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Financing Agriculture and Rural Development in Africa: Issues, Constraints and Perspectives

I. INTRODUCTION

The most recent estimate is that the number of chronically hungry people in developing countries has only fallen by 19 million since the target of reducing hunger by half by 2015, was set out at the World Food Summit (WFS) in 1996. This implies that the WFS goals can only be met if the pace of hunger reduction is dramatically increased. There are some 800 million hungry people in developing countries. Although the number of undernourished has declined in Asia and Latin America, in Sub-Saharan Africa, the numbers have continued to rise and there are now estimated to be no less than 200 million people in this position. African countries occupy the ranks of the most seriously undernourished in the world, with 16 of the 20 countries where over 35% of the population is undernourished, alongside those, such as Afghanistan, that have suffered major conflict. In Southern Africa, severe chronic food insecurity has been exacerbated by drought and the impact of HIV/AIDS – a so-called "long-wave crisis" - which already affects 5-10% of the agricultural labour force, and is projected to claim one-fifth by 2020[1].

The scale of the task involved in substantially reducing hunger in Africa is enormous. The solutions lie not only within agriculture, but also in the broader political, economic and social enabling environment. Stimulating strong economic growth in the region and economic diversification in rural areas, are also part of the solution and, indeed, it can be argued that food insecurity is itself a constraint on growth. This paper looks at just one element in the fight against hunger in Africa – **the mobilisation of resources at all levels in order to increase production and productivity in agriculture and to enhance the productive capacity in rural areas** where 70% or more of the poor and food insecure live. Its starting point is the assumption that one of the principal constraints to increasing agricultural production in Africa is the lack of investment in the sector. Total lending to agriculture and

[1] This section draws upon: *State of Food Insecurity in the World, 2003*, FAO

rural development in the world from external sources declined by 50% between 1990 and 1999. FAO's Anti-Hunger Programme has calculated that worldwide, a resource flow of US$24 billion per year – a paltry sum when compared with the US$300 billion each year paid in subsidies to agriculture in OECD countries - is needed to achieve the Millennium Development Goal of reducing by half the number of food insecure people by 2015. Returns are estimated at US$120 billion per year.

The setting of Millennium Development Goals (MDGs), the Poverty Reduction Strategy Paper (PRSP) process and Heavily Indebted Poor Country (HIPC) initiative are signals of an unprecedented political willingness to address the problems of world poverty. These initiatives and the commitments to reducing hunger made at the World Food Summit, represent an opportunity that should be grasped quickly with proposals for effectively utilising extra resources aimed at revitalising African agriculture. The high priority accorded to agriculture by Africa's leaders, and the recognition that investment in the sector is currently inadequate, prompted Heads of State and Government at the African Union summit in Maputo in July 2003 to commit themselves to increase allocations to agriculture and rural development to at least 10% of national budgetary resources within five years. The paper will look at the different types of external resources available, at factors affecting domestic resource mobilisation and allocation, and at the constraints to channelling funds for investment by farmers themselves. It will also examine issues of absorptive capacity constraints and the role that NEPAD can play in addressing these issues.

II. EXTERNAL RESOURCES

A great deal of attention has been devoted to the sharp decline in external resource flows to the agricultural sector over the last decade, especially in Africa. Aid for agriculture as a share of total aid worldwide, declined from 20% in the early 1980s, to 8% at the end of the century. World Bank lending for agriculture, for example, has dropped from 31% of its portfolio in 1979/81, to 10% in 2000/01. Resources directed to agriculture in Sub-Saharan Africa (SSA) amounted to US$1.1 billion in 2000, or 30% of the total, a figure so small per person as to be unable to have any impact on their livelihoods. With multilaterals (international financing institutions (IFIs) and the European Union EU) and bilaterals (OECD Development Assistance Committee or DAC countries) currently contributing roughly equal shares (51% and 49% respectively), the decline in bilateral funding has been even more pronounced, at 60%.

External resources for investment are both public and private. Although external resource flows could certainly be increased, the reasons for the current low levels are complex and not quickly resolved. Public sector flows come in the form of loans (and to a small extent grants) from the international financing institutions, and grants from multi- and bilateral donors. Private sector investment is made directly or in partnership with domestic private sector interests or joint ventures with governments and is often largely in buying up privatised state assets rather than new investment.

Public Resource Flows

Overall Official Development Assistance (ODA) – the main measure of public sector aid flows - to African countries fell by more than 50% between 1990 and 2000. If net resource transfers are considered, the position looks even worse. In 2003, for example, only 8% of World Bank/IDA loans to Africa were for agriculture, fisheries and forestry. Although this

amounted to just US$300 million, this was a major increase over earlier years: 1994-97 averaged US$157 million, and 2000 was just US$112 million. Over the last 30 years, around 18% of the African Development Bank (ADB) total loan portfolio has been to agriculture including rural development. Lending to agriculture under ADF VIII and IX (from 1999) has been around 23%.

There are several constraints, at different levels, to increased external public resource flows to agriculture in Africa. For the IFIs, absolute limits are determined by the scale of replenishments to their "soft window" resources – IDA (for World Bank) and ADF (for ADB). Within the allocation for the region, there are difficult choices to be made between different major sectors. The decline in external public funding for investment in agriculture and rural development has been triggered in part, by a perception that the sector is intrinsically "difficult" and that, even though the overwhelming mass of poverty is in rural areas, resources can be utilised more effectively in other sectors. There has been an increasing commitment to funding the social sectors – health and education – which are at the centre of HIPC debt relief-funded programmes, and infrastructure development, where clearly-defined programmes and targets can be set, in preference to agriculture and rural development. Although the PRSP process should, in principle, secure extra resources for rural areas where the majority of the poor live, budgets are generally heavily biased towards the social sectors, the case for agriculture has often not been made strongly enough, and anticipated new resources have not been forthcoming. In effect, the argument that the reduction of food insecurity contributes strongly to economic growth and poverty reduction has not been forcefully made.

During the 1960s, '70s and '80s, project lending was predominant, with clearly-defined and costed, often commodity-focused, short, time-bound investment projects in the agricultural sector. However, portfolio reviews by the IFIs have shown that investment projects in the sector tend to perform poorly, with slow disbursements, extended implementation periods and low (or negative) *ex post* rates of return. A corollary to this conclusion is the view that providing financing for agriculture has largely failed to transform it into an engine for economic growth and, consequently, has all too often had little impact upon poverty. Although agricultural projects for external funding continue to be designed and financed, IFIs are increasingly reluctant to use the project approach. Whilst better designed and implemented projects in agriculture might attract renewed interest in this instrument by IFIs and donors, other factors have prompted development financiers to change the way they operate.

Frustration with the poor performance of projects has caused the principal IFIs to change their lending instruments over the last decade, and this has contributed to reduced investment in agriculture. IFIs have introduced instruments that would allow longer-term financing commitments to be made – say, over 15 years in three 5-year tranches – (such as the World Bank Adaptable Lending Programs - APLs) with less ambitious and consequently, smaller early stages. In some cases, sector-wide programmes have been designed, in recognition of the inter-dependence of different sub-sectors and the complementarity of service provision. The types of intervention to be funded under such programmes are usually not specified in detail, but are subsumed under the overall activities of a ministry of agriculture (and other rural agencies), and provide financial support for the ministry's budget within an agreed medium term expenditure framework (MTEF). Attempts have been made to enhance coordination and coherence in such programmes through "basket funding" by a consortium of IFIs and donors, using common procurement and reporting procedures. However, there are instances where basket funding has instead resulted in complex decision-making procedures

and delays in disbursement. Governments are obliged to adhere strictly to the MTEF budget ceilings and different sectors must compete for a share of the available funds. More recently, IFIs and donors have moved increasingly towards providing general budget support to governments. This process has been furthered by the demands of HIPC and the need to transfer resources to governments in support of the PRSP process as quickly as possible. In this case, a Poverty Reduction and Support Credit (PRSC) from World Bank is tied to a policy reform matrix that often includes agreed measures to be taken in a wide range of sectors. As a result, the agriculture sector has no earmarked funding.

At the operational level, decision-making in some IFIs and donor agencies has been shifted to country offices. For example, World Bank Country Directors (increasingly resident in their designated country) ultimately decide sectoral lending allocations and the types of lending instruments employed. In response to the need to transfer substantial resources each year and to avoid the complications of implementation in rural areas and slow disbursement, there is a natural reluctance to lend directly to agriculture. At best, decision-makers choose to lend for the development of sectors and services that complement agriculture, such as rural infrastructure, the judiciary and education. Although better project design and enhanced implementation capacity could lead to more agriculture sector projects, innovative mechanisms are needed to increase disbursement rates so as to satisfy the need to transfer resources. Profitability in the agricultural sector, and its attractiveness for investment has deteriorated as a result of the declining trend in world commodity prices. However, when viewed in the context of food security, improved nutrition and livelihoods, the economic returns to investment in the sector are still attractive.

- ***Is the lack of agriculture sector project proposals the principal constraint to increased investment in agriculture?***
- ***Are substantial increases in external resource flows for agriculture and rural development likely to be realised?***
- ***What innovative mechanisms could be used to increase the flow of external resources to agriculture? (e.g. advocacy by regional organisations, coordination of donors' country programmes, better planning at national level)***
- ***What adjustments to the lending/grants process might rejuvenate investment in agriculture? (e.g. programme lending, sector-wide loans, narrowly-defined project proposal, partnership programmes)***

Private Sector External Resource Flows

Private capital flows – known as foreign direct investment (FDI) – to Africa are small. In 2001, FDI was estimated at US$6.8 billion, targeted primarily at the mineral rich – especially oil, gold and diamond rich – countries. The figure for 2002 is just US$3.9 billion. This represents a tiny fraction – around 2% - of global FDI in developing countries. The amount of FDI for the agricultural sector in Africa (for which separate data are not available) is thought to be negligible.

The low level of FDI in Africa in general, and in the agricultural sector specifically, is a reflection of the perceived high risks involved. These risks are both general – political instability, poor management of the economy and absence of an enforceable legal framework – and specific to agriculture – the virtual absence of supporting infrastructure and services in

rural areas. The consequence is that foreign private investors seek only investments with high and quick returns – it has been calculated that the average return to FDI in Africa is four times that in the G-7 countries. The fact that there have been more than 20 serious armed conflicts in the last decade, may also have been a cause for the low private investment in many parts of the continent.

There are many constraints to increasing FDI in Africa. In many countries, investment codes appear to have been designed more to protect national vested interests than to attract investors. The processing of applications to invest and to obtain the necessary licences is often slow and costly, encouraging rent-seeking behaviour. Contracts are not always enforceable through the courts and the legal system is often unreliable. The slow pace of privatisation not only crowds out foreign investment from potentially profitable activities, but continued government interest in productive activities also creates an "un-level playing field" for the private sector in general. For multinational companies, the fragmentation of the continent into more than 50 separate markets, and the lack of common investment conditions and legal codes across countries even within a sub-region, render the costs of investment prohibitively high. In some countries, remittances from workers overseas can be a significant part of external private investment flows. Although developed country trade barriers have been reduced from an average of 30% in 1990 to 16% in 2002, the continued adverse world trade environment including the proliferation of non-tariff barriers, especially for agriculture, inevitably inhibits private investment in the sector.

- ***What steps could be taken at national and regional levels to enhance the environment for increased foreign direct investment in agriculture? (such as friendlier investment codes, provision of basic infrastructure, measures to enhance the "rule of law", regional harmonisation of tariffs and regulations)***

III. DOMESTIC RESOURCES

The constraints to the financing of agriculture and rural development with domestic resources are similar to those operating at the international level. However, the decision-makers are different. Notwithstanding the priority given to poverty reduction, which indicates investment in rural areas, the agricultural sector must dramatically improve its attractiveness to investors in terms of profitability and sustainability, if it is to secure a larger share of domestic public and private resources.

The data on national resource allocations to agriculture in Africa are sparse. At best, 15 countries have time series data of five years or more. On the basis of these figures, but without any attempt to weight the averages, it appears that around 5% has, on average, been allocated to agriculture. However, it is impossible to determine whether part or all of this figure represents resources allocated from national tax revenues as opposed to the utilisation of revenue from external loans and grants.

Public Expenditure

Public expenditure is funded by taxes, foreign and domestic borrowing, and grants. In many African countries, external funds constitute a large part of the total resources available for the public sector. In the world after the debt crises of the 1990s, concerns about the sustainability

of foreign borrowing and debt repayments, place an absolute ceiling on the volume of external borrowing that an individual country can accept. Except in countries which have large and buoyant exports of minerals, most governments are dependent upon volatile exports of agricultural primary commodities for their foreign exchange and tax revenue. In many cases, the development budget is largely funded from external sources, and the recurrent budget, at best, supports wages, salaries and the basic operating expenditures of government. The only way of increasing domestic resources for public expenditure is through broadening the tax base and increasing the efficiency of tax collection. Unfortunately, with the agricultural sector invariably playing a large role in the economy, almost any effort to increase taxes will adversely impact agriculture and heighten the tendency for there to be a bias in favour of urban areas in the taxation-expenditure equation. Countries with large tax receipts from mineral exports often suffer from over-valued exchange rates that handicap agriculture. Cross-sectoral transfer mechanisms may also be needed to ensure that their comparatively abundant resources are used effectively for rural development.

Decisions about the sectoral allocation of public expenditure are made by ministries of finance and planning, responding to political imperatives, the relative strength of urban constituencies, and the expressed priorities of donors. The ministry of finance not only dispose domestic tax revenues, but also allocate the resources available under HIPC debt relief mechanisms, PRGF and PRSC resources, and general budget support packages from donors. In this national resource allocation process, finance ministers tend to take decisions according to similar criteria to their international counterparts. The coherence of programmes, and capacity to spend effectively in different sectors, determines where the impact of public expenditures are likely to be greatest. In this respect, ministries of agriculture tend to be at a disadvantage with respect to their peers in health, education and public works. Sector-wide programmes in health and education, for example, that directly address key development priorities, are able to include monitorable goals of the sort that are difficult to define or measure in agriculture. The allocation of public funds for infrastructure development, such as roads, can be attractive because large parts of the work can be contracted out to local or international private sector enterprises. The inadequate representation of the agricultural sector in the programmes in PRSPs and in associated budget allocations illustrates how difficult it has become to develop attractive agricultural development strategies and programmes in the context of new aid modalities and under pressure from NGOs to give priority to rural social services. At the national level, the visibility of agriculture and rural development needs to be raised and “champions” are needed to give a fiscal “voice” to the rural poor and to make the case for extra budgetary resources for the prime movers in the sector – human capital, technology and institutions.

In order to secure a larger share of public expenditure, ministries of agriculture need to be more effective in the planning and implementation of their activities and to show how agriculture can become a driving force in economic growth and sustainable poverty reduction. An important step in this process is the definition of a set of core functions for support to the sector. Ministries of agriculture need to define functions that enhance the environment for investment including regulatory functions, information dissemination, and services such as research and extension, although many aspects of the latter might be contracted out to the private sector, universities or NGOs.

- ***How can ministries of agriculture be more effective in securing an increased share of public expenditure for the agricultural sector?***
- ***How can public expenditure be prioritised to reduce poverty and achieve the greatest benefit to the rural economy?***
- ***In which ways can risk be managed so as to encourage increased investment in agriculture?***
- ***What forms of public investment can have the greatest impact on increasing agricultural production and productivity? (such as research, extension, roads, regulatory services)***

Private Investment

The barriers to increased private commercial investment in the agricultural sector are largely the same for national and international investors. It has been estimated that at least 40% of domestic investible funds in Africa are employed in developed economies, as well as deposited in foreign bank accounts. However, the largest investors in the sector are the ordinary farmers themselves and capital formation by farmers undoubtedly dwarfs public investment. The commercialisation of small farmer agriculture, which is seen as the ultimate objective of development in the sector, depends upon the profitability of the products grown. For small farmers to invest in moving beyond mere survival and subsistence to commercial production, in a situation where markets are thin and where institutional and economic infrastructure is undeveloped, often involves an unacceptable level of risk for their meagre capital resources.

IV. RESOURCE MOBILISATION FOR FARMERS

However big or small the resources mobilised for investment in agriculture, it is essential to cut the cost and improve the accessibility and reliability of loan funds to farmers, who are the primary producers in the system. It is also crucial to make sure that a larger part of those resources reach the primary producers – the farmers – in the form of support services for agriculture and loan funds for investment.

In view of the constraints upon both external and domestic public resource mobilisation, efforts should be focused on increasing the efficiency and performance of domestic capital and money markets. An increase in the use of domestic resources is in line with NEPAD principles of self-reliance and self-financing. Approaches to mobilising domestic savings are useful because they reduce dependence upon external funding, increase the resources in the financial system, contribute to lowering inflation, and reduce the cost of funds. A number of direct and indirect strategies and policies to mobilise domestic savings and to increase flow of funds for the rural sector may be considered.

Micro-Finance

Experience shows that a lot of small-scale investment can be funded by micro-finance. Although micro-finance institutions (MFIs) often make loans at interest rates higher than the formal banking sector, effective loan processing and timely delivery mean that they usually have a positive impact on farmers' incomes. Although there are many rural MFIs in Africa serving poor people, it is true that most are currently in urban and peri-urban areas because of the high transaction costs involved in serving scattered rural populations. Rural MFIs, with

capacity building support to help them mobilise deposits from the public, can achieve good results and may even generate excess liquidity for depositing in the banking sector. Services need to be livelihoods based, using innovative approaches to creating networks, umbrella/apex organizations and inter-sectoral linkages with formal banks. A clear legal/regulatory framework is essential, with strict supervision by the central bank.

Development Banks

Where development banks exist, they are often not geared towards mobilising local funds, but use their share capital, treasury funds and external loans for lending. The use of such long-term funds for short-term loans is highly inefficient, and the transformation of development banks into banks operating along commercial lines, is crucial. Development banks should have a diversified portfolio, in which agriculture plays an important, but not an exclusive role. The role of development banks as wholesalers of funds to MFIs and other lenders in rural areas, should be complemented by an active savings mobilization policy, encouraging longer maturing deposits. Capturing such deposits and contractual savings may require special incentives, such as a government bonus at the end of the savings period and/or a low or zero withholding tax.

Commercial Banking

Commercial bank lending to agriculture in Africa has been declining in recent decades. Although guarantee funds have not worked well, except in a few instances, tax incentives for micro and small loans to farmers, where banks incur higher transaction costs, may entice them into rural and agricultural lending. A positive example is the law on the "Groupement d'intérêt économique" in the UEMOA countries, a simple piece of legislation that confers legal status on even small groups bound by common economic interest. In some cases, reminded of their overall responsibility in the society, banks have been persuaded to set aside funds (e.g. 10% of profits before taxation), to finance small-scale enterprises.

Insurance cover against drought, floods and pests, for example, encourages banks to make agricultural loans. However, the many practical problems associated with formal insurance underwriting, such as moral hazard, high transaction costs, high probability of disasters, the small volume of transactions, and farmers' reluctance to accept insurance as a risk management tool, makes this a long term solution. Innovative approaches to contributory, group-based funding for emergencies, with well-defined government support, need to be explored.

Since lending in rural areas is more costly than in urban settings, liberalisation of interest rates would prevent "crowding out" of rural loans. Policies which cap interest rates charged by MFIs restrict agricultural funding, especially in member-owned institutions such as credit unions where members benefit from dividends.

As a general principle, an increase in the number of (sound) financial institutions in rural areas would increase outreach, and the volume and quality of financial services, leading to greater competition and lower interest rates. Different ways of achieving this include promoting joint liability lending, linkages between savings and credit, integration of informal institutions into the formal system, bonded warehousing and equipment leasing. As financial markets become more sophisticated, venture capital, for which there is high demand in

African economies, could find a place in promoting dynamic small and medium companies, through incentives such as tax exemptions.

- ***Which of the measures listed above would have the greatest potential impact upon increasing the flow of funds to farmers?***
- ***What are the most important constraints to implementing such measures?***

V. ABSORPTIVE CAPACITY CONSTRAINTS

Whatever level of externally- and domestically-funded public investment is achieved, it is crucial to improve the efficiency of that investment and the absorptive capacity of African economies. The aim of publicly-financed interventions in the agricultural and rural sector is to increase production, productivity or incomes by stimulating complementary private activity from the target population. In other words, successful performance crucially depends upon associated private activity, both financial (e.g. expenditure on new inputs, assets, product development and marketing) and non-financial (e.g. time and effort spent in skill formation and land, water or other resource management). The generally poor performance of projects in agriculture, reflects the associated failure to stimulate relevant private sector activity. For this reason, consideration of absorptive capacity problems must include examination of the constraints that exist to private investments, the profitability and competitiveness of the sector in seeking export markets, and comparative advantage in domestic markets.

Public Sector Interventions

Investment prospects in agriculture can be enhanced by actions to improve the nature and quality of public interventions and the enabling environment. By increasing the likelihood and scope for complementary private investments, such actions would increase the success of public investments. There is a clear need for fundamental reform of public expenditure processes, policies and structures, along with capacity enhancement in government and new approaches by donor agencies. Government public expenditure is often concentrated in a few sectors or activities (irrigation, commodity price support, export and subsidies, extension)[2], as a result of historical trends, politics or the ease of lending to some sub-sectors, rather than by the needs of the sector. Public programmes also tend to be interventionist, crowding out or even supplanting market institutions and private and civil society organizations. For instance, support for market risk often takes the form of managing the markets themselves rather than managing risks. Similarly, there is often reluctance to give up inefficient, monopolistic and supply-driven provision of public services. The implementation of externally-funded projects is often inefficient, resulting in delays and under-utilisation of funds, thus compromising the intended objective of providing an enabling environment for private activity (such as small farmer production).[3] The introduction of performance-based lending criteria by IFIs not only penalises countries with poor implementation records, but also sectors, such as agriculture, which fail to effectively utilise loan funds. Not all the problems lie with governments,

[2] Of the total amount committed in FY00 by the World Bank in rural projects across 16 identified sub-sectors, more than 50% was accounted for by the Irrigation and Drainage sub-sector and another 10% by the Rural Water Supply sub-sector.

[3] In the case of the African Development Bank, the overall disbursement rate for agricultural and rural development projects (cumulative over the last 20 years) is calculated at 65%. Comparable estimates for nationally funded programmes would be useful

however, and IFIs and donor agencies often impose complex disbursement procedures, and inflexibility of operation on their partners.

Enabling Environment for Investment

A number of important factors affect the overall enabling environment for investment at national level. Policy-induced distortions through intervention in the market, have in the past blunted incentives to exploit comparative advantages and led to misallocation of resources. Reform measures to replace price interventions with support for market risk management, removing entry and trade barriers, and reducing market abusive and monopolistic practices through stronger regulation, can increase growth in the short- and long-term. Diversification of government revenue sources is needed so as to avoid agriculture bearing too heavy a burden. Decentralization and especially fiscal devolution, will allow more efficient revenue collection and better targeting and management of local expenditures. High transportation costs, resulting from poor quality roads and infrastructure, tolls and transport-related taxes, reduce profitability and the incentive to invest. Greater market integration and trading depth, through investment in marketing and storage infrastructure, reducing tariff and non-tariff barriers, trade treaties, and regional economic integration, would stimulate investment through more stable prices as well as better terms of trade. Partnerships between public, market-based and civic organizations need to be strategically forged to facilitate, for example, co-financing or contracting for infrastructure development and other public-type goods. Finally, predictable policy regimes, transparent business procedures, accountability in public decision-making, and balanced and efficient regulatory regimes are critical in creating an attractive investment climate.

The importance of the legal system in underpinning rural development has been grossly neglected. The problem lies more often on the side of the judiciary than on statutory laws. Legal contracts are often not employed and institutions, such as banks, have difficulties enforcing loan repayment through the courts. The costs of legal action may exceed the claims, and the outcome is often uncertain. Financial institutions tend to lend only on the basis of collateral - usually land - which immediately excludes small farmers without land titles or those where such assets effectively cannot be seized. Bad debt provisions of 50% or more in some African countries push up interest rates to very high levels. A sound legal framework can also liberate capital markets so that government can tap funds at low interest and risk through bond issues.

A number of institutional support interventions can be proposed. The capacity, procedures and institutions involved in public expenditure management need to be strengthened, as well as the design, management and implementation of public projects. Success stories of public-private partnerships that bring in complementary investments from the private sector or increase the outreach, effectiveness and sustainability of public interventions through more participatory planning and implementation, could be part of the institutional learning process.

- ***Which of the steps indicated could governments take to increase the effectiveness of investment in agriculture?***
- ***What other actions might also impact the effectiveness of investment in agriculture?***
- ***What are the most important constraints to increasing absorptive capacity in agriculture?***

VI. THE ROLE OF NEPAD-CAADP IN INCREASING INVESTMENT IN AGRICULTURE

In the Maputo Declaration, Heads of State and Government at the AU Summit undertook to implement, as a priority, the NEPAD Comprehensive Africa Agriculture Development Programme (CAADP) and to increase the resources allocated to agriculture and rural development. In support of this groundbreaking commitment, FAO undertook to support governments in three areas: (a) to review and update the National Strategies for Food Security and Agricultural Development to the Horizon 2015, in accordance with the Millennium Development Goals (MDG); (b) to assist in the preparation of National Medium Term Investment Programmes (NMTIP); and (c) to assist in the preparation of bankable project profiles. To date, 49 requests for assistance in preparing NMTIPs have been received, and work has been initiated on 47 national strategies. Much of the work is being carried out by national consultants in close consultation with local stakeholders to ensure African ownership of the product, in the spirit of NEPAD.

The expected added value of this exercise will be to bring agriculture and rural development to the top of the agenda, to ensure consistency, within the framework of PRSPs, between long term policy objectives and medium term plans comprising pre-feasibility level projects, and to ensure linkages with regional priorities ("Flagship" projects). It is also intended to achieve consensus on government plans and donor priorities, and to be able to identify resource/financing gaps. To be effective, however, it will be necessary to look beyond the agricultural sector so as to be able to compare the returns from investing in the agricultural/rural sector with those from investments in other sectors, considering issues such as sustainability and overall development impact. At a broader level, it is anticipated that the NEPAD mechanism for peer review, aimed at improving governance in the continent, will enhance the environment for investment in agriculture as in other sectors.

The CAADP Action Plan focuses on sub-regional flagship programmes and projects designed for members of African Regional Economic Communities/Organizations (RECs/REOs). All projects, prepared to the stage of Programme/Project Profiles and Concept Notes by RECs/REOs, are aligned with the first four CAADP pillars.[4] The sub-regional approach has the potential for dealing with trans-boundary issues, for taking advantage of economies of scale and reduced transaction costs, with national programmes including contributions to these regional programmes. Unfortunately, some RECs/REOs lack the capacity to coordinate implementation of all the NEPAD-related programmes and projects of a sub-regional nature. For successful sub-regional projects to become a reality, consideration will need to be given as to how the RECs/REOs could carry out their mandate under NEPAD – CAADP. Aspects requiring consideration include whether the role of the RECs/REOs should be limited to one of monitoring implementation, and if so how they should be equipped to carry this out, or whether they should also be empowered to intervene in cases where implementation is not proceeding according to schedule. Particularly in the latter case, the scope for external funding of these organizations should be reviewed and modalities identified for their support.

[4] 1. Extending the area under sustainable land management and reliable water control; 2. Improving rural infrastructure and trade-related capacities for market access; 3. Increasing food supply and reducing hunger; 4. Agricultural research, technology dissemination and adoption. A 5th pillar is in the process of being defined, that will cover livestock, fisheries and forestry.

- ***What public sector tasks – such as research, veterinary disease control, early warning systems - are suitable for implementation at the sub-regional level by REOs/RECs?***

VII. MONITORING THE MAPUTO COMMITMENT

A meeting was held in February at FAO, attended by representatives of World Bank, IMF, ADB and the NEPAD Secretariat, to discuss ways of monitoring the commitment made by Heads of State and Government in the Maputo declaration to allocate at least 10% of national budgetary resources to agriculture and rural development within five years.

The meeting recognised that resource allocation to the agricultural sector in Africa is by no measure commensurate with its importance in the economies of the region. It also appreciated the importance of the political commitment of national efforts to reducing food insecurity and the need to find some way of measuring fulfilment of this commitment. However, it concluded that it would be almost impossible to distinguish in any meaningful way between the allocation of resources derived from national sources through taxation and those funds derived from external loans and grants. It was also agreed that, in view of the serious problem of data availability, it would be difficult and costly to establish a data collection system that could accurately and reliably measure such allocations. The IMF[5] already uses a functional classification of expenditure which could be drawn upon to meet the FAO requirements of monitoring expenditure on agriculture. The main agriculture sector allocations[6] which could be used for this purpose were identified. However, the IMF functional classification has only been adopted in ten African countries to date and the pace of expansion to other countries is unlikely to match monitoring requirements. In the interim it was agreed that the NEPAD secretariat would formally request further assistance on this matter from FAO and an inter-agency working group would be established to determine additional ways to assist countries in the provision of the required data. Steps would be taken to ensure that data from existing statistical sources be compiled in a consistent way, and be presented on a regular annual basis in order to indicate trends in total resource allocation to the sector country-by-country. The monitoring of expenditures should also be set within the framework on HIPC and PRSP pro-poor budget monitoring.

- ***What practical steps can be taken to monitor the Maputo commitment to allocate at least 10% of national budgetary resources to agriculture within five years?***

[5] Using the Classification of Functions of Government (COFOG)

[6] Agriculture, fisheries, forestry and animal husbandry, research and development (agriculture, forestry, fishing & hunting) and protection of biodiversity and landscape.