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FINANCING OF AGRICULTURE: ISSUES, CONSTRAINTS AND PERSPECTIVES

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I. INTRODUCTION

1. The most recent estimate of the number of chronically undernourished people in the world is about 854 million for the period 2001-2003, of whom 820 million live in developing countries, 25 million in countries in transition and 9 million in developed market economies. Sixty-one (61) percent lives in Asia and in the Pacific, while Sub-Saharan Africa accounts for 24 percent of the total of estimated undernourished people.[1]

2. 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 206 million people in this position. Virtually no progress has been made towards the World Food Summit (WFS) target of halving the number of undernourished people by 2015. Since 1990-92, the undernourished population in the developing countries has declined by only 3 million people: from 823 million to 820 million.

3. The scale of the task involved in substantially reducing hunger is enormous. The solutions lie not only within agriculture, but also in the broader political, economic and social enabling environment. Stimulating strong economic growth 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, **the mobilization of resources at all levels in order to increase production and productivity in agriculture and to enhance the productive capacity in rural areas** where most of the poor and food insecure lives. Its starting point is the assumption that one of the principal constraints to increasing agricultural production is the lack of investment in the sector. Total lending by international financing institutions (IFIs) to agriculture and rural development in the world from external sources declined by 50 percent between 1990 and 1999. Though this sharp decline has decelerated in recent years, it cannot be said that agriculture is successful in attracting investment, particularly compared with other sectors. 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.

4. The paper will look at the different types of external resources available, including providing an overview of the effective results of international commitments for increased financing for development in terms of investment in agriculture. It will also examine factors affecting domestic resource mobilization and allocation, and at the constraints to channelling funds for investment by farmers themselves. Finally, issues of absorptive capacity constraints and the role that aid can play in addressing them will be addressed, as well as the need for innovative financing mechanisms for agriculture.

II. THE INTERNATIONAL AGENDA: AGRICULTURE AND COMMITMENTS TO INCREASE AID

5. The setting of Millennium Development Goals (MDGs), the Poverty Reduction Strategy (PRS) process and Heavily Indebted Poor Country (HIPC) initiative are signals of an unprecedented political willingness to address the problems of world poverty.

Monterrey

6. In March 2002, 50 Heads of State or Government, the private sector, civil society and all the major intergovernmental financial, trade, economic and monetary organizations gathered in Monterrey in the International Conference on Financing for Development. The conference was

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[1] This section draws upon: *State of Food Insecurity in the World 2006,* FAO

held following the endorsement of the Millennium Development Goals in 2001 with the aim to accelerate the release of the required financial resources for its accomplishment. Developing countries agreed to direct more public resources to development, to take measures towards improved public management systems, to increase expenditure effectiveness, and to create an enabling environment for internal and external private investment. Developed countries committed to increase international financial resources and technical cooperation for development, debt relief, and participation of developing and transitional countries in international trade.

7. Although Monterrey did not involve formal obligations by countries to increase resources for development, there has been a positive response to the Monterrey Consensus. Official Development Assistance (ODA) increased from just US$58.3 billion and US$69 billion in 2002 and 2003, to US$79.4 billion in 2004 and a record US$106.8 billion in 2005. This raised the indicator ODA/GNI from just 0.22 percent in 2002 to 0.33 percent in 2005. ODA to the least developed countries, most in need of financing to meet the Millennium Development Goals, has recovered even more strongly, to over US$23 million in 2003, a 60 percent increase over 2001. In May 2005, the European Union agreed to an interim target for ODA/GNI of 0.56 percent for 2010, representing an increase from €34.5 billion in 2004 to €67 billion in 2010. It has also set 2015 as the date to achieve the 0.7 percent target.

Gleneagles

8. The 31st G-8 Summit in Gleneagles in 2005 made a renewed commitment to development, especially in Africa. This was inspired by the Commission for Africa established by the Government of the United Kingdom in 2004 to formulate new ideas for improving development aid.[2] The Summit agreed to write off the entire US$40 billion debt owed by 18 most HIPC, and to double aid to Africa by the end of the decade (from US$25 billion in 2004 to US$50 billion in 2010). The Commission for Africa specifically recognized agricultural development as key to African development. It called for an additional US$2 billion per year for small-scale water control at village level and US$10 billion per year for infrastructure development up to 2010 and US$15 billion from 2010 to 2015. However, the G-8 summit in Heiligendamm three years later (2007) was able to show little progress in achieving these goals for Africa, and did not deal at all with issues of agriculture and rural development.

Other commitments

9. Although the major part of ODA is still provided by Development Assistance Committee (DAC) countries (around 90 percent), South-South Cooperation (SSC) is increasingly important, particularly from countries such as China and India. These new resources for development are not defined as ODA and do not necessarily meet DAC standards. The spate of initiatives and the commitments to reducing hunger made at the World Food Summit, are an opportunity that should be grasped quickly with proposals for effectively utilizing extra resources aimed at revitalizing agriculture.

III. EXTERNAL RESOURCES

10. 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, but this has often been applied more to buying up privatized state assets rather than making new investment. Aid for agriculture as a share of total aid worldwide, declined from 20 percent in the early 1980s, to 8 percent at the end of the century. Though the

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[2] See *Our Common Interest, Report of the Commission for Africa*, 2005

new century has witnessed a slight recovery of absolute levels of investment in agriculture, agriculture remains at the bottom of the investment agenda.

Public resource flows

11. Overall ODA commitments, the main measure of public sector aid flows, increased by 68 percent between 1980 and 2003. However, external assistance to agriculture decreased by 10 percent during those years. If net resource transfers are considered, the position looked even worse. In 2003, for example, only 7 percent of World Bank/IDA loans were for agriculture, fisheries and forestry compared with 12 percent in 1996. However a remarkable change has occurred since 2003. Although no data are available for overall aid, lending to agriculture by main multilateral agencies has increased by 30 percent in 2003-2005. In 2004 agriculture accounted for 3.4 percent of bilateral ODA from DAC members (about US$1 850 million) and 6.2 percent of multilateral ODA (about US$1 300 million).

12. There are several constraints to increased external public resource flows to agriculture in developing countries, but it is mainly the perception that the sector is intrinsically “difficult” and that, even though the overwhelming mass of poverty is in rural areas, resources can be utilized 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. The case for agriculture has often not been made strongly enough and budgets are generally heavily biased towards the social sectors and urban areas.

IFIs and bilateral donors

13. 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. Frustration with such poor performance has caused the IFIs to be less keen to finance agriculture. In some cases sector-wide approaches (SWAps)[3] which support a ministry’s programme and budget within an agreed medium-term expenditure framework (MTEF), have been adopted as a way of integrating aid by many donors in support of policy and institutional reform. In line with the Paris Declaration, “basket funding” by IFIs and donors may be part of a SWAp, using common procurement and reporting procedures, but this is often complex and results in delays in disbursement[4]. Adherence to MTEF budget ceilings means that different sectors and ministries must compete for a share of the available funds, whilst the use of general budget support, especially in Africa, means that the ministry of agriculture and the sector no longer have earmarked funding. The increased demand for performance indicators and results-based resource allocation puts agriculture at a disadvantage as the outputs of investment in agricultural policy are hard to define.

14. Projects continue to be important and better project and programme design at national level, and enhanced implementation capacity, are needed to increase the amount of support received. Profitability in the agricultural sector, and its attractiveness for investment deteriorated in the late nineties and early 2000s as a result of the declining world agricultural commodity prices. However, the recent explosion of the bioenergy market has triggered a boom in agricultural commodity prices and improved the appeal of the agricultural sector for investment.

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[3] See Foster, M; Brown, A; and Naschold, F. “Sector Programme Approaches: Will They Work in Agriculture?” Development Policy Review, 2001, 19(3)

[4] GDPRD *Global Study of SWAps in Agriculture and Rural Development*, Synthesis Report, July 2007

Emerging donors

15. SSC for development has recently expanded dramatically. South or “emerging” donors traditionally account for around 5-10 percent of ODA[5]. The principal countries involved are large states such as China and India[6], as well as South Africa, Brazil, Malaysia, Mexico, Venezuela, new EU members, OPEC and Middle East countries[7].

16. China’s major expansion of investment in Africa started in 2000, when it hosted the China-Africa Cooperation Forum. In 2006 China committed to double its development aid, to make US$5 billion in loans and investment credits over the following three years, and to cancel debt from all African least developed and highly-indebted countries. Most recently, (June 2007) China launched the first phase of a China-Africa development fund with US$1 billion, which is expected to reach US$5 billion in the future. Activities under Chinese-African Cooperation often do not meet OECD’s definition of ODA, mixing concessional and non-concessional aid, and being often tied. The Government of China is also less inclined to consider macroeconomic and political conditionalities.

17. Little is known about the extent to which agriculture benefits from such SSC. However, agriculture is one of the sectors in the “Beijing Action Plan 2007-2009”, which includes support for the Special Programme for Food Security (SPFS) and National Programmes for Food Security (NPFS), supported by FAO.

Private sector external resource flows

18. Private capital flows, known as foreign direct investment (FDI), to developing countries have substantially increased in the last years from 17.5 percent of the world total FDI share in 1998-2000 to 35.9 percent in 2003-2005. In 2005, FDI to developing countries was estimated at US$100 billion. Mining (including oil and diamonds) is the major driver of FDI growth, and agriculture has hardly benefited: the agriculture share of FDI in developing countries amounts to US$14.339 billion, which represents less than 1 percent of global FDI to developing countries[8].

19. The low level of FDI in the agricultural sector in developing countries reflects the perceived high risks involved, particularly in Africa, including: political instability, poor management of the economy, absence of an enforceable legal framework, and the virtual absence of supporting infrastructure and services in rural areas. The more than 20 serious armed conflicts in the last decade have also deterred private investment in many parts of the continent.

20. In many countries, investment codes appear to have been designed more to protect national vested interests than to attract investors. The processing of applications and obtaining licences is often slow and costly, contracts are not always enforceable and the legal system is often unreliable. Foreign investment is crowded out as government interests create an “un-level playing field” for the private sector. The fragmentation of regional markets and the lack of common investment conditions, make investment costs high, whilst the adverse world trade environment including non-tariff barriers, inhibits private investment.

21. Remittances from workers overseas can be a significant part of external private investment flows. Between 1983 and 2003 remittances have risen from US$20 billion to nearly

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[5] See South-South Development Cooperation. Draft Paper for Discussion by the Advisory Group for Southern Leaders’ Round Table (SLRT), 17-18 October 2006

[6] See Richard Manning (2006) “Will *Emerging Donors* Change the Face of International Cooperation?”, OECD DAC Chair

[7] It is noteworthy that OPEC countries are one of the founding groups of the International Fund for Agricultural Development

[8] This section draws upon *World Development Report, 2006*, UNCTAD

US$100 billion[9]. In 2004 remittances amounted to US$166.8 billion whist ODA and FDI were US$68.9 billion and US$211.4 billion respectively. In per capita terms, Latin America and the Caribbean benefited most from remittances, with US$80, which contrasted with Sub-Saharan Africa at just US$11[10].

Private foundations

22. Large philanthropic private foundations are gaining prominence as sources of development funding. The Rockefeller Foundation founded in 1913 was the pioneer and played a key role in the transformation of agriculture known as the “Green Revolution” in Latin America and Asia. Currently (2005), 21 percent of its grants (US$108 million) are for food security[11], reflecting the Foundation’s long-lasting focus on the sector.

23. Between its inception in 2000 and March 2007, total grants awarded by the Bill and Melinda Gates Foundation amount to US$8.6 billion (nearly US$1.2 billion per year), of which 90 percent was dedicated to health-related interventions, while only 1.9 percent went to agriculture. Bill Gates has recently launched, jointly with the Rockefeller Foundation, the “Alliance for a Green Revolution in Africa” (AGRA)[12]. AGRA’s overall aim is to reduce poverty in Africa by increasing small farmers’ productivity and incomes through technical improvements, while safeguarding the environment and biodiversity.

IV. DOMESTIC RESOURCES

24. 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. 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.

Public expenditure

25. Some recent research[13] suggests that in real terms, public expenditure in agriculture in developing countries has increased over the last 25 years, from US$111.8 billion (1980) to US$225.6 billion (2002). However, its share in agriculture GDP dipped sharply in the 1990s only to recover recently to around 10 percent. However, as can be seen in Table 1, there are big differences between regions. Expenditure in Africa recovered to 6.7 percent, but a large decline is seen in Latin America and the Caribbean (LAC). Despite the substantial absolute increases, as a percentage of total public expenditures, agriculture has seen a substantial decline, from 11.3 percent in 1980 to 6.7 percent in 2002. This is in contrast to expenditures in education and health which have increased in all regions. In general, Africa and LAC have witnessed major declines from 6.4 to 4.5 percent and from 8.0 to 2.5 percent respectively. However, the tide might be turning. The adoption, in 2003, of the Comprehensive Africa Agriculture Development Programme (CAADP) by African Heads of State and Government and their commitment in the Maputo Declaration to raise the share of their countries’ budgets allocated to agriculture and rural development to 10 percent within five years are significant milestones in the efforts of the continent to develop its agricultural sector.

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[9] Data drawn upon *Our Common Interest, Report of the Commission for Africa*, 2005

[10] Other regions: Middle East and North Africa - US$68; Europe and Central Asia - US$42; East Asia and the Pacific - US$23; South Asia - US$22. Figures drawn from Fajnzylber, P. and López, H. *Close to Home. The Development Impact of Remmittances in Latin America*, WB, 2007

[11] Information drawn upon *Annual Report, 2005*, Rockefeller Foundation.

[12] “No major region around the world has been able to make substantial economic gains without first making significant improvements in agricultural productivity” Bill Gates

[13] Stephen Ackroyd and Prof. Lawrence Smith: *Review of Public Spending to Agriculture*, OPM, January 2007

TABLE 1: PUBLIC EXPENDITURES IN AGRICULTURE, 1980-2002

	1980	1990	2002
	US$ billion (in constant US$2 000)		
	111.8	**125.9**	**225.6**
Share in agriculture GDP (%)	**10.8**	**8.0**	**10.3**
Africa	7.4	5.4	7.7
Asia	9.4	8.5	10.6
Latin America/Caribbean	19.5	6.8	11.6
Share in public expenditure (%)	**11.3**	**7.9**	**6.7**
Africa	6.4	5.2	4.5
Asia	14.8	12.2	8.6
Latin America/Caribbean	8.0	2.0	2.5

26. In many developing countries, 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. Increasing domestic resources for public expenditure by broadening the tax base invariably adversely impacts agriculture in those countries where the sector plays a large role in the economy, and this exacerbates the tendency to favour urban areas. Countries with large tax receipts from mineral exports often suffer from over-valued exchange rates ("Dutch disease") that handicap agriculture.

27. Decisions about the sectoral allocation of public expenditure are increasingly made by ministries of finance and planning, responding to political imperatives, the relative strength of urban constituencies, and the expressed priorities of donors. They allocate domestic tax revenues as well as resources available under debt relief, sector credits (PRSC), and donor budget support. Finance ministers tend to take decisions according to similar criteria to their international counterparts: programme coherence, and capacity to spend effectively. In this respect, ministries of agriculture are at a disadvantage with respect to their peers in health, education and public works, where targets can be easily set, and work contracted out.

Private investment

28. The barriers to increased private commercial investment in the agricultural sector are largely the same for national and international investors. For example, it has been estimated that at least 40 percent of domestic investible funds in Africa are employed in developed economies, as well as deposited in foreign bank accounts. The increase of South-North investment transactions (excluding transactions involving offshore centres) from US$9 billion in 2003 to US$43 billion in 2005 gives a measure of the capital drain from developing to developed countries[14].

29. However, the largest investors in the sector are the ordinary farmers themselves and capital formation by farmers undoubtedly dwarfs public investment. The commercialization 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.

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[14] UNCTAD, *World Investment Report*, 2006

V. RESOURCE MOBILIZATION FOR FARMERS

30. 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. Also, support services for agriculture and loan funds for investment reach the farmers themselves. In this respect, increasing the efficiency and performance of domestic capital and money markets is crucial including mobilizing domestic savings, increasing the resources in the financial system, and reducing the cost of funds.

Microfinance

31. Much small-scale investment can be funded by microfinance. Although microfinance 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. Unfortunately, most MFIs are in urban and peri-urban areas because of the high transaction costs involved in serving scattered rural populations. Where they exist, however, rural MFIs can achieve good results, using innovative approaches to creating networks, umbrella/apex organizations and intersectoral linkages with formal banks, and basing their services upon livelihoods.

Development banks

32. Where development banks exist, they are often not geared towards mobilizing 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 need a diversified portfolio, in which agriculture plays an important, but not an exclusive role. As wholesalers of funds to Micro Finance Institutions (MFIs), they need 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

33. Commercial bank lending to agriculture in developing countries has been declining in recent decades. Guarantee funds have not worked well, but tax incentives for micro and small loans to farmers, may entice them into rural and agricultural lending. A positive example is the law on the "Groupement d'intérêt économique" in the UEMOA countries, that confers legal status on even small groups bound by common economic interest. In some cases banks have been persuaded to set aside funds (e.g. 10 percent of profits before taxation), to finance small-scale enterprises.

34. Risk management, such as insurance cover against drought, floods and pests, for example, encourages banks to make agricultural loans, but moral hazard, high transaction costs, high probability of disasters, small volume, and farmers' reluctance to accept insurance, makes this a long-term solution. Innovative approaches to contributory, group-based funding for emergencies, with well-defined government support, need to be explored.

35. An increase in the number of (sound) financial institutions in rural areas would increase the volume and quality of financial services, leading to greater competition and lower interest rates. Promoting joint liability lending, linking savings and credit, integration of informal institutions into the formal system, bonded warehousing and equipment leasing, are ways of doing this. Venture capital, for which there is high demand in many economies, could also find a place in promoting dynamic small and medium companies, through incentives such as tax exemptions.

VI. ABSORPTIVE CAPACITY CONSTRAINTS

36. It is crucial to improve the efficiency of investment and the absorptive capacity of national economies. Publicly-financed interventions in the agricultural sector aim to increase

production, productivity and incomes by stimulating complementary private activity from the target population. Successful performance depends upon associated private activity, both financial and non-financial. The generally poor performance of projects in agriculture reflects the failure to stimulate relevant private sector activity, so examination of absorptive capacity must include the constraints to private investments, and the profitability and competitiveness of the sector.

Public sector interventions

37. 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. The structure and content of government public expenditure is often the result of historical trends, politics or the ease of disbursement, rather than being determined by the needs of the sector. Public programmes often crowd out market institutions and private and civil society organizations and 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, with underutilization of funds and failure to provide an enabling environment for private activity (such as small farmer production).[15] The introduction of performance-based lending criteria by IFIs penalizes countries with poor implementation records, and sectors such as agriculture, which fail to effectively utilize loan funds. IFIs and donors themselves often impose complex disbursement procedures and inflexibility of operation on their partners. However, investment in poorly-performing economies and even in “failed states” cannot be avoided if poverty reduction is to be tackled.

Enabling environment for investment

38. The overall enabling environment for investment suffers especially from government intervention in the market. 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. Fiscal devolution allows 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, 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.

39. The importance of legal systems is often underestimated. Where legal contracts are not used or are unenforceable, banks may not be able to secure loan repayment through the courts. Lending on the basis of collateral - usually land - immediately excludes small farmers without land titles or where such assets cannot be seized. A sound legal framework can also liberate capital markets so that government can tap funds at low interest and risk through bond issues. 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.

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[15] 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 percent. Comparable estimates for nationally funded programmes would be useful

VII. CONCLUSIONS

40. Substantial extra resources for development have been released over the last five years as a result of international aid commitments, though maybe not at the desired pace. However, it is not clear that the agricultural sector has benefited from this. Although aid for agriculture has increased in absolute terms, driven by overall aid increases, its share of total aid remains stagnant and by no means reflects the importance of agricultural GDP in developing countries. The sector needs to find innovative financing mechanisms and substantially improve its effectiveness in using the resources at its disposal, if it is to secure a share of financing commensurate with its importance in the economies of many developing countries and its role in reducing poverty.

Innovative financing for agriculture

41. The call for innovative financing mechanisms contained in the Monterrey Consensus, was focused on ways of increasing total development assistance flows. Within the agriculture sector, innovation needs to be applied to the task of making overall investment flows more effective in enhancing productivity in the sector and targeting both commercialization and poverty reduction.

42. A recent exercise (January to June 2007) initiated by the UN Secretary-General's Special Humanitarian Envoy for the Horn of Africa, led by FAO and WFP, looked specifically at the challenges of increasing investment for food security in the region. The Horn of Africa has perhaps the worst record of natural and human-induced disasters in the world and is heavily dependent upon external assistance including large volumes of food aid.

43. Consultations in the region demonstrated that, although there are many opportunities to enhance the food security of vulnerable populations in the region, the tried-and-tested technologies have received inadequate financing from both governments and donors. Although quick to act and generous in their response to emergency situations, donors have given little support for communities that have survived emergencies but are still perilously close to life-threatening disasters. Support for so-called "transitional investments", designed to bolster the livelihoods and resilience of people who have come out of disaster, is missing. Resources for long-term investment in agriculture are increasingly dedicated to locations and communities where there are clear opportunities for commercialization of production, aimed at stimulating growth in the economy. But this means that less attention is given to those living in marginal and remote areas where commercial opportunities are scarce. Transitional investments in such places can help build a strong foundation for recovery and growth, so that farmers can benefit from longer-term development assistance.

44. Possible funding mechanisms for transitional investments, including multidonor trust funds (MDTFs) that have been successfully used in post-emergency situations, were evaluated. Any mechanism should be quick and easy to operate, with transparent and accountable management, simple appraisal criteria, use results-based resource allocation, and have readily verifiable indicators of success. Programmes need strong government commitment, ownership and leadership, and comprise a comprehensive set of strategies to tackle food security in order to attract large-scale funding. Multistakeholder participation is crucial, harnessing local capacities, whilst donor flexibility is needed to ensure that funding is directed towards appropriate responses to the needs on the ground.

45. It seems clear that any innovative mechanisms for financing the agriculture sector must include a strategy for much greater partnership with the private sector, and with NGOs and CSOs. Efforts to direct a greater share of the massive new resources from private foundations, as well as CSOs operating in rural areas, towards agriculture are essential. Similarly, greater use of public-private partnerships in areas where there is complementarity and capacity in developing infrastructure or service provision, offers great potential. The use of private equity re-capitalization to secure the successful transition of an initial public investment project into a viable private sector enterprise, focusing especially on agribusiness development, agricultural

market development, supply chain formation and value added processing, can unleash the enormous financing capacity of the private sector.

The future

46. A number of international events during 2007 and 2008 is likely to influence future international commitments: a second Conference on Financing for Development is scheduled to take place in the second half of 2008 in Doha; the ECOSOC Development Cooperation Forum in July 2007; the Spring meeting of ECOSOC, Bretton Woods Institutions, WTO and UNCTAD in New York in July 2008; and the 3rd High-Level Forum on Aid Effectiveness, in Accra in September 2008.

47. At the national level, the visibility of agriculture needs to be raised and “champions” are needed to give a fiscal “voice” to the rural poor and to make the case for extrabudgetary 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 planning and implementing their activities and to demonstrate how agriculture can become a driving force in economic growth and sustainable poverty reduction.