or operational groups, reflecting standard practices and prudent approaches to borrowing and debt management.

Several countries have to comply with restrictions to the debt-to-GDP ratio limiting future borrowing, even at concessional terms, as part of their public financial management laws. Figures are country-specific and range from 30% of GDP in Peru³⁶ and Solomon Islands, to 50% in Ghana (with a 25% GDP limit to foreign debt) and 60% in Indonesia and Liberia, while Viet Nam has a national debt ceiling of 65% GDP.³⁷

Other countries have ceilings on debt ratios and fiscal deficit as part of regional agreements and membership as well as participation in monetary unions. This is the case for Kenya³⁸ and Uganda, in order to comply with the East African Community (EAC) convergence criteria, and for Niger and Senegal, in order to meet the targets set by the West African Economic and Monetary Union (WAEMU). Some countries have a medium-term debt policy to reduce debt as a share of GDP (Brazil, Egypt, Mexico, Morocco and Mozambique).³⁹

36 Peru has also a dual expenditure growth ceiling (on non-interest expenditure and on current expenditure).

37 In Viet Nam, provinces also have their own debt ceilings (which varies between provinces).

38 Kenya revised the threshold to 70% debt to GDP within its 2020 medium-term debt strategy, above the EAC 50% debt threshold – as the country had exceeded this.

39 At the federal level, the Brazilian government has enacted the Constitutional Amendment 95/2016 to address the dynamics of unsustainable debt, limiting the rise of public spending and stabilising the debt at 81.7% of GDP in 2023. The Egyptian government also has a medium-term debt strategy that aims to scale down the debt-to-GDP ratio to 80% by 2021/2022. In 2019 the Ministry of Planning established a Debt Committee to oversee and approve external borrowing. The Mexican government aims to keep debt levels stable at around 55% of GDP through the period 2020–2024. While considered sustainable, the Moroccan government is planning to reduce the debt-to-GDP ratio to around 60% in the medium term, setting a limit on external loans. In the case of Mozambique, the government aims to move debt indicators to a moderate risk of debt distress.

Only four countries have no debt ceiling in place: Bangladesh, DRC, Comoros and Nepal.⁴⁰

Before the Covid-19 crisis, debt levels for many countries were well below the government thresholds, theoretically indicating space for additional borrowing. This was the case for Bangladesh, Indonesia, Nepal, Solomon Islands and Uzbekistan. It is worth noting that most respondents to the survey considered their country's debt ceiling and debt policy would still allow space for additional borrowing for projects in rural development (46% of respondents strongly agreed or agreed with the statement) (Figure 12).

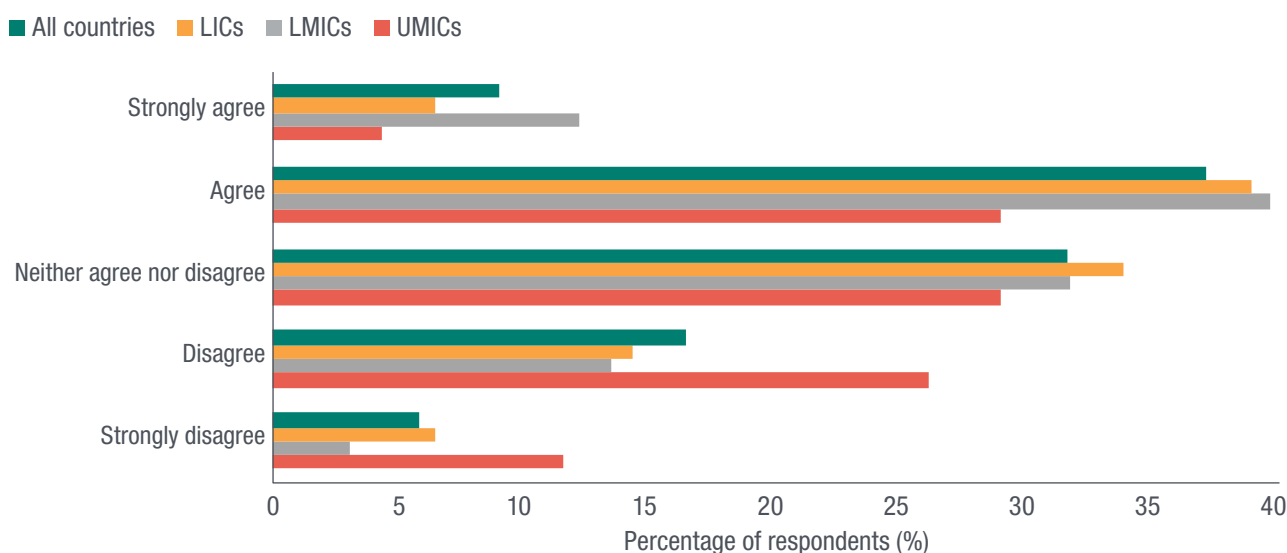
This share falls in the case of UMICs: 33.3% of respondents from and working in these countries stated that current debt limitations allow space for additional borrowing for rural development projects, far lower the proportion than in LMICs (51.8%). Several of the UMICs analysed for this study face limitations to additional borrowing (Brazil, Mexico and Peru), particularly at the sub-national level in the case of Brazil.

In one case – Viet Nam – debt thresholds will constrain future borrowing from development partners across all sectors. In 2017, when it reached a high level of debt, the Vietnamese government stopped contracting new loans and restructured some existing ones. The government can borrow at less concessional loans only if these have a grant element of at least 25%. The government aims for Viet Nam's foreign debt to amount to no more than 45% of GDP from 2021 to 2025 and, based on current figures, space for additional borrowing is limited. While the government can still manage to service its debt, the general approach is to be conservative and cautious to control the budget deficit in the future. In the round of interviews, it emerged that Viet Nam's debt ceilings remain a major concern for the government.

In some cases, the debt-management strategy aims to shift the composition from external to domestic and/or private-sector debt to reduce exchange-rate risk and external dependence,

Figure 12 Debt ceiling and debt policy: implications for additional borrowing for rural development projects

'The country's debt ceiling and debt policy allow space for additional borrowing for projects in rural development.'



Source: Authors' elaboration based on the survey results

40 Because of strong expectations on economic growth (before the Covid-19 crisis) and low debt ratios, the government of Bangladesh has no debt ceiling (or limit) in place and applies a prudent approach to debt management. Similar arguments apply to the case of the government of DRC, as strong economic growth forecasts (again pre-Covid-19) had led the government to adopt a prudent, but expansionary medium-term debt strategy (2020–2024). The government of Comoros has also committed to a prudent approach to debt management, reflecting both new loans and the impact of Cyclone Kenneth in 2019. Nepal does not yet have a formal medium-term debt strategy.

but shrinking the space for borrowing from development partners. A few countries have considered diversifying their portfolio away from external loans from development partners and towards domestic markets or foreign private investors (Bangladesh, Egypt, Ghana, Kenya, Indonesia, Uganda and Uzbekistan). In the case of Mexico, the government prioritises domestic debt with long maturity and fixed rates; external debt is considered complementary to domestic debt and only when its financial terms and conditions are comparable. This approach is likely to affect future demand for borrowing from external lenders, including bilateral and multilateral donors.

The crisis prompted by the Covid-19 pandemic means that borrowing policies and approaches have been relaxed or other initiatives have been introduced to free up fiscal space. Existing restrictions on debt ratios have been lifted on borrowing and debt ceilings have been increased to fund short-term emergency measures and medium-term recovery packages. The scale of the response to the Covid-19 crisis and the economic recovery packages has prompted many countries, including those reviewed in the project, to relax the debt ceilings in their debt policies.

At the time of writing, Ghana, Kenya, Morocco Peru, the Solomon Islands and Uzbekistan have relaxed their debt thresholds or are considering it. In Uzbekistan, the government has amended the threshold on foreign borrowing as a result of the Covid-19 crisis to allow for greater borrowing. Some LDCs and/or IDA-eligible countries have applied for debt-service suspension from bilateral creditors until the end of 2021, including Comoros, Mozambique, Nepal, Senegal and Uganda in our sample group.

6.1.2 Concessionalality

In most countries, the main strategy is to maximise concessional loans and borrow at the lowest cost possible to minimise costs and reduce future risks for debt sustainability. This might be obvious, but countries do so at the expense of access to greater volumes that bring them more expensive terms and conditions (see Prizzon et al., 2016b).

The maximisation of concessional finance (grants and concessional loans) was, not surprisingly, common across several LICs and LMICs but was explicit in a few strategies, such as those of the governments of Bangladesh, Kenya, Nepal, Niger, Mozambique, Senegal and Uganda. In the case of Bangladesh, these points strongly emerged in the interviews, suggesting a deliberate move on the part of the government to frontload loans at concessional terms as much as possible before graduating from MDBs' soft windows.

Across countries, general concerns about the sustainability of external debt have fostered a more conservative set of policies for external borrowing, with a preference for concessional loans. In some cases, concessional finance is the only option because loans are approved only if they have a grant element of at least 25% or 35%.⁴¹ This is the case for Liberia and Solomon Islands. In particular, the Liberian government wants to maximise highly concessional loans and accepts project proposals only when their financing has a grant element of at least 35%. This used to be one of the main criteria for loan approval among many LICs and LMICs, but applied to only a handful of countries in our sample.

Maximising concessional loans is a consistent preference across the spectrum of income per capita, even when countries can borrow in international capital markets. In the case of Egypt, interviewees stressed the preference for grant components in external development assistance and were less willing to borrow unless the loan was concessional. In the case of Morocco, interviewees pointed out that competition among international official lenders has sometimes been used to improve financial conditions. With growing financial needs, coupled with the need to reduce pressure on the government budget, the government is likely to prioritise concessional operations. In the case of Viet Nam, the government only borrows for socio-economic infrastructure development and other priority projects as decided by the Prime Minister and minimises loans for capacity building, institutional

41 A minimum of 35% grant element is the criterion applied by the IMF; a minimum 25% grant element was the main threshold used to define a concessional loan, but these have changed with the ODA reform in 2014 and have applied to data since 2018.

strengthening, training or technology transfer and supporting recurrent expenditures (see Section 6.2). Brazil was an exception as it obtains almost no concessional finance, and such finance is usually available only for very small projects or technical assistance.

Some governments of IDA or blend countries want to expand borrowing at less concessional terms to ease constraints on volumes (under certain conditions). Senegal's debt management strategy is explicit in saying that resources from concessional donors are expected to fall and that it is open to the need to borrow at semi-concessional terms from new partners, international capital markets and the MDBs. The country is expected to consider Eurobond issuances and, more generally, borrowing on commercial terms, if financing terms are favourable and if it is impossible to obtain concessional financing from development partners, particularly the AfDB and the World Bank. The government also prioritises borrowing for projects that are meant to generate either demonstration effects for private-sector interventions or sufficient returns to service the loan (see Sub-section 6.2.1).

While concessional finance remains the priority, the government of DRC finds it difficult to raise additional volumes from donors as the offer is limited. The government aims to tap into 'semi-concessional' finance from China and India and non-concessional finance to finance public investment.⁴² The Kenyan government also aims to maximise concessional resources across all sectors, but where concessional resources are not available, preference is given to non-concessional borrowing for projects that generate revenue to repay the loans (see Sub-section 6.2.1). In the case of Ghana, there are limits for non-concessional debt (\$3.75 billion in 2020) in the medium term, to be tapped into only when no concessional finance is available and for self-financing projects.

There is a preference for borrowing for activities that boost economic growth directly and that can generate enough economic and financial returns to cover debt-service payments. Very few debt management strategies are clear

about the terms and conditions of individual loans (ultimately public borrowing and public expenditure are fungible). Most of the interviews and the survey questions aimed to unpack whether and how the criteria and policies for borrowing external development assistance apply to rural development and agricultural projects.

Not surprisingly, the main criterion informing borrowing decisions in several strategies requires loan-financed projects to contribute to economic growth, skill development and job creation, in some cases with a direct and explicit comparison between the project's internal rate of return and its financial costs (e.g. Ghana, Uganda, and Senegal). The debt management policy of a few countries (Comoros, Uganda and Viet Nam) states explicitly that grants should be channelled towards social sectors and concessional loans towards productive sectors and infrastructure. In Kenya, for example, commercial funds are prohibited from being used for social projects. And in Nepal, loans to fund technical assistance are discouraged.

6.2 Borrowing for rural and agricultural development

6.2.1 Criteria that drive borrowing decisions

Across activities

Most respondents see grant financing as limited, arguing for borrowing for rural development. Of all respondents, 77.9% from LICs, 67.1% from LMICs and 52.2% from UMICs agreed or strongly agreed that grant financing is limited, and felt that this justified borrowing external development assistance for rural development and agriculture. This might sound counterintuitive (one might have expected higher figures in UMICs as they tend to have more access to loans than to grant financing). However, sectoral development plans in LICs and LMICs rely more on the contributions of development partners and have larger financing gaps. With a small supply of grants, obtaining loans could ease the financing constraint in those economies.

In several interviews, rural and agricultural development was considered a soft sector – with

⁴² It is not clear whether the term 'semi-concessional' refers to OECD criteria (15–35% grant element) or another type of definition.

a preference for grants and concessional loans, and across income groups. This contrasts with the analysis of IFAD IOE (2018), which found that countries would be willing to borrow even if terms and conditions hardened. Among the interviewees for our country case studies, agriculture and rural development were seen as social sectors, with limited consideration and prioritisation for borrowing, particularly at non-concessional terms. This is coherent with the analysis of Section 5.2. The preference is for grants and concessional loans for agriculture and rural development to be maximised. The share of concessional ODF is greater to agricultural and rural development than across sectors.

Two main factors motivate this approach. The main motivation raised during these interviews was the assumption that, in general, projects in agricultural and rural development do not generate enough returns in the short term to repay loans, hence the preference for the most concessional terms.

Only 30.2% of the respondents to our survey across countries agreed or strongly agreed that most investments in rural development generate additional tax or fee revenues quickly enough to

service their loans, corroborating the discussion in the interviews (see Annex 4).⁴³ Across respondents, the ability of a rural development project to generate sufficient cash to service a loan was rated as the penultimate factor informing borrowing decisions: only 17.4% of respondents considered it an extremely important motivation, a finding that might challenge the evidence from the interviews.

This low percentage masks, however, a very significant difference across government agencies. While this factor was considered as extremely important for only 14% of respondents from line ministries, this rises to 50% for respondents from ministries of finance (the ministries that make the ultimate decision to accept a new loan), making it the second most significant factor determining decisions for borrowing external development assistance for rural development after having considered the benefits for people living in poverty and food insecurity (see Annex 4 for relevant graphs and data). These results, however, challenge the findings of the literature on the returns to public investment for agricultural and rural development in four Asian countries and Uganda from the 1960s onwards (Fan et al., 2007) (see Box 3).

Box 3 Returns to public investments for agricultural and rural development

- The most effective public investments have been those on agricultural research, rural education and roads and other physical infrastructure.
- Some evidence from China and Uganda suggests that returns to infrastructure are higher for low-cost investments, such as gravel roads in rural areas, rather than tarmac highways.
- In Asia, the greatest reductions in poverty come from investments in less advantaged areas – such as those that are rain-fed, mountainous or semi-arid – as opposed to the fertile coastal plains with irrigation. In Africa, investments pay off equally, whatever the zone.
- Investments in irrigation have been beneficial in the past in Asia, but the returns to new investment today are lower. The priority is to manage and operate existing systems more effectively and efficiently – particularly large-scale public, surface water schemes.
- Asia's experience suggests that public investments may be sequenced. Initial investments can be broad and standardised: for roads, universal schooling, basic primary health care, etc. These usually pay off and benefit people on low incomes, while their relative simplicity means that they can be implemented by public administrations that are short of skills and capacity. Only later, as capacity is enhanced, and as the marginal returns to basic investments diminish, should investments be targeted to particular regions or households.

Source: Fan et al. (2007)

43 With a lower percentage in the case of UMICs (which might reflect the less favourable terms and conditions).

Many interviewees across several countries also pointed out that the lack of visibility of many projects in agricultural and rural development means that governments are less likely to borrow for these areas than for large-scale infrastructure projects.

Blending concessional and non-concessional sources can also help to meet the preferred criteria of governments in rural development and agriculture. In Senegal, many interviewees across government and donors noted that blended finance solutions had been applied to several projects in the agricultural and rural development sectors, matching concessional and non-concessional resources among development partners to reduce the overall cost of financing (so the overall project is ‘concessional’). This was also the case for Ghana. The Liberian government is keen to blend less concessional loans with grants from other donors to meet the minimum 35% grant element. In the case of Morocco, when financial terms and conditions are considered too expensive, the blending of loans with grants has been used to reduce the overall cost of finance.

There are exceptions, with countries also considering non-concessional finance for rural development projects, particularly (but not only) UMICs with limited access to concessional finance. In the case of Indonesia, foreign loans support the state budget deficit and priority activities, which include economic infrastructure, social transfer of technology, good practice and knowledge sharing. This suggests a willingness to borrow at non-concessional terms for agricultural and rural development and softer activities. In Senegal, interviewees indicated that the government is open to loans (including loans for agricultural and rural development) if they aim to attract investors from the private sector. This is the case, for example, in support to the creation of the three regional *agropoles* (with a mix of concessional and non-concessional finance, based on the discussion during the interviews for this project). In Uzbekistan, nearly all non-concessional finance to date had been for agricultural financial services (credit lines for farmers) in the livestock and horticultural sectors. Interviewees noted it had been far harder

to get government officials to take out loans for skills and capacity building or to support public goods such as standards and R&D – although the approach has been changing in recent years. The new \$500 million blended loan from the World Bank (IBRD and IDA) for agricultural modernisation, for example, adopts a far more holistic approach to supporting reform in Uzbekistan in the sector and includes support for public goods and capacity building.

In some countries, maximising grants, rather than concessional loans, for rural development remains the main priority. These include countries that rely on IDA funding or that are at the lower end of the LMIC spectrum (such as Comoros, Liberia and Solomon Islands) and that rely on grant financing for the vast majority of their ODF (see Sub-section 5.1.2). In the case of Nepal, for example, the government has no formal debt-management plan, but its International Development Co-operation Policy clearly outlines the government’s preference for grants, then concessional loans. In Niger, where fiscal space is currently limited, the government prioritises grant financing.

The composition of donors also matters. In the case of Solomon Islands, for example, the availability of grants from the two main bilateral donors, Australia and New Zealand, as well as from the World Bank (or at least part of it) limits the appetite for loans, including loans for rural development. The government is keen to ring-fence grants for rural development – without pressure on the government budget – but does not exclude borrowing for this purpose.

This general point is also confirmed in the survey responses across countries: the availability of grant financing to fund projects in rural development is seen as an extremely important factor in decisions about whether to borrow for 33.3% of respondents, rising to 37.2% for respondents from LMICs⁴⁴ and 44% of respondents from ministries of finance (see Annex 4 for the supporting graphs). This would also suggest greater consideration of the availability of grant financing before decisions are made about new loans in countries that are moving towards less concessional finance (i.e.

44 The share is 21.8% in the case of respondents from UMICs.

LMICs) and from respondents in ministries of finance that are assessing the viability of external borrowing.

Breakdown by activity

Demand for borrowing concentrates on highly concessional loans across activities and for ‘harder’ (infrastructure and AVC development)

rather than ‘softer’ areas (rural investment environment and climate-resilient agricultural practices). Discussions with informants and the results of the survey corroborate our initial hypotheses across the activities we set out in the previous chapter, as well as the findings in Morris and Lu (2019) (see Figure 13). Across all countries and activities we defined as contributing

Figure 13 Terms and conditions by activities



Note: Respondents were asked, ‘For which of the following areas in inclusive and sustainable rural development would the government of your country (or the country where you mainly operate) consider external borrowing from bilateral and multilateral donors?’

Source: Authors’ elaboration based on the survey result

to public investment in rural development, the preference is for highly concessional loans rather than those that are less concessional, especially for respondents from LICs. This is not surprising, given the motivations we have already discussed.

These survey results corroborate the analyses emerging from our review of policy documents and our semi-structured interviews. They are also consistent across income groups. The more specific findings are as follows.

- The main priorities for public investment in inclusive and sustainable rural development – rural infrastructure and AVC development – are also the main sub-sectors for which respondents expect to borrow external development assistance (also at less concessional terms). This preference reflects the critical role of these areas for job and revenue creation, and also their ability to generate enough resources to repay loans. Among our respondents, more than 92% agreed that governments would borrow for projects in basic rural development infrastructure, and almost the same percentage agreed in the case of AVC development. This share goes up to 97% for rural basic infrastructure among respondents from LMICs. While demand for borrowing is concentrated in areas that generate medium-term returns or that are enablers for additional investment, the largest proportion of respondents confirm that borrowing should be at highly concessional terms in the vast majority of cases: 54.9% for AVC development and 46.5% for rural basic infrastructure. Reflecting the limited access to non-concessional finance, these shares increase among respondents in LICs (62.3% and 57.1% respectively).
- Across countries, 52% of respondents reported that projects supporting agricultural technologies are expected to be financed largely by external development assistance loans, but mainly at highly concessional terms.
- In relation to climate-resilient agricultural development practices, 20% of the survey respondents mentioned that the government

would not consider borrowing for projects in this area. In the interviews, practices that make agriculture less vulnerable to the impact of climate change were among the top priorities in several countries (Bangladesh, Comoros and Viet Nam). The projects' low returns were not the main motivation for borrowing at highly concessional terms (or no borrowing at all). The argument was that countries that did not initially contribute to climate change should not bear the cost of mitigation measures.

- Across countries, 37.8% of respondents stressed that the government would not borrow at all for projects that supported rural investment environment, a percentage that rises to 42% for respondents working in UMICs. Interviewees justified this answer on the grounds that investment in this area helps to attract private-sector investment but does not generate direct returns. It is worth noting that respondents showed less interest in this area – less than 20% of respondents across all income countries included it among the top three priorities for inclusive and sustainable rural development, see Section 3.2).

Responses from ministries of finance tend to be more conservative (reporting either no borrowing or borrowing on more concessional terms). This was confirmed in the responses to the survey (see Annex 4). For example, while 15% of the respondents among line ministries would not consider borrowing for projects that support climate-resilient agriculture practices, this share doubled to nearly 29.2% among respondents from ministries of finance.

With the exception of agriculture R&D and AVC development, the share of respondents from ministries of finance that did not consider borrowing at all for a specific activity or sub-sector was far greater than it was among line agencies. In addition, central government departments are more inclined to consider borrowing at concessional terms than line ministries.⁴⁵ Respondents from line ministries would appear to be more open to borrowing external development assistance – even at

⁴⁵ The one exception is for climate-resilient agricultural practices, with a high share of respondents from finance ministries not inclined to borrow for this purpose.

non-concessional terms – than central agencies. Line ministries do not assess the future repayment capacity and financial terms and conditions, so their officials might be less inclined to scrutinise them (or assess their implications for government budgets).

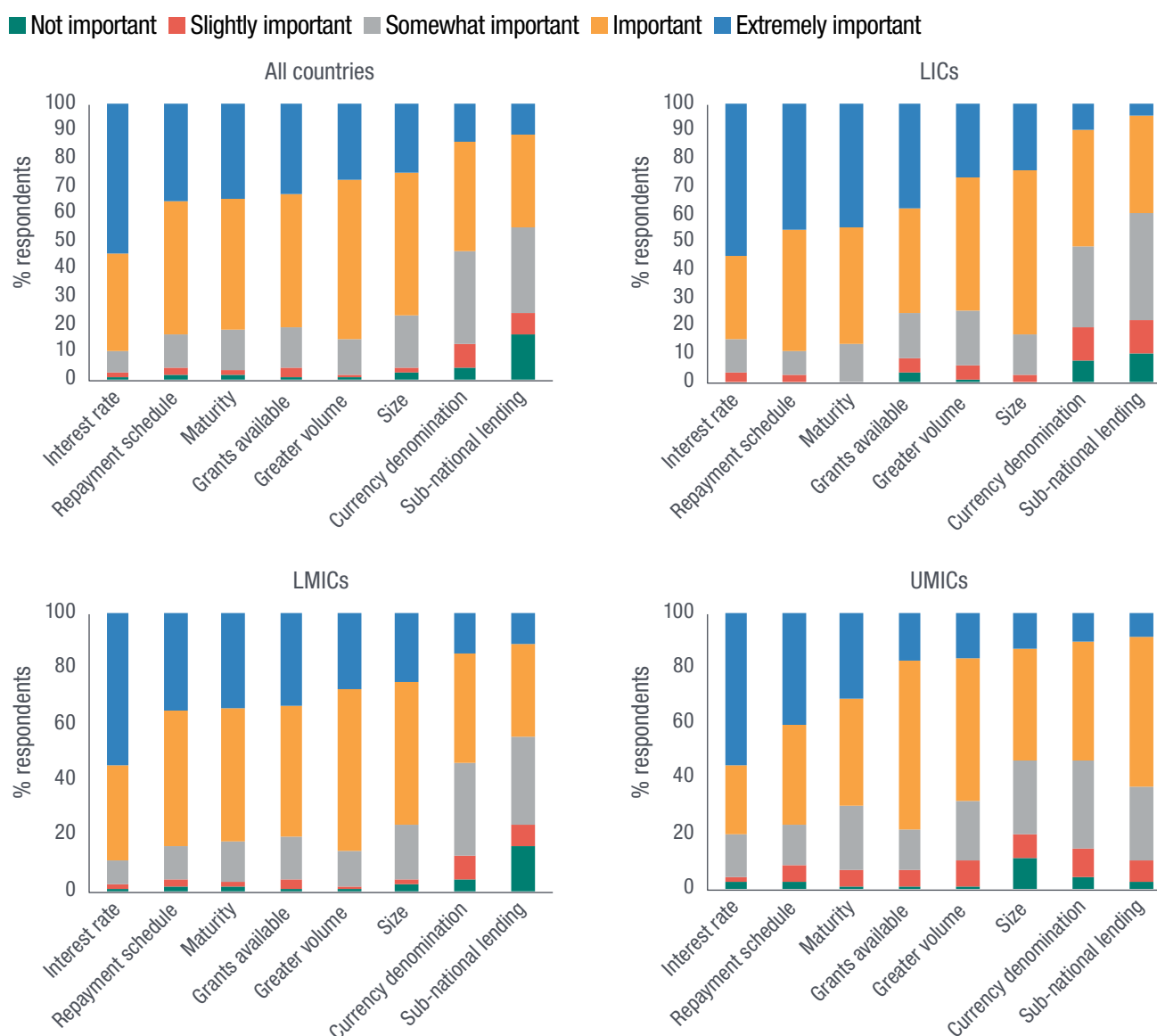
6.2.2 Terms and conditions of external development assistance loans for rural development

The most important financial aspect in negotiating new loans is that the interest rates should be as low as possible, followed by the repayment schedule

and long maturity of the loan (Figure 14). This corroborates the preference to reduce the cost of borrowing and, in general, the net present value of the loan, spreading it over time (Ghana); managing future risk (often with a stated preference for fixed interest rates; as in the cases of Indonesia, Senegal, Solomon Islands, and Uganda; and keeping debt sustainable, as in Egypt and Senegal.

These results tend to be consistent across income groups, and if not in similar proportions, then at least in the ranking of the different financial terms and conditions. Decisions on the rate of interest, for example, are either important or extremely

Figure 14 Financial terms and conditions



Source: Authors' elaboration based on the survey results

important for nearly 90% of respondents in LMICs, and for 79.7% of interviewees in UMICs (the highest share among all the options offered for that income group). In the case of Mexico, for example, the main criterion is for the effective interest rate (considering grace periods, etc.) to be below the rate of Mexican debt issued in international markets.

Results are consistent if analysed by groups of stakeholders but, not surprisingly, officials from ministries of finance are more likely to find most of these elements largely important or extremely important than respondents from line agencies. Negotiations on the interest rate are seen as extremely important by 69% of the respondents in ministries of finance, compared with 49% among participants from line ministries: a discrepancy that increases for other financial aspects such as maturity (extremely important for 65% of respondents from ministries of finance, compared to only 28% for those from line ministries).

A few other elements are worth stressing.

- First, the size of the project matters far more in LICs (83.1% judged this aspect as being either important or extremely important) than in UMICs (53.6%). This could also reflect projects in UMICs that tend to be of a relatively smaller scale. In the case of Mexico, smaller loans were often found to be better tailored to the needs and implementation capacity of certain government departments with smaller budgets and/or could be considered as a way to test new approaches and pilot projects. In DRC, Ghana and Niger, large volumes are prioritised to reduce fragmentation and increase economies of scale, and develop more integrated regional or sub-national approaches. Nepal and Uganda have a minimum, albeit low, volume for the individual projects to be approved (\$10 million in both cases).
- Second, and consistently across country income groups, slightly more than 50% of respondents considered negotiations on currency denomination important or extremely important. This is in stark

contrast to the discussions in our interviews, where several respondents stressed specific preferences that were often linked to their exchange-rate policies, e.g. pegged or linked to the euro or aiming to eliminate exchange-rate risk by using the currency of the monetary union to which they belong. The currency denomination is one of the few aspects that might be open to negotiation in the projects with MDBs. In the case of Bangladesh, for example, currency denomination is relevant only when it aims to minimise future debt service, according to interviews with stakeholders. Some countries also prioritise debt denominated in their domestic currency to reduce any exchange-rate risk (Ghana, Indonesia, Kenya, Mexico and Peru).

- Even in the negotiations for new loans, the availability of grant financing (e.g. to support project preparation, which differs from the demand for grants as discussed in the previous section) is deemed to be important or extremely important for 78% of the respondents. This share is consistent across all three income groups (although we would have expected it to be lower in UMICs, where available government budgetary resources tend to be greater than in LICs). In the case of Egypt, Morocco, Indonesia and Peru, the first a LMIC and the others UMICs,⁴⁶ not all development partners can provide concessional finance, and the presence of a grant component in loan-funded projects makes operations more attractive for the government by reducing the total cost of the operation. The availability of grant financing in the loan package was ranked as the top priority among respondents in Liberia.
- Finally, demand for sub-national lending is considered important or extremely important by only 45% of respondents, the lowest share among the options offered (although it rises to 62.3% for UMICs). The main explanations for this figure are that only a few countries in the survey sample have devolved governments that could borrow at the sub-national level (Brazil, Nigeria, Pakistan and Viet Nam), some of

46 Indonesia was reclassified as UMIC in July 2020 at the final stages of the research phase of the project.

them are in the middle of its implementation, such as Kenya, Nepal and Peru, or they were countries that had the lowest response rates to the questionnaire (Nigeria and Pakistan). In the case of Egypt, for example, where sub-national projects are common, decisions on new loans remain centralised.

6.2.3 Motivations for borrowing external development assistance for inclusive and sustainable rural development

This sub-section reviews the motivations that influence choices for borrowing external development assistance to support rural development. The analysis relies largely on the survey responses – so they apply to all 30 countries – rather than on the interview questions as in the previous sections. We adapted the framework and set of questions developed by Rogerson and Jalles d'Orey (2016) for the education sector to the case of rural development.

The factors that are considered when decisions are being made about borrowing external development assistance for rural development go beyond the purely financial aspects analysed in Sub-section 6.2.2. They include the socioeconomic impact of the project (economic impact on the wider economy, and the benefit to the rural poor and vulnerable groups); the ability to repay the loan (particularly the generation of cash, which also came up in several interviews); the financial terms and conditions (their viability); the borrowing space (based on a country's debt policy); the availability of alternative sources (grants); or the prioritisation of borrowing to other sectors.

We tested the extent to which respondents agreed with a series of statements to quantify the relevance of individual factors and the evidence that underpins them (the text of the survey is included in Annex 3 and the graphs of this sub-section are in Annex 4). We also included a few results from the breakdown by groups of respondents (which are not shown in any graph in this report), rather than just clustering them by income groups. The implications of debt ceilings for borrowing decisions and the ability of rural development projects to generate sufficient cash flows have already been analysed in Section 6.1.

A few notable elements emerged from the survey results.

- The benefits to the rural poor and those who are food-insecure are the main factor in borrowing decisions for external development assistance for projects in rural development. This factor was either important or extremely important for 85% of respondents across countries, with 90% of participants either agreeing or strongly agreeing that the positive impact of public investment in rural development to the poor and food-insecure is strong and convincing, rising to 95% in the case of LICs. Answers to the online questionnaire corroborate the analysis in IFAD IOE (2018), reviewed in Section 1.1. This overall point did not come up strongly in the interviews, however, when the financial considerations of the project were dominant, both for ministries of finance and line ministries.
- The economic impact on the wider economy of rural development projects is seen as either an important or extremely important factor in borrowing decisions for external development assistance in this area by 86% of our respondents across countries, the second most important factor included in the survey. This share is slightly higher in LMICs (88%) and LICs (85%) than in UMICs (81%) and this factor is rated as extremely important by 45% of the respondents in LICs (compared with 35% in the other two income groups). This is also the factor seen as most important in shaping decisions for public borrowing in rural development. In LICs 87% of respondents across countries also agreed or strongly agreed that the impact of public investment in rural development has wider economic benefits, a slightly higher percentage than for the respondents in the other income groups. We can suggest a few explanations for these findings. First, the prioritisation of agricultural and rural development in many of the LICs and LMICs we analysed is meant to support the transformation from subsistence to commercial agriculture (see Section 3.1). Second, in contrast compared to countries higher up in the spectrum of income per capita,

-
- prioritisation of rural development projects in many LICs and LMICs is for economic growth that could benefit the population at large.
- The viability of foreign loan conditions was either an important or extremely important factor in borrowing decisions for external development assistance for rural development for 56% of respondents (but ranked sixth out of eight motivations) suggesting terms and conditions are as relevant as socioeconomic benefits. This share is less than 50% in LICs – which should be interpreted in light of limited access to loans across many of these countries – but it rises to 62% in LMICs. Again, this would suggest that government borrowers in LMICs might be more sensitive to prices as they often transition away from the most concessional forms of finance. Again, across countries, almost 20% of respondents disagreed or strongly disagreed that current external loan conditions are viable for public investment in rural development. This share goes up to 30% for UMICs. This might be explained by the reluctance to borrow for agricultural and rural development projects at more expensive terms when concessional lending is no longer available.
 - Competition with other sectors does not appear to be a major factor in borrowing decisions for rural development, rated as important or extremely important only by 34.8% of respondents (for example this was a major factor in the analysis of the education sector by Rogerson and Jalles d'Orey (2016)). This share is consistent across income groups, which suggests a limited crowding-out effect from other sectors on borrowing external development assistance for rural development. It is worth noting that 14.3% of respondents in LICs did not consider this factor to be important at all. Across countries, 43.9% of respondents agreed or strongly agreed that borrowing for public investment in sustainable rural development is a higher priority than for other sectors. This share is 29% in UMICs and far greater across LICs (52%) and LMICs (46.4%). This suggests a stronger prioritisation of donor engagement in agricultural and rural development in LICs and LMICs, and a lower prioritisation in those UMICs covered in the survey, as emerged in the qualitative analysis of government priorities across country case studies in Section 3.1.

7 Preferences and instruments

This section complements the previous analysis by exploring two different aspects of the demand for external development assistance for rural development. First, it discusses qualitative preferences linked to development finance projects and programmes. By preferences, we understand a set of non-financial aspects that tend to be prioritised by recipient countries explicitly or implicitly during the negotiating process. The principles of development effectiveness are one example of preferences that partner countries can express and apply to projects and programmes (e.g. alignment, predictability).

Second, this section explores the demand for different types of instruments or modalities for external development assistance for rural development. In this report, we define these as the different ways in which external development assistance can be managed and disbursed. In practice, there are seldom ‘pure’ aid modalities. Consequently, the instruments or modalities presented in this section should not be seen as mutually exclusive. Where relevant, the analysis considers differences across income groups or groups of stakeholders (such as central and line ministries).

The key findings are as follows.

- The country studies indicate strong support for alignment to national priorities across all income groups, and that this is seen as an important condition in development finance projects and programmes for agriculture and rural development projects. While such alignment was also identified as a key preference among our survey respondents, the survey results reveal that alignment is less valued in UMICs than in LICs and LMICs.
- There is a strong preference for long-term, sustainable and flexible external development assistance for agriculture and rural development projects and programmes across all countries in the sample. These preferences can be explained by two main trends identified in the country studies. First, strong demand across all countries for long-term engagement in agricultural and rural development. And second, respondents in LICs and LMICs expressed a preference for budget support and programmatic aid modalities that have longer and more flexible frameworks.
- There is a strong demand for four main aid instruments to support projects and programmes in agriculture and rural development:
 - multi-phase project lending and results-based lending
 - project-preparation facilities
 - CAT-DDO instruments
 - Regional projects and, to a lesser extent, RTA – particularly for UMICs.

7.1 Qualitative preferences

Qualitative preferences for external development assistance may influence government decisions about projects and programmes with development partners and whether these are accepted or refused (Prizzon et al., 2016b). By preferences for the external development assistance considered in this report, we refer to the qualitative attributes and characteristics of aid that governments value when negotiating and securing development projects with official donors. While our focus is on agriculture and rural development, these preferences apply across sectors.

The Development Effectiveness Agenda has sought to identify, define and promote a set of principles to make development assistance more effective. It is one of the main driving forces behind the qualitative preferences and, as such, informs the analysis in this report.⁴⁷

Although global interest in the Agenda has risen and fallen over the past 15 years, many countries and development partners have continued to try to promote its principles. In some cases, its key principles have been included in aid-management strategies or similar documents to encourage their implementation by development partners and hold them to account (e.g. Ghana, Kenya, Nepal, Senegal and Solomon Islands).⁴⁸ Some of the countries in the sample, such as Bangladesh, Ghana and Kenya, have played an active role in the Agenda, but several others still have no dedicated aid management strategies. In some cases, they are developing such strategies (e.g. Liberia) or they do not perceive them to be relevant because of the small amount of external development assistance they

receive in relation to government resources (e.g. Brazil, Indonesia, Mexico and Peru). However, even if the principles of the Agenda are not stated in a public document, the country case studies revealed that related preferences can still play an important role in negotiating external development assistance for agricultural and rural development. In addition, some of the UMICs in the sample are also donors (e.g. Brazil and Mexico).

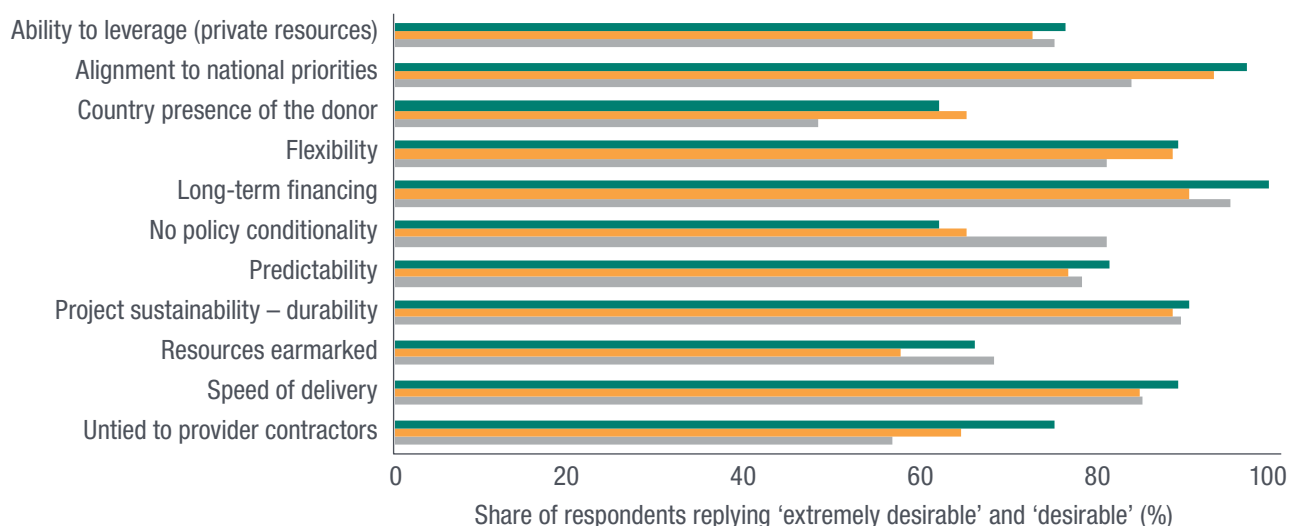
The alignment of development partners' projects with government priorities in agriculture and rural development is identified as a key preference in our country case studies and survey results (Figure 15). This finding is coherent with general government preferences revealed in previous research efforts (Greenhill et al., 2013; Prizzon et al., 2016b). The principle of alignment is a pillar of the development effectiveness agenda and is closely connected to the concept of country ownership.

Overall, the preference for the alignment of projects and programmes to national priorities

Figure 15 Qualitative preferences by income group

How desirable are the following attributes to your government?

■ LICs ■ LMICs ■ UMICs



Source: Authors' elaboration based on the survey results

47 This refers to the principles and initiatives contained in the Paris Declaration on Aid Effectiveness, Accra Agenda for Action, Busan Partnership for Effective Development Co-operation, and the High-level meeting of the Global Partnership for Effective Development Co-operation held in Nairobi in 2016.

48 Ghana and Senegal are currently reviewing their development cooperation strategies.

is the top priority across case study countries, although analysis of our survey results found that the share of respondents finding this preference ‘desirable’ or ‘extremely desirable’ falls in LMICs and more so in UMICs, where it is not the top preference when it comes to projects and programmes in agriculture and rural development. The analysis of the 20 country case studies does not explain this difference, but one possible explanation is that less reliance on aid and more government resources in UMICs at the upper end of the income spectrum led some respondents to see such alignment as less important. Indeed, the small volume of external development assistance in relation to public resources is unlikely to influence the direction of the policy agenda in a meaningful way. In Brazil, however, the alignment of development projects to national priorities remains a key requirement for government acceptance of external development assistance.

Interviewees expressed a strong interest in long-term finance, sustainable and flexible assistance – an interest that was also reflected in the survey – confirming a strong preference for assistance that can be disbursed quickly (Figure 15). This preference was not revealed in previous research on partner countries (Greenhill et al., 2013; Prizzon et al., 2016b) and could, therefore, be specific to the agriculture and rural development sector.

The country case studies suggest that there may be different explanations for these results. The strong demand across all countries for long-term engagement in agricultural and rural development is likely to stem from the time it takes projects in the sector to produce results. Project sustainability is linked to this long-term approach to the sector. Several LICs (e.g. DRC and Niger) and LMICs (e.g. Kenya, Nepal, Senegal and Solomon Islands) expressed a preference for budget support and programmatic aid modalities that are defined by longer and more flexible engagement, and the use of country systems (e.g. in Senegal and Solomon Islands).

In other countries, a preference for flexibility is also linked to their vulnerability to external shocks and crisis. Examples include DRC (locust swarms and security concerns), Liberia (Ebola), and Niger (security concerns). Interviewees with stakeholders in Comoros and Liberia also

placed a high value on flexibility in the use of resources in response to the crisis prompted by the Covid-19 pandemic.

In some countries, the ability to leverage private resources was seen as very important. This was the case for Senegal: as mentioned in Sub-section 6.2.1, the government assesses new projects on the basis of their capacity to attract private investors. This preference was also found for Brazil, Kenya, Liberia, Uganda, Uzbekistan and Viet Nam.

Our survey also reveals remarkable differences across country groups for some preferences with the most notable relating to policy conditionality and untied aid (Figure 15). UMICs, for example, show a much stronger rejection of policy conditionality (80.3% of respondents find the lack of policy conditionality desirable or extremely desirable) than LICs (61.5%) and LMICs (64.6%). Lack of policy conditionality did not feature strongly in the country case studies, but those conducted in UMICs suggest a relationship between government and development partners that is considered more equal and that is often defined as a ‘partnership’.

In contrast, responses on the preference for untied aid show a reverse relationship across income levels, with respondents in LICs finding it a desirable or extremely desirable attribute of external development assistance (74.4%) than LMICs (64.0%) and UMICs (56.3%). Their response is probably explained by a greater dependence on aid among LICs. Because external development assistance can account for a significant share of public spending in LICs, untied aid can have more impact by allowing countries to procure cheaper goods and services, as well as allowing a larger share of domestic procurement – the basic principle behind OECD recommendations on untied aid (DIIS, 2009).

The OECD recommendations on untied aid had a specific focus on the poorest countries (DIIS, 2009), which might explain a greater awareness about its importance among LICs. In UMICs, however, aid represents a negligible share of public spending, so whether it is tied or untied does not make a major difference.

Analysis by the different types of government respondent also reveals some differences. Figure 16 presents the results of our survey broken down across government officials working in the

ministry of finance and for other government departments. Differences in the perception of external development assistance could also explain differences in relation to the ability to leverage private resources. From the perspective of line ministries, the ability to leverage other resources for the same goals can be an important preference if resources are limited, but finance ministry staff do not necessarily share that view.

The presence of development partners in the country is the least valued aspect, with some exceptions. The country case studies showed that some governments (e.g. Bangladesh, Comoros, Indonesia, Liberia and Mexico) value a significant presence of development partners. A closer relationship can have benefits for both sides by facilitating the identification, formulation and negotiation of projects and operations (i.e. influencing projects and policy). The significant difference in the preference for such a presence between government departments could relate to their involvement in projects with development partners at different stages of a given project.

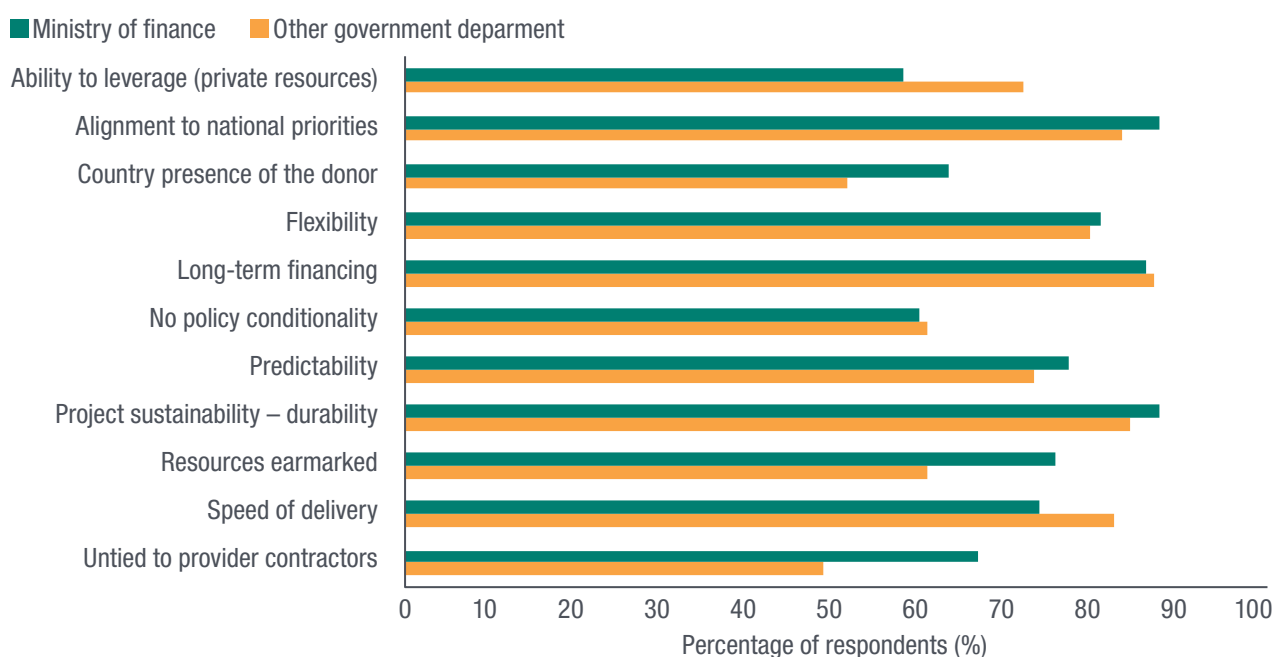
The different levels of preference for earmarking between the groups of government officials are counterintuitive and cannot be explained by the country case studies. The analysis of the country case studies reveals a significant preference for

earmarking to protect resources for agricultural and rural development and ensure they are spent as intended in, for example, DRC, Indonesia and Peru. One would expect the preference to be stronger among line ministries and agencies, which are closer to the implementation side. In comparison, one would tend to expect government officials working in finance ministries to reject the earmarking of resources as it reduces the flexibility for financial management. However, the results of our survey suggest a stronger preference for earmarked resources among officials working for the finance ministry.

7.2 Demand for instruments

The survey and the country case studies assessed demand for different types of instrument and aid modality to support projects and programmes for inclusive and sustainable rural development. In general, demand for instruments is not an area where the case studies could collect much information or identify strong preferences across countries. However, the results of the IFAD IOE (2018) evaluation of demand for key financing instruments in the agricultural and rural development sector suggest that recipient countries value a large choice of products so that

Figure 16 Qualitative preferences stated by representatives of finance ministries and other government officials



Source: Authors' elaboration based on the survey results

they have more flexibility and choice, and can select those instruments that best meet their needs.

That study also noted that the preferences of recipient countries have become more sophisticated. Results-based lending (lending instruments that disburse against the achievement of pre-agreed results) was ranked first across governments and IFAD respondents (from LICs, LMICs and UMICs). In addition, government officials prioritised quick disbursements, policy-based sovereign loans (loans disbursed against the achievements of policy-related milestones); sector-adjustment sovereign loans (loans that include both a policy component and a project component) and a special facility for managing the risks of natural disasters and droughts.

In addition to financing instruments, IFAD reviewed its experience with RTA in 2018, to better understand this instrument and provide guidance on how to generate and meet demand

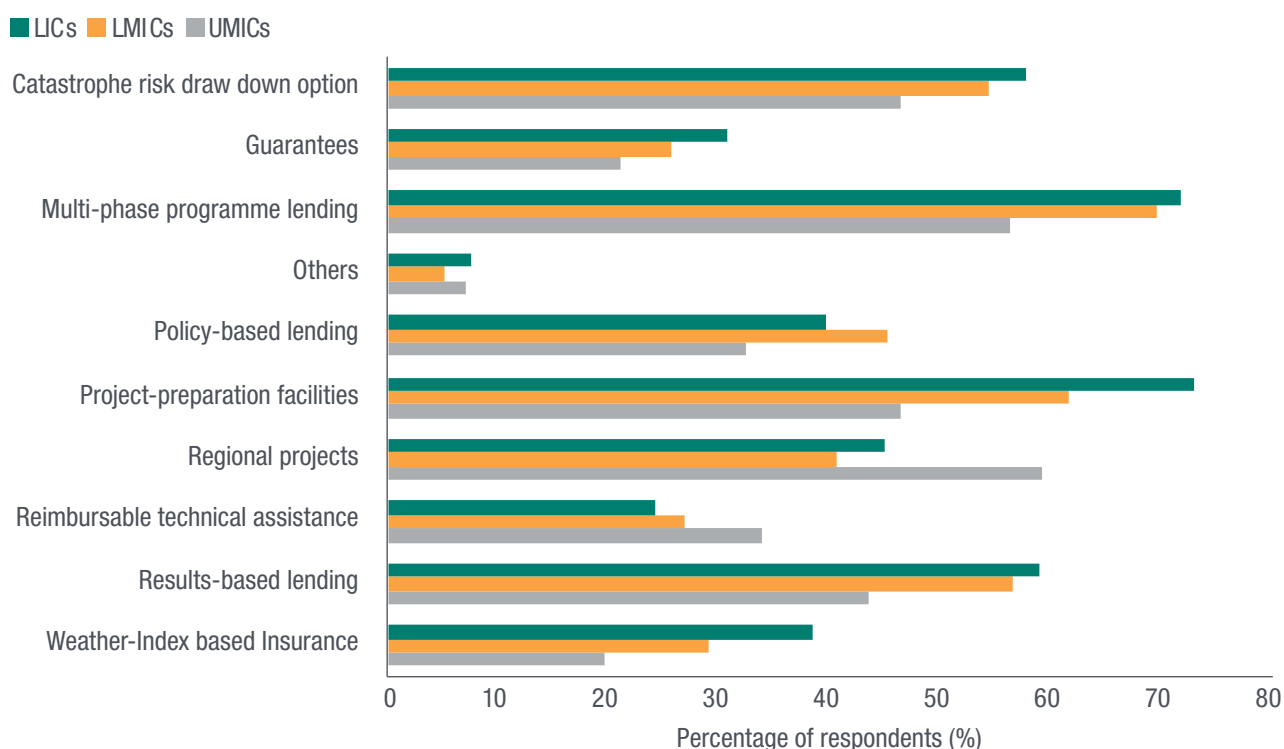
for it. The analysis suggested that there is demand for RTA in agriculture, particularly compared to that for lending, and mainly for policy advice rather than for use in lending programmes (IFAD, 2018).

The results of our survey are presented in Figure 17. Our country case studies also explored the demand for instruments during the interview phase. The research identified strong demand (with more than 50% of respondents expressing a preference across all respondents) for four types of instrument and aid modality: multi-phase programme lending, results-based lending, project-preparation facilities and CAT-DDO.

Demand for multi-phase project lending and results-based lending is explained by qualitative preferences for long-term, sustainable and flexible external development assistance. Multi-phase project lending allows for predictable long-term support for the sector. Results-based

Figure 17 Governments' demand for an instrument to finance public investment in inclusive and sustainable rural development

'Which of the following external development assistance instruments would your government (or the government of the country where you mainly operate) express an interest in or has already requested, to support public investment in inclusive and sustainable rural development?'



Note: Respondents were asked to select all options that applied.
Source: Authors' elaboration based on the survey results

lending has similar attributes, while providing for greater flexibility in financial management, implementation and project monitoring. Indirectly, both modalities can also support greater project sustainability. Strong demand for results-based lending is in line with the analysis in IFAD IOE (2018).

Demand for project-preparation facilities is common across all income groups, but the survey reveals some differences: 73% of respondents among LICs expressed an interest in this instrument, falling to 61% for UMICs. Analysis of the country case studies points to three main reasons for the demand for project-preparation facilities, particularly in LICs. First, this is an area with little investment from donors as funds are generally committed when the operations have already been fully designed and the parameters are clear. Second, demand for a project-preparation facility in some countries is the result of a lack of domestic capacity to identify and develop projects (e.g. Liberia and Senegal). Finally, some countries among our case studies are constrained by financial resources or regulations that make it difficult to devote national resources to the preparation and identification of projects (e.g. Bangladesh, Morocco and Peru). In these cases, project-preparation facilities can help fill the gap and accelerate project development.

There is also significant demand for CAT-DDO, which seems to be fuelled by vulnerability to climate change and natural disasters. As discussed in Section 3.2, climate change has been identified as a major challenge to rural development in many of the countries reviewed. Highly vulnerable countries (such as Bangladesh, Comoros, Indonesia, Kenya, Liberia, Nepal, Peru and Solomon Islands) expressed strong interest in CAT-DDO instruments. Based on the country case studies, however, it seems that the experience with CAD-DDO remains limited across the countries in our sample.

Analysis of our survey results reveals some differences across different country income groups, with wider differences between UMICs and the other two groups, LICs and LMICs. For example, a lower percentage of respondents from

UMICs expressed an interest in the four most demanded instruments than those in the other two groups. Building on the country studies and the survey analysis, this difference is explained by a stronger interest among UMICs in two other instruments: regional projects and RTA.

On regional projects, our country case studies in UMICs (Brazil, Mexico and Peru) highlight decentralisation processes and the role of local and regional authorities. In addition, external development finance support for agricultural and rural development in these countries represents only a tiny proportion of the overall budget for the sector. In this context, it is easier to achieve a critical mass of resources by concentrating them in specific regions.

On RTAs, the country case studies make it clear that all countries prefer and prioritise technical assistance as part of a grant or loan package. Some countries (including Mexico and Peru) have already benefited from RTA from the World Bank and Inter-American Development Bank (IADB) and are more likely to use it in the future. However, interviewees mentioned that RTA was used predominantly for policy advice, which aligns with the findings of IFAD's review of RTA discussed in Section 1.1 of this report.⁴⁹

There is also demand for instruments that can attract private-sector resources. This was stressed in Sections 4.2 and 6.2 and emerged from our interviews in Kenya, Uganda and Uzbekistan. In Kenya, many interviewees prioritised instruments that support the leveraging of private finance to the sector. This fits with the government's ambitious agricultural development plans, which require significant private investment. In a similar vein, many respondents in Uganda noted a demand for instruments that support private-sector inventions, including PPPs but also direct financing to the private sector. In Uzbekistan, most interviewees also stressed the government's preference for financial instruments that can attract private-sector resources to support the transformation towards a market economy. The government has set up a new PPP agency to support the government's work with the private sector.

49 The country studies did not analyse demand for RTA for different sectors.

8 Conclusions

This synthesis report has analysed whether and what to extent governments in recipient countries will continue to demand external development assistance for inclusive and sustainable rural development in the future. It has also explored the likely financial and non-financial terms and conditions of such assistance.

We gathered evidence from desk-based reviews, an online questionnaire and semi-structured interviews with government officials in central and line ministries, development partners and experts. And we analysed 20 countries in depth, across the income per capita spectrum.

Table 2 summarises the main answers to our research questions, as set out in Chapters 3–7, which aimed to identify the key patterns and differences across the three main country income groups, LICs, LMICs and UMICs.

We can summarise the findings of the country studies and the survey in five main points.

1. Public investment in agriculture and rural development is still vital, and will be even more important as countries recover from the Covid-19 crisis

Respondents in LICs and LMICs tended to see agriculture and rural development as a higher priority than most respondents from UMICs in their national plans, which aim for a shift from subsistence to commercial agriculture. This is only to be expected: countries see rural development as a way to reach their national goals, and agricultural reform dominates the rural development agenda in most countries.

Similarly, it is no surprise that projects and programmes to support the transformation of the sector have been identified as government priorities. These include AVC development, rural basic infrastructure, agriculture technologies and climate-resilient agriculture practices. All of these aim to address the key challenges with which many of our interviewees grapple on a daily

basis: how to increase the profitability of crops to improve rural livelihoods and create more jobs? How best to expand and maintain rural basic infrastructure, particularly electrification and irrigation? And how to boost crop productivity, as well as crops and methods that can withstand the impact of climate change?

In response to the crisis prompted by the Covid-19 pandemic, the governments of the countries we analysed – with a few exceptions – are expected to continue to prioritise agriculture and rural development in their recovery packages. This is prompted by an emphasis on these areas to help countries build their way out of this crisis. Agricultural and rural development will be at the heart of efforts to support economic recovery and livelihoods; to ensure food security and reduce reliance on imports; to reduce income inequality between urban and rural areas; and to give countries access to vital foreign exchange where the demand for other exports had collapsed.

Given the pressure on public budgets to respond to the health emergency and to fund multi-pronged recovery packages at times of unprecedented uncertainty, it is hard to predict the extent to which the share of public finance for agriculture and rural development will increase. However, the results of our country case studies and our review of the literature are clear: policy prioritisation does not always guarantee greater resources.

2. While our interviewees expect public finance to remain critical, they will continue to seek external assistance, particularly those from LICs

Most respondents across all three country income groupings – LICs, LMICs and UMICs – expect that inclusive and sustainable rural development will be funded largely by government budgets over the next five to 10 years. This expectation is stronger in UMICs and lowest in LICs, as

Table 2 Summary of main findings by income category

	LICs	LMICs	UMICs
Top government priorities for inclusive and sustainable rural development	Equal prioritisation for AVC development and rural basic infrastructure, driven by the significant rural infrastructure deficit in many LICs	AVC development, rural basic infrastructure, and climate-resilient agricultural practices	AVC development, rural basic infrastructure, agriculture R&D. However, climate-resilient agricultural practices came very close
Expectations of the contribution of public expenditure to investment for inclusive and sustainable rural development	Lowest expectation that the government will support public investment (but it is still considered the largest financier)	Government considered the largest financier	Strongest expectation that the government will support public investment
Terms and conditions for external development assistance for inclusive and sustainable rural development	<p>More concessional assistance for agriculture and rural development than for other sectors</p> <p>Demand/preference for grants and highly concessional finance (and very limited demand for non-concessional assistance)</p> <p>Demand is for grant finance in IDA and fragile countries</p> <p>Value added: mainly financial</p>	<p>More concessional assistance for agriculture and rural development than for other sectors</p> <p>Demand/preference for grants and highly concessional finance (and very limited demand for non-concessional assistance)</p> <p>Value added: mainly financial</p>	<p>Less concessional assistance for agriculture and rural development than for other sectors</p> <p>Demand/preference for grants and highly concessional finance, even if the country cannot access it – and for commercial finance</p> <p>Value added: still mainly financial, with the role of policy dialogue/technical assistance lower than expected</p>
Borrowing decisions for external assistance for inclusive and sustainable rural development	<p>In general, maximising concessional resources for rural development (grants)</p> <p>Preference for borrowing for AVC development and rural infrastructure, mainly at concessional rates, limited demand for borrowing for climate-resilient agriculture practices and rural investment environment</p> <p>The economic impact of the rural development projects is the main factor driving borrowing decisions – rather than benefits for the rural poor and hungry as in the other income groups</p>	<p>In general, maximising concessional resources for rural development – blending resources to meet concessionality (grants and concessional loans)</p> <p>Tap into semi-concessional finance to ease volume constraints</p> <p>Preference for borrowing for AVC development and rural infrastructure, including at less concessional rates, limited demand for borrowing for climate-resilient agriculture practices and rural investment environment</p> <p>Benefits to the rural poor are the most important factor driving borrowing decisions</p>	<p>Maximise concessional finance for agriculture and rural development (grants and concessional loans)</p> <p>Preference for borrowing for AVC development and rural infrastructure, including at less concessional rates, limited demand for borrowing for climate-resilient agriculture practices and rural investment environment</p> <p>Benefits to the rural poor are the most important factor driving borrowing decisions</p>
Preferences for external development assistance for inclusive and sustainable rural development	Alignment to national priorities, long-term finance, durability	Alignment to national priorities, long-term finance, durability	Alignment to national priorities, long-term finance, durability, but also the absence of policy conditionality
Instruments for external development assistance for inclusive and sustainable rural development	Project preparation facilities, multi-phase programme lending, results-based lending, CAT-DDO	Multi-phase programme lending, results-based lending, project preparation facilities, CAT-DDO	Regional projects, multi-phase programme lending, results-based lending, some demand for RTA/guarantees

might be expected, given that LICs may be more dependent on aid flows.

Interviewees also stressed, however, that governments will continue to seek external development assistance for rural development (and agriculture) with demand increasing in the next few years and across all income groups. This even applies to countries that have access to international capital markets (Mexico, Morocco, Peru) and to those, like Ghana, that aim to reduce their dependence on aid.

Expectations of rising demand for external assistance for agriculture and rural development, and a recognition that these sectors will continue to rely on public finance in most countries, raise two key questions for policy-makers and development partners. First, how can these two sources of funding complement each other? And second, what type of projects should be supported by external development assistance, and with what kind of financial terms and conditions?

3. Respondents express a greater preference for grants and (highly) concessional loans for agriculture and rural development

The largest share of respondents, including those in UMICs, have signalled a strong and growing preference for assistance received as grants and highly concessional loans. There are two motivations for this preference.

First, our respondents say that most countries do not see agricultural and rural development projects as generating enough revenue to service loans: these are seen as ‘soft’ sectors, more akin to health and education. Within agriculture and rural development, respondents were more open to borrowing external assistance – even at non-concessional terms – but only for areas, such as basic infrastructure development and AVC development, that usually generate greater economic returns. Projects in agriculture and rural development are also more likely to be funded by ‘more concessional’ external assistance than other sectors in the countries we reviewed.

Second, respondents were concerned about the impact of new borrowing on future debt sustainability, with financial approaches that reduce the net present value of a loan seen as particularly important when negotiating with development partners. Some governments simply

refuse to borrow if loans are not concessional (Bangladesh) or if they exceed their own debt ceiling (Brazil, Peru, Viet Nam). Others aim to ‘blend’ concessional and non-concessional resources across financiers to reduce the overall debt service of the loan.

A preference for grants and highly concessional loans in several countries should be grounded in the reality that these resources from donors remain highly constrained and finite. And that is likely to hold true during the recovery from the Covid-19 crisis.

The volume of external assistance and the type of projects that can be funded are both limited by rules about areas that can only be funded by concessional finance and by prudent debt management policies to keep the costs of borrowing as low as possible. More blending of concessional and non-concessional resources across financiers, plus a clear assessment of the economic returns of projects in agriculture and rural development, could boost demand for borrowing, including for non-concessional finance.

4. Respondents in LICs and LMICs, in particular, value concessional finance more than technical assistance and policy dialogue

Our respondents report that governments see access to financial resources at below market rates as the most valuable characteristic, and that this drives their demand for external development assistance across all three income groups. There is a more pronounced preference for technical assistance and policy advice from UMICs, but even so, the transfer of financial resources at below-market rates to fill funding gaps in the government budget is still high on the priority list for every country.

These findings pose two challenges for development partners. First, how should resources be allocated across the spectrum of income groups and, in particular, what criteria should drive the allocation of finite resources – especially those that are concessional? This is a key question for UMICs, where the needs might not be so great.

Second, policy advice and technical assistance to UMICs do not erase the demand for financial support, even though these economies have very limited access and eligibility to concessional

resources. This mirrors earlier analysis showing that government officials in UMICs still value financial transfers – even when their public budgets have greater fiscal space than those of lower-income economies. This is because development projects and programmes are perceived as the only way to access knowledge and expertise from bilateral and multilateral development partners.

5. Respondents prioritise assistance that supports national priorities for agriculture and rural development and that is long-term and sustainable: attributes that are reflected in the demand for specific instruments

The principle of alignment with national priorities is a pillar of the global development effectiveness agenda and is linked to the concept of country ownership of development programmes. Respondents in the LICs and LMICs analysed in our research expressed a strong preference for budget support and programme approaches that have longer timeframes and that are more flexible. In some cases, this preference for flexibility stems from a country's vulnerability to external shocks and crisis.

Our research also revealed a demand for multi-phase project lending and for results-based lending that is driven by qualitative preferences for long-term, sustainable and flexible finance. Demand for project-preparation facilities, particularly in LICs, is often motivated by lack of domestic capacity to identify and develop projects (e.g. Liberia and Senegal), limited financial resources, or financial regulations that make it complicated to devote national resources to such preparation (e.g. Bangladesh, Morocco and Peru).

In short, the volume and type of external assistance for agriculture and rural development is certain to vary across countries, reflecting the

priorities of different governments, the degree of prudence in public debt management policies, and diverse access to and eligibility for financing sources and instruments.

This study shows, however, that countries across the income spectrum are still keen to benefit from financial transfers, technical assistance and policy advice from bilateral and multilateral partners for projects and programmes in agriculture and rural development.

The shocks caused by the Covid-19 crisis have reinforced every conclusion in this study, with the vulnerability of rural populations in many countries heightened by its economic impact. As a result, demand for external assistance is more than likely to increase.

Public revenues are projected to fall in comparison to pre-pandemic estimates, and the competition between priorities is mounting as governments respond to the health emergency and define their multi-pronged economic recovery plans. Governments are now under even greater pressure to hold their public debt at sustainable levels. They will either borrow at greater cost, with rising debt service payments squeezing other budget lines, or they will decide not to borrow at all, and scale back their public investment programmes.

Development partners have a clear role to play in responding to these challenges at this crucial moment. They can do so by expanding their grants and loan portfolios, their technical cooperation programmes, and their policy dialogue initiatives for agriculture and rural development. In this way, they can help countries to manage multiple demands at the same time, support the transformation of the agriculture sector as well as livelihoods in rural areas.

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Annex 1 Country case studies and survey-only countries: an overview

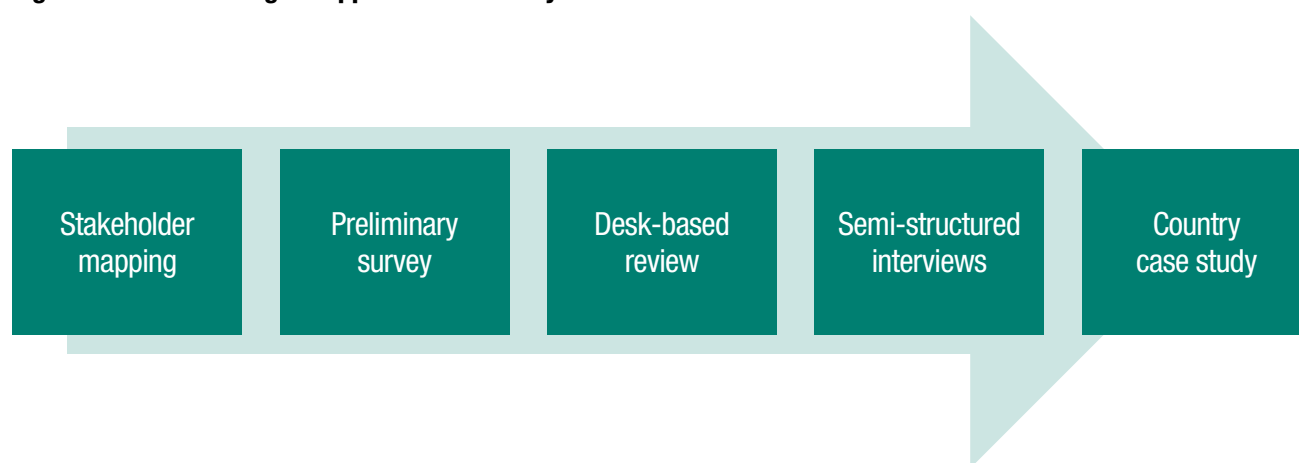
	Country	Income group	Lending category	Fragility	Region	Rural poverty (% national poverty line)	Country study	Survey only
1	Afghanistan	LIC	IDA	✓	South Asia	n/a		✓
2	Angola	LMIC	IBRD		Sub-Saharan Africa	58.3		✓
3	Bangladesh	LMIC	IDA		South Asia	35.2	✓	
4	Brazil	UMIC	IBRD		Latin America and the Caribbean	n/a	✓	
5	Cambodia	LMIC	IDA		East Asia and Pacific	20.8		✓
6	Comoros	LMIC	IDA	✓	Sub-Saharan Africa	n/a	✓	
7	DRC	LIC	IDA	✓	Sub-Saharan Africa	n/a	✓	
8	Egypt	LMIC	IBRD		Middle East and North Africa	32.3	✓	
9	Ghana	LMIC	IDA		Sub-Saharan Africa	37.9	✓	
10	Indonesia	LMIC	IBRD		East Asia and Pacific	n/a	✓	
11	Kenya	LMIC	Blend		Sub-Saharan Africa	49.1	✓	
12	Liberia	LIC	IDA	✓	Sub-Saharan Africa	67.7	✓	
13	Mexico	UMIC	IBRD		Latin America and the Caribbean	n/a	✓	
14	Morocco	LMIC	IBRD		Middle East and North Africa	14.4	✓	
15	Mozambique	LIC	IDA	✓	Sub-Saharan Africa	56.9	✓	
16	Nepal	LIC	IDA		South Asia	27.4	✓	
17	Nicaragua	LMIC	IDA		Latin America and the Caribbean	55.2		✓
18	Niger	LIC	IDA	✓	Sub-Saharan Africa	55.2	✓	
19	Nigeria	LMIC	Blend		Sub-Saharan Africa	52.8		✓
20	Pakistan	LMIC	Blend		South Asia	35.6		✓
21	Panama	UMIC*	IBRD		Latin America and the Caribbean	n/a		✓
22	Peru	UMIC	IBRD		Latin America and the Caribbean	46	✓	
23	Philippines	LMIC	IBRD		East Asia and Pacific	n/a		✓
24	Rwanda	LIC	IDA		Sub-Saharan Africa	n/a		✓
25	Senegal	LMIC	IDA		Sub-Saharan Africa	57.1	✓	
26	Solomon Islands	LMIC	IDA	✓	East Asia and Pacific	n/a	✓	
27	Turkey	UMIC	IBRD		Central Asia	n/a		✓
28	Uganda	LIC	IDA		Sub-Saharan Africa	22.4	✓	
29	Uzbekistan	LMIC	Blend		Central Asia	n/a	✓	
30	Viet Nam	LMIC	IBRD		East Asia and Pacific	18.6	✓	

Note: Panama is classified as a high-income country (HIC) from 2017, but for the sake of this study we included it in the group of UMICs. Income classifications are based on those obtaining when this study was conducted (March–June 2020). It does not reflect the regular update in July 2020 when Nepal was reclassified as LMIC and Indonesia as UMIC. N/a, not available.
Source: World Bank (2020b; 2020d)

Annex 2 Methodology

We considered five stages in the methodology: stakeholder mapping and preliminary data collection, an online questionnaire, a desk-based review followed by semi-structured interviews with key informants, all summarised in individual country case studies (Figure A1).

Figure A1 Methodological approach for country case studies



Stakeholder mapping. After a preliminary review and data analysis, we identified at least 10 stakeholder representatives across government and development partners, initiating and negotiating funding by external development assistance and/or setting policies for public investment in inclusive and sustainable rural development. Box A1 illustrates the generic list, tailored for each country study based on existing contacts in the country, support for identifying the contact by IFAD country offices, and snowball sampling.

A preliminary survey. Before the interview, a link to an electronic survey was submitted to each stakeholder in the 20 studies, as identified in Box A2. The survey was submitted to stakeholders in 10 additional countries, with similar criteria (see Section 2.5 and Annex 1 for the countries selected). Survey results described in this report (Chapters 3–7) refer to a total of 30 countries, not weighted for the size of the country. The survey was distributed to 475 stakeholders,⁵⁰ to which there were 347 valid responses⁵¹ when we closed the survey on 23 July 2020. The overall response rate was 73%.⁵² Respondents could answer the survey questions in English, French, Portuguese or Spanish. Responses were kept anonymous. Invitations to complete the survey were sent from late March until mid-June. A later submission was largely motivated by lack of availability of government and donor officials during the early stages of the Covid-19 pandemic. Box A2 provides a few statistics on the survey responses that could be relevant for interpreting the results presented throughout this report. Annex 3 includes the survey text, in English.

⁵⁰ The survey was submitted to 496 stakeholders with 21 messages bouncing back.

⁵¹ 391 entries were registered in the survey website, but 44 entries were dismissed as respondents failed to complete more than the introductory questions.

⁵² A further two responses were received after the closing date of 23 July 2020. These are not analysed here, but in the relevant country studies.

Box A1 Generic list of stakeholders

Stakeholders fell into four broad categories: central and line ministries, development partners and experts. We aimed to interview the most senior official within each category and identified the closest profile to those described below (see Greenhill et al. 2013; and Jalles d'Orey and Prizzon, 2017, for the rationale for this generic list). These functions are those involved in selecting, negotiating and financing of projects in inclusive and sustainable rural development supported by external development assistance and/or defining policy directions. We also included stakeholders among development partners, experts and civil society organisations (CSOs) for triangulation. The selection of line ministries was tailored to each country, reflecting its definition of rural development. To ensure some consistency in each study, we aimed to include the Ministry of Agriculture – or with a similar portfolio – in each country study.

Senior government officials responsible for:

- aid management/coordination/external resource mobilisation departments in relevant central agencies (e.g. ministries of finance/economy or planning)
- national development planning (within the ministry of planning or the president/prime minister's office).

Senior officials in the following areas and ministries:

- line ministries responsible for rural development (heads of resource mobilisation departments) (e.g. agriculture, infrastructure, environment ministries/authorities)
- Ministry of Finance/Economy: departments dealing with macroeconomic policy and/or debt sustainability/debt management office
- Ministry of Finance/Economy: budget office.

Other stakeholders:

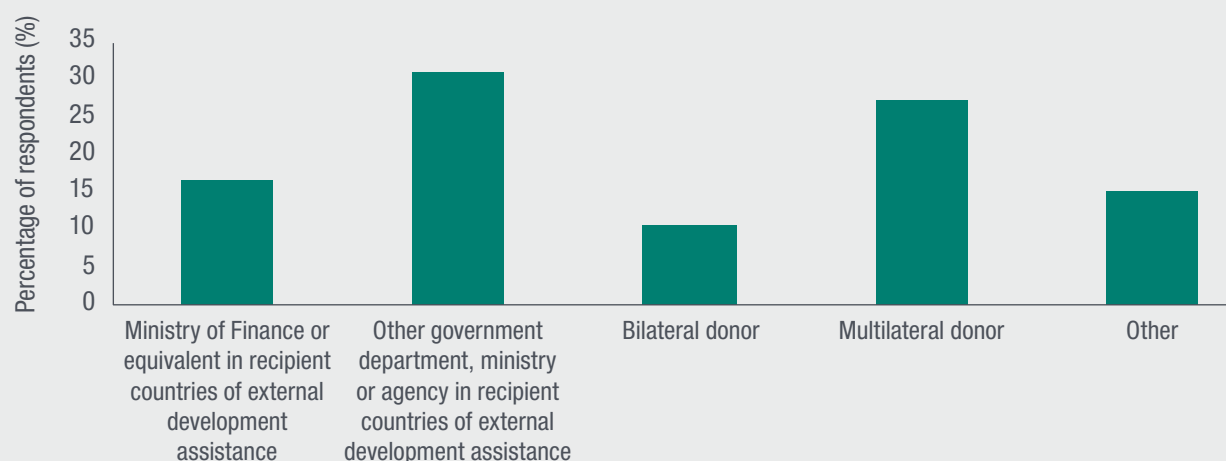
- largest donors operating in the sector, either head of cooperation or sector lead)
- CSO representatives (either general policy or sector-relevant relevant – agricultural and rural development) and experts.

Box A2 Composition of survey responses

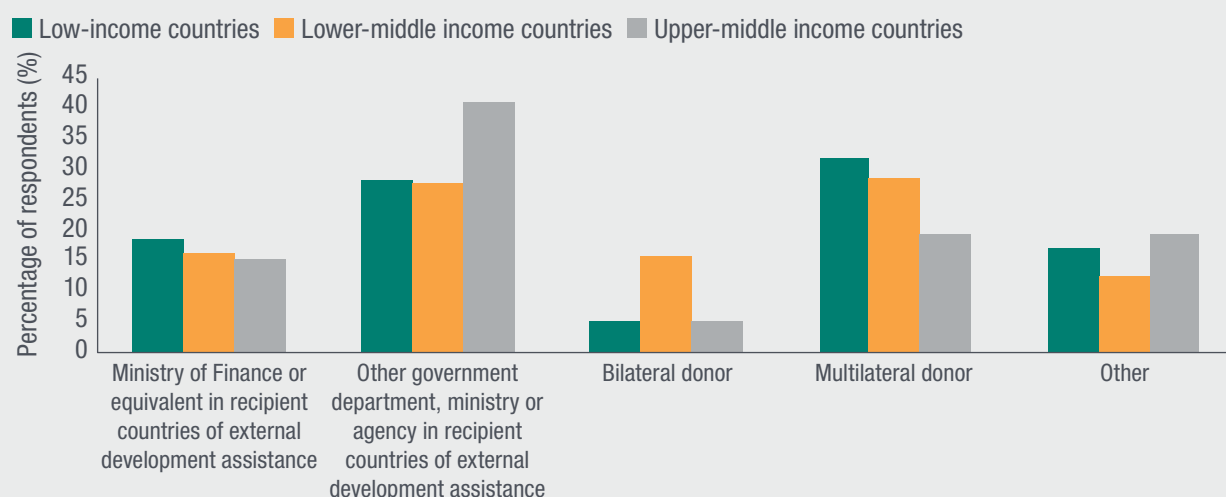
With a few exceptions mentioned below, responses to the questionnaire turned out to be proportional to the representation of countries in each group (see Section 2.5).

Group of respondents. Of the 347 valid responses considered, nearly half (47%) were government officials (either within ministries of finance or other line ministries involved in decisions and programmes on rural development), 38% officials from bilateral and multilateral donors, and the rest from non-governmental organisations (NGOs), farmers' associations and researchers.ⁱ This lower-than-expected share for government officials reflects government officials not completing the survey before the interview, the potential language barrier in some cases and the lack of time to complete the survey again before the interview. In the analysis of the survey responses in Chapters 3–7, we also considered the breakdown by groups of respondents to test any differences across them whenever applicable.

Distribution of survey responses by group



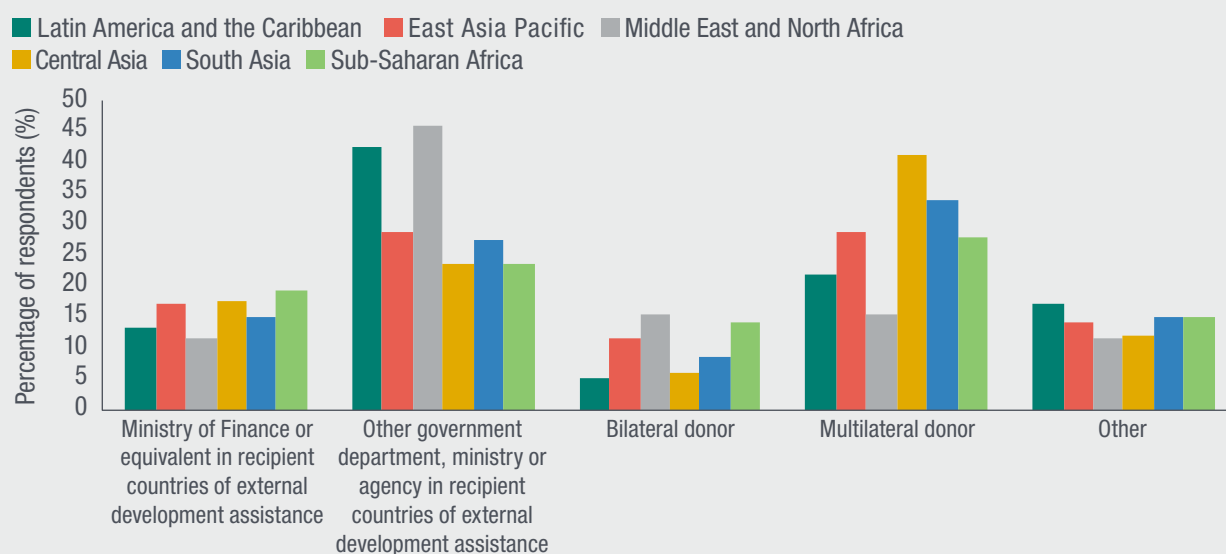
Distribution of survey responses by group and income group



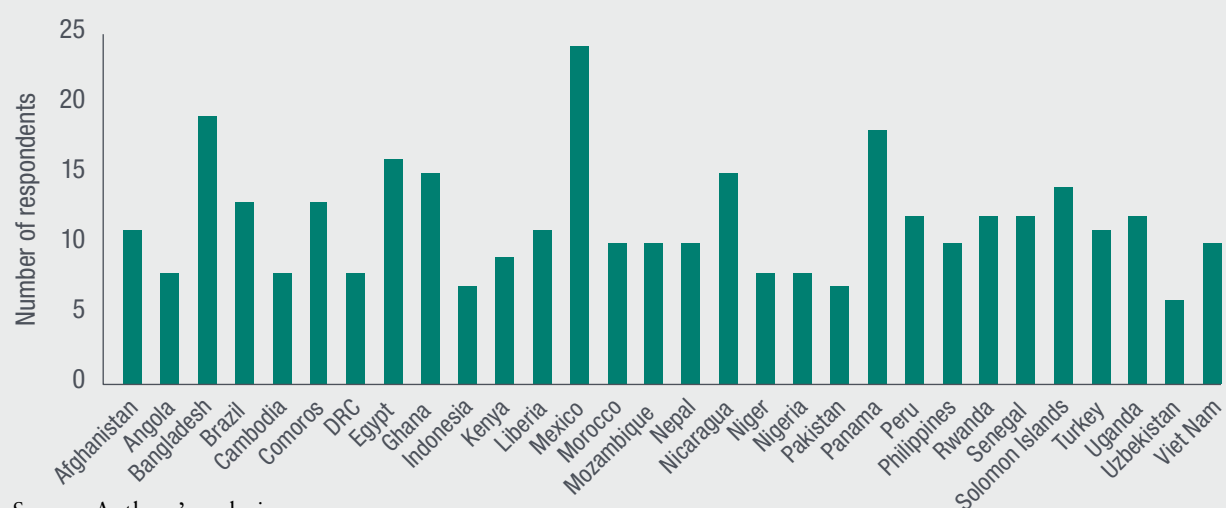
ⁱ The share of participants from ministries of finance was fairly similar across income per capita groups. Responses from line agencies were 28% in both LICs and LMICs and greater (41% of total respondents) in UMICs. The share of respondents from bilateral donors in LMIC is three times greater in relative terms than in the other two groups (15% vs 5%). The share of survey respondents from multilateral donors in LICs and LMICs was higher than in UMICs (approximately 30% of respondents in the former two versus 20% in UMICs).

Box A2 (continued)

Distribution of survey responses by group and region



Distribution of survey responses by country



Source: Authors' analysis

Regional distribution. Of the responses, 40.3% were from representatives in sub-Saharan Africa, followed by 23.6% from Latin America, 13.5% from South Asia and 10% from EAP (smaller shares from the other regions). Surveys received from respondents in Africa and South Asia are proportional to the weight of these countries in the sample. Surveys submitted from respondents in Latin America outweigh their relative representation and respondents from EAP are less represented than planned from our sample.

Income distribution. Of the responses, 53.9% were from participants from LMICs, 23.6% from LICs, 22.5% from UMICs. These shares were in line with the representation of each country group in the sample.

Operational classification. Of respondents, 51.3% are from countries that IDA-eligible and 40% IBRD-eligible; the remainder are blend countries (see Box 1 for a definition). Again, the final set of survey responses turned out to be proportional to the number of countries classified as IDA, blend and IBRD eligible in our sample.

Box A2 (continued)**Survey responses by region, income and lending groups**

By region		By income group		By lending group	
Central Asia	17	LIC	82	IDA	178
East Asia Pacific	35	LMIC	187	Blend	30
Latin America and the Caribbean	82	UMIC	78	IBRD	139
Middle East and North Africa	26				
South Asia	47				
Sub-Saharan Africa	140				
Total	347		347		347

Source: Authors' analysis based on survey responses

A **preparatory desk-based review** included a summary of relevant documentation (national development strategies and relevant sector plan, aid-management strategies, recent budget documents, debt-management strategies, IFAD Country Strategic and Opportunity Programme, IMF Article IV documents, the Public Expenditure and Financial Accountability programme and World Bank Systematic Country Diagnostic if available), and data analysis of funding sources to public investment in inclusive and sustainable rural development (public expenditure and external development assistance). The main objective of the desk-based review was for each analyst to become familiar with – and to probe in interviews – the government priorities for rural and agricultural development in the national development plans, the economic, political and governance context affecting the access, volumes and terms of external development assistance as well as the volumes and terms and conditions of financing inclusive and sustainable rural development in the country.

Semi-structured interviews. The core part of the study consisted of interviews with key stakeholders by phone, Skype or Zoom, and took place from late March until mid-July 2020. Lists of interviewees who agreed for their names to be published are shown in individual country case studies, published separately. For this project, 222 stakeholders were interviewed in total. The team used a standard set of interview questions for groups of stakeholders (central government, agencies, line ministries, development partners and experts). The answers were analysed verbatim. The number of interviewees varies from seven to 18 in each country case study, depending on the availability of the stakeholders and the complexity of the government structure, especially on the rural development portfolio.

Country case studies. The analyses from the desk-based reviews, replies to the survey and answers to the interview questions were summarised in short individual country case studies that form the basis for this synthesis report. They are published separately.

Annex 3 Online survey

Survey: assessing demand for external development assistance for public investment in inclusive and sustainable rural development

1. About you

A. Which of the following best describes the institution you belong to? (Please mark only ONE response)

- ☐ Ministry of Finance or equivalent in recipient countries of external development assistance
- ☐ Other government Department, Ministry or Agency in recipient countries of external development assistance.
Please specify
- ☐ Bilateral donor
- ☐ Multilateral donor
- ☐ Other (please specify main activity/role)

B. In which country do you (mainly) operate? (Please insert ONE response only)

C. Which professional specialisation is most relevant to your current post? (Choose only ONE reply that best reflects it)

- ☐ Economics
- ☐ Finance
- ☐ Agriculture/Livestock/Fisheries
- ☐ Environment
- ☐ Commerce/Industry
- ☐ Other (please specify)

D. How long have you been in your current position?

- ☐ Less than a year
- ☐ 1-3 years
- ☐ 3-5 years
- ☐ More than 5 years

2. Priorities for public investment in inclusive and sustainable rural development

A. What are the top three priorities for public investment in inclusive and sustainable rural development in the next 5 to 10 years for your government (or the country where you mainly operate)? [Please rank from 1 (top priority) to 3]

<input type="checkbox"/>	Access to agricultural technologies (research and development) and production services (e.g. crops, livestock, fisheries)
<input type="checkbox"/>	Agricultural value-chain development (e.g. crops, livestock, fisheries)
<input type="checkbox"/>	Climate-resilient agricultural practices
<input type="checkbox"/>	Rural basic infrastructure (e.g. water and irrigation systems, local roads, local energy generation and storage facilities)
<input type="checkbox"/>	Rural financial services
<input type="checkbox"/>	Rural investment environment (e.g. policy, legal and regulatory frameworks)
<input type="checkbox"/>	Others (please specify)

3. Financing public investment in inclusive and sustainable rural development

A. Please indicate the extent to which you think the government of your country (or the government of the country where you mainly operate) would agree or disagree with each of these statements on future demand for financing public investment in inclusive and sustainable rural development.

We are aware that not every financing option is available to the government (e.g. grant financing from multilateral development banks in upper-middle income countries) so please tick the option 'the government is not eligible for this source', if applicable to the funding source.

	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree	The government is not eligible for this source
Investment in inclusive and sustainable rural development will largely be funded by the government budget in the next 5–10 years	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	n/a
Government demand for external development assistance grants for inclusive and sustainable rural development is expected to increase in the next 5–10 years	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Government demand for highly concessional loans ⁵³ for inclusive and sustainable rural development is expected to rise in the next 5–10 years	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Government demand for less-concessional loans ⁵⁴ for inclusive and sustainable rural development is expected to increase in the next 5–10 years	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Government demand for commercial loans for inclusive and sustainable rural development is expected to rise in the next 5–10 years	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

⁵³ We refer to highly concessional loans as those with an interest rate far lower than commercial rates (e.g. equivalent to IDA terms).

⁵⁴ We refer to less-concessional loans as those with an interest rate somewhat lower than commercial rates (e.g. equivalent to IBRD terms).

4. External development assistance

A. How important are the following factors in driving your government's (or the government of the country where you mainly operate) demand for external development assistance to fund public investment in inclusive and sustainable rural development?

	Not important	Slightly important	Somewhat important	Important	Extremely important
Access to additional financial resources at below market rates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Policy advice	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Project management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Learning from developing country peers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Others (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B. How desirable are the following attributes of external assistance to your government (or the government of the country where you mainly operate), especially for public investment in inclusive and sustainable rural development?

	Not desirable	Slightly desirable	Somewhat desirable	Desirable	Extremely desirable
Ability to leverage (private resources)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Alignment to national priorities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Country presence of the donor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Flexibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Long-term financing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
No policy conditionality	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Predictability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Project sustainability – durability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resources earmarked	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Speed of delivery	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Untied to provider contractors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Others (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

C. Which of the following external development assistance instruments would your government (or the government of the country where you mainly operate) express an interest in or has already requested, to support public investment in inclusive and sustainable rural development? Please tick as many options as relevant

<input type="checkbox"/> Catastrophe risk drawdown option ⁵⁵	<input type="checkbox"/> Project-preparation facilities ⁵⁶	<input type="checkbox"/> Weather-Index based Insurance ⁵⁷
<input type="checkbox"/> Guarantees	<input type="checkbox"/> Reimbursable technical assistance ⁵⁸	<input type="checkbox"/> Others (please specify)
<input type="checkbox"/> Multi-phase programme lending ⁵⁹	<input type="checkbox"/> Results-based lending ⁶⁰	
<input type="checkbox"/> Policy-based lending	<input type="checkbox"/> Regional projects	

⁵⁵ A catastrophe risk drawdown option is a contingent credit line that provides immediate liquidity in the aftermath of a natural disaster.

⁵⁶ Funding to support policy reforms and/or institutional changes in a particular sector or sub-sector.

⁵⁷ Weather-index based insurance makes claim payments based on the realisation of an objectively measured weather variable (e.g. rainfall) that is correlated with production losses.

⁵⁸ Technical assistance that is directly paid by the government to the provider organisation (and that is not part of a grant or of a loan package).

⁵⁹ Multi-phase programme loans provide long-term support that require more than one project cycle to reach their development objectives. The phases of eligible programme are independent and approved independently. However, compliance of one phase triggers the next one.

⁶⁰ With results-based lending, disbursements are linked to the achievement of agreed programme results rather than to expenditure.

5. Borrowing for public investment in inclusive and sustainable rural development

A. Which of the following areas for inclusive and sustainable rural development would the government of your country (or the country where you mainly operate) consider external borrowing (external development assistance) from bilateral and multilateral donors? Please tick the answer(s) that most resonates.

	No borrowing	Yes borrowing, but loans at highly concessional terms ⁶¹ only	Yes borrowing, Loans also at less-concessional terms ⁶²	I don't know
Access to agricultural technologies (research and development) and production services (e.g. crops, livestock, fisheries)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Agricultural value-chain development (e.g. crops, livestock, fisheries)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Climate-resilient agricultural practices	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rural basic infrastructure (e.g. water and irrigation systems, local roads, local energy generation and storage facilities)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rural financial services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rural investment environment (e.g. policy, legal and regulatory frameworks)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Others (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B. To what degree are the following financial terms and conditions important to your government (or the country where you mainly operate) if it is considering borrowing or already borrows from bilateral and multilateral donors for public investment in inclusive and sustainable rural development?

	Not important	Slightly important	Somewhat important	Important	Extremely important
Currency denomination	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Grants available to finance some components of the projects	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Greater volume of financial resources	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interest rate	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Maturity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Repayment schedule	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Size of the project/programme	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sub-national lending	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Others (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

⁶¹ We refer to highly concessional loans as those with an interest rate far lower than commercial rates (e.g. equivalent to IDA terms).

⁶² We refer to less-concessional loans as those with an interest rate somewhat lower than commercial rates (e.g. equivalent to IBRD terms).

C. To what extent would the following factors be important in determining whether the government of your country (or the country where you mainly operate) decides to borrow external assistance for public investment in inclusive and sustainable rural development?

	Not important	Slightly important	Somewhat important	Important	Extremely important
Economic impact on the wider economy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Benefits to the rural poor and hungry	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Benefits to vulnerable groups (e.g. women, youth, indigenous people)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cash generation from rural development projects to service loans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Viability of foreign loan conditions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Competition for foreign borrowing from other sectors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Availability of grants financing for rural development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Country's debt policies allowing space for additional foreign borrowing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other motivations (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

D. Please indicate the extent to which you think the government of your country (or the government of the country where you mainly operate) would agree or disagree with each of these statements.

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
The positive impact on the wider economy of greater public investment in rural development is strong and convincing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The impact on poverty and hunger of greater public investment in rural development is strong and convincing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
There is a strong political support for investment in rural areas, in order to promote other objectives i.e. address inequalities, address poverty, address environmental challenges, reach marginalised groups, independently from economic returns of the projects	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Most investments in rural development generate additional tax or fee revenues sufficiently rapidly to service their loans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Current external loan conditions are viable for public investment in rural development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Borrowing for public investment in sustainable rural development is prioritised, vis-à-vis other sectors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Grant financing is insufficient making borrowing for rural investment necessary	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Projects financed on loans could directly benefit the rural poor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The country's debt ceiling and debt policy allow space for additional borrowing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

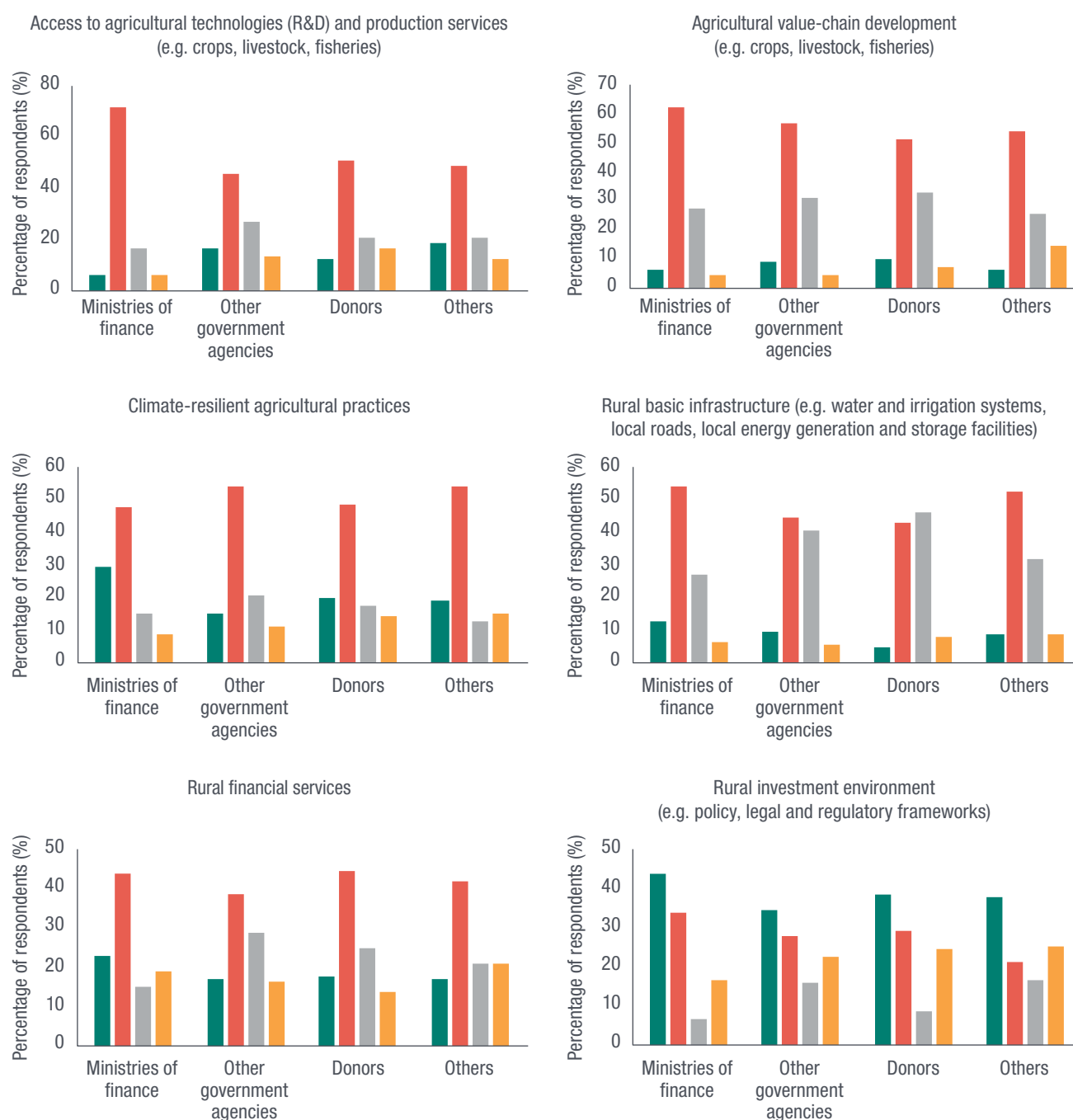
Conclusion

Are there other factors that you think are important in shaping the demand for external development assistance for public investment in inclusive and sustainable rural development? Please list them.

Annex 4 Borrowing decisions

Figure A2 Terms and conditions by activities and group of respondents

■ No borrowing ■ Yes borrowing, but at highly concessional terms only
■ Yes borrowing, loans also at less-concessional terms ■ I don't know



Source: Authors' elaboration based on the survey results

Figure A3 Factors determining whether the government decides to borrow external development assistance for public investment in inclusive and sustainable rural development

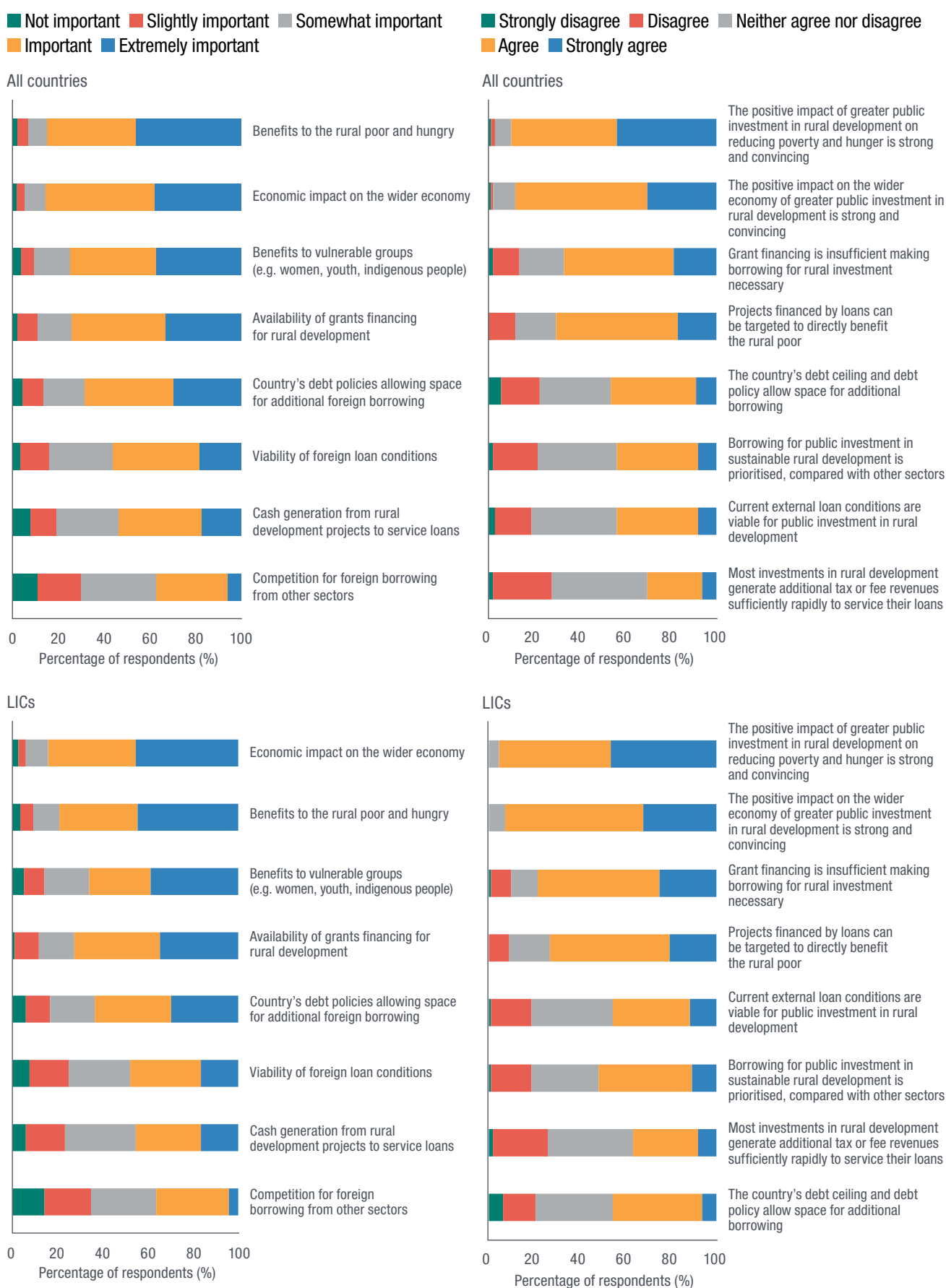
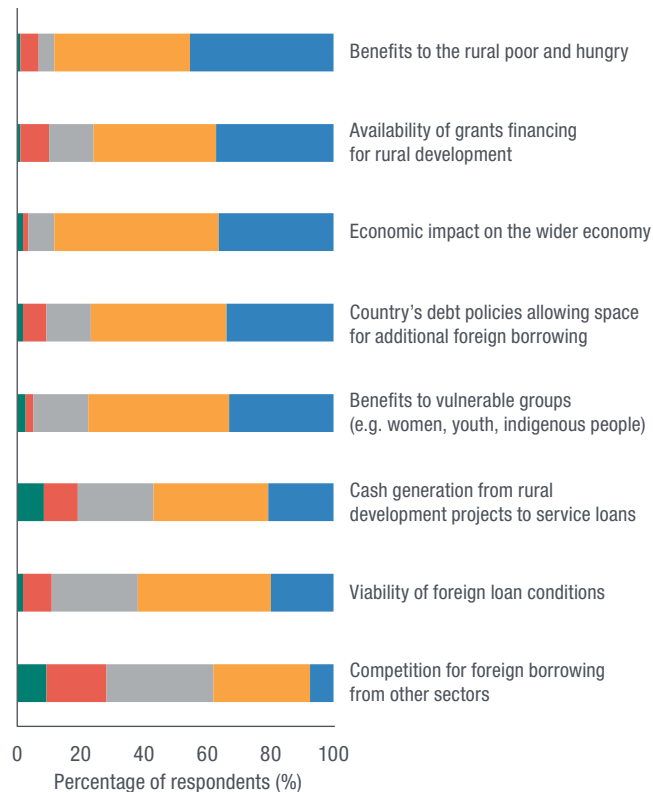


Figure A3 (continued)

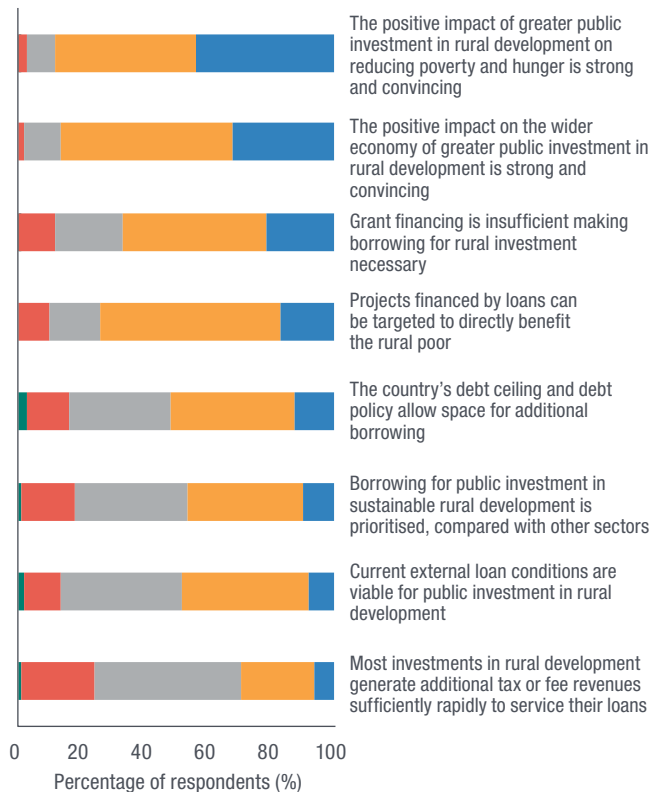
■ Not important
 ■ Slightly important
 ■ Somewhat important
 ■ Important
 ■ Extremely important

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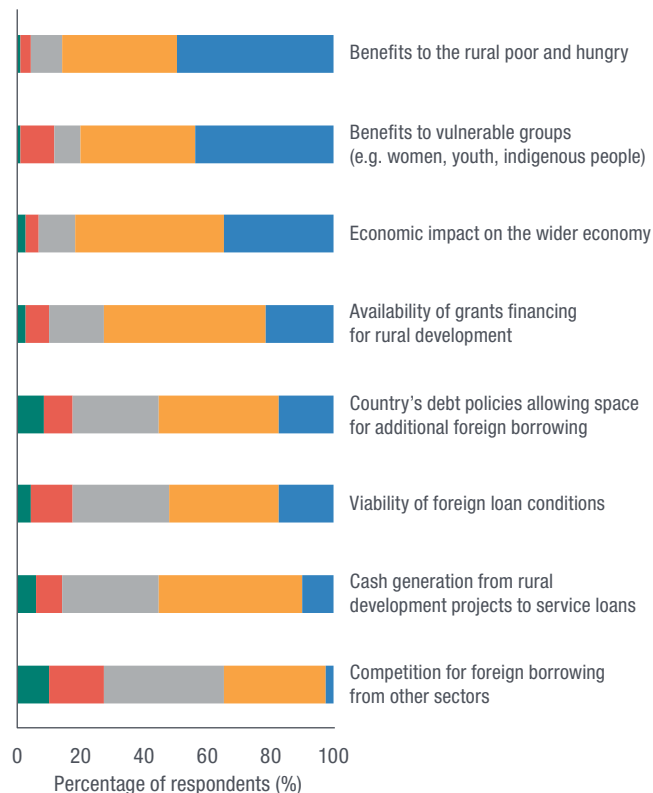


■ Strongly disagree
 ■ Disagree
 ■ Neither agree nor disagree
 ■ Agree
 ■ Strongly agree

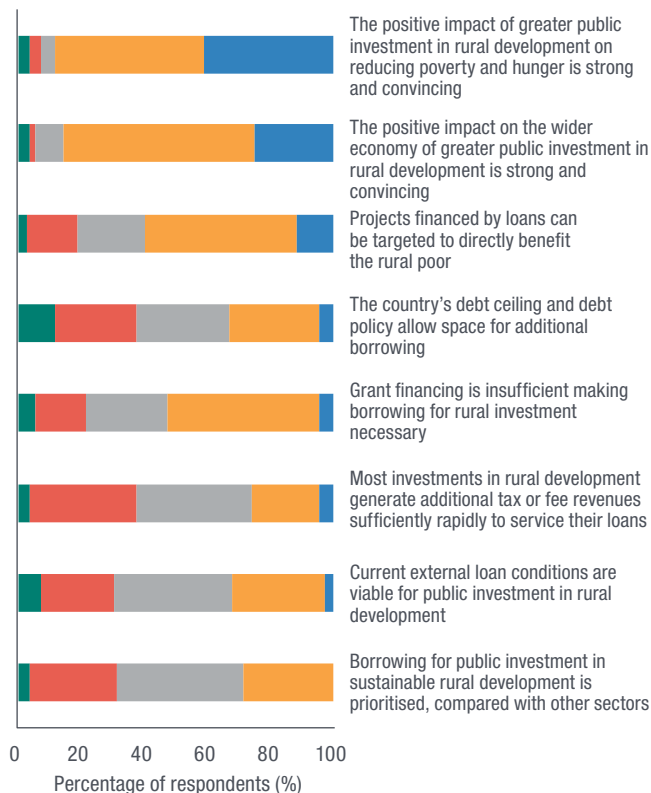
LMICs



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ODI
203 Blackfriars Road
London SE1 8NJ

+44 (0)20 7922 0300
info@odi.org

odi.org
odi.org/facebook
odi.org/twitter