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High-Level Dialogue on Financing for Development

Meeting the Millennium Development Goals

- Financing for Food Security, Agriculture and Rural Development -

Contribution by
FAO, IFAD and WFP

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The key role of agriculture and rural development for poverty and hunger reduction

Actions and initiatives to achieve the MDGs need to be adequately funded through a combination of public and private resources. FAO, IFAD and WFP consider this High Level Dialogue on Financing for Development an important occasion to take stock of progress achieved in providing the necessary funds and modalities for the achievement of the MDGs. Strengthening the **link between goals and resources** is particularly important for our common efforts to reduce hunger and poverty through broad-based agricultural and rural development and enhanced access to food. Action focusing on the rural poor and the hungry has suffered for too long from lack of adequate funding, despite the well-known fact that the majority of extremely poor live in rural areas and that hunger is a major cause of poverty.

There is ample evidence that **transforming rural lives and livelihoods is essential** for successfully reducing hunger and poverty. The poorest countries are those with predominately agricultural economies and societies. 75% of the 1.1 billion people living on less than USD 1 per day, live in rural areas. Most of the rural poor derive the basis of their livelihoods from agriculture or activities linked to it. In a world of plenty, 852 million people suffer from chronic hunger with 843 million of them living in developing and transition countries. It is ironic that many of these people are producers of food staples, yet do not produce or earn enough to meet their basic needs. For many of the world's hungry, poor nutrition is a major impediment to a healthy and fully productive life. Hunger acts as a trap which prevents them from getting out of poverty.

The fundamental role of agriculture as a source of livelihoods and the debilitating effects of hunger on peoples' capacity to exit poverty constitute the cornerstone **of a twin-track strategy to poverty and hunger reduction** which our agencies fully share: Policies, and programmes to enhance direct and immediate access to food and adequate nutrition by the most needy and vulnerable groups coupled with policies and investments to support economic growth and employment for the poor, mainly through development of agriculture and rural areas.

There is an increasing recognition of the role a dynamic agricultural sector can play in poverty and hunger reduction: In 2005, the UN Millennium Project Report concluded that "the global epicenter of extreme poverty is the smallholder farmer." The Commission for Africa emphasized this point, stating: "**Agriculture is key to Africa**." The Secretary-General's report on mobilizing international support for NEPAD recognized agricultural reform as "one of the major means of wealth creation and income redistribution in the newly industrialized countries of East Asia."

We are encouraged by the fact that policy makers are taking concrete steps in support of a larger role for agriculture and rural development in poverty reduction: African Ministers of Agriculture and Finance "recognized the **critical role of agriculture in promoting broad-based development** and speeding up the process of integrating African economies." In implementing their part of the "consensus" the African Union Heads of State made the commitment in the Maputo Declaration to raise the share of their countries' budgets allocated to agriculture and rural development to 10% within 5 years.

However, food security, agriculture and rural development are still not always given the proper consideration in global policy statements. The draft outcome document for the upcoming **High-Level Plenary Meeting of the General Assembly** makes welcome calls for innovative research and increased agricultural productivity in Africa. However, it does not adequately address food security as an overarching concern and rural development as an important pathway out of poverty. We also note that the Secretary-General's status report before this Dialogue, while addressing issues related to agricultural trade, does not speak to the other integral issues related to food security and rural development.

Financing for agriculture and rural development – reversing the past trends

We welcome a number of recent donor decisions and initiatives to substantially increase development assistance and cancel debt. This is an important step towards implementing the Monterrey consensus. However, we consider it urgent that the apparent consensus on the importance of agriculture is translated into commensurate resource commitments. Over the past 20 years we have witnessed a **steep decline in resources for agriculture and rural development.** Between 1983-1987 and 1998-2000, the annual average ODA allocations for agriculture in the least-developed and other low-income countries fell by 57 percent from USD 5.14 billion (2002 prices) to USD 2.22 billion. Lending from international financial institutions followed a similar pattern. Domestic investment in agricultural and rural development mirrored this decline. To make matters worse, development-oriented food assistance has fallen significantly.

We are encouraged by **the new collective targets** set by various important donors. The Council of the European Union has set an ODA/GNI target ratio of 0.56% by 2010 rising to .70% by 2015. We also welcome the agreement which has been reached by the G8 recently under which the World Bank, the IMF and the African Development Fund will immediately cancel all the debts, amounting to about US$ 40 billion, owed to them by 18 countries without a reduction in the overall funds available to those or other developing countries. We hope these commitments, together with further additional resources and with private sector funding, will allow developing countries to bring their agricultural and rural development to a scale and level required for meeting the hunger, poverty and other MDGs. To increase the effectiveness of public resources in reducing poverty, the share of agriculture and rural areas should be raised, irrespectively of the level of overall development assistance.

We remain confident that, in the ongoing multilateral trade negotiations, the world community will address **current agricultural trade practices** which are inconsistent with the Monterrey Consensus. In most of the least developed countries, imports of agricultural products have increased continuously and are now higher than their agricultural exports. The terms of trade for agricultural products continue their long term negative trend and developing and especially Least Developed Countries need to expand their agricultural productivity and access to markets in order to maintain the purchasing power of their agricultural exports. We have a long way to go in implementing this part of the Monterrey consensus.

We believe that **increasing efficiency of development aid** is as essential as increasing its level. We are in agreement with the Paris Declaration on Aid Effectiveness, adopted in March 2005 in its call for ownership, alignment, and harmonization. Our experiences point to the need for more donor coordination to exploit complementarities, combined with simplified procedures for disbursement.

Increasing effectiveness of financing for poverty and hunger reduction

Our agencies have worked collaboratively within the international development architecture to ensure greater aid effectiveness. A recent example of our joint cooperation is our collaboration with NEPAD on its Status of Food Security in Africa report. In pursuit of mobilising additional resources for agriculture and to give prominence to the agricultural agenda in the international development community a number of donors and international organizations (FAO, IFAD, the WB, EC and the German BMZ) have formed the **Global Donor Platform for Rural Development.** This is a joint initiative of 24 donor nations and organizations. The objective of the Platform is to support donor efforts at country level through harmonisation of procedures and alignment behind national agriculture and rural development strategies. The Platform should thus contribute to the achievement of the MDGs through advocacy on the needs of and opportunities for the rural poor and action to enhance the quality and impact of agricultural and rural investments.

The following are some of the issues and principles which need to be considered in financing of poverty and hunger reduction:

- **Mobilizing public resources for reducing poverty and hunger from both domestic and international sources.** We strongly believe that given their common purpose, ODA as well as public domestic resources should also be better coordinated and targeted. The key notion should be mutual accountability of donor and partner countries for development results.
- **Making PRSPs more inclusive in addressing food security and rural development:** implementation of the PRSPs in many countries still lacks focus on food insecurity and a clear appreciation of the potential of rural and agricultural development in reducing poverty. The result is insufficient budgetary allocations for these key areas. The dilution of institutional responsibilities for rural development and the inadequate empowerment of rural stakeholders have to be addressed in order to strengthen the political leverage for increased "rural" resources. Our agencies are involved in an effort to raise the profile of hunger, agriculture and rural development in the PRSPs.
- **Dealing with the special needs of agriculture:** special attention should be paid to dealing with instability inherent in agricultural and other rural activities: financial instruments and risk management tools are needed which address the particular volatility of production, prices and incomes in agriculture to enhance incentives for private investment in agriculture and to reduce the vulnerability of small farmers to various shocks. Partnerships among donors, governments, local communities and civil society hold the promise of strengthening the provision of rural financial services, mobilisation of savings and remittances and the enhanced access to rural credit by small farms and firms. Resource flows should support diversification and other risk-reducing strategies of small farmers.
- **Combine poverty reduction with increased provision of global public goods:** financing of payments to farmers for e.g. maintaining agricultural biological diversity and for following practices which result in reduced carbon emissions in the atmosphere can result in both poverty reduction while promoting environmental and resource sustainability.

- **Creating an environment conducive to private investment**: public investments must be accompanied by policies that induce complementary flows of private investment. The quality and transparency of governance and public administration political stability, reliance on market signals and macroeconomic discipline and stability, are essential for stimulating private investment.
- **Increasing support for programmes to strengthen direct access to food**: there are many lessons to be learned from implementing safety nets and other transfer programmes which directly tackle hunger. Such lessons should be used to establish new or scale up existing programmes especially in hunger hotspots. Programmes for vulnerable groups such as children, women and women-headed households and victims of disease and extreme events should be given special attention.
- **Ensure effectiveness and efficiency of food aid:** Non-market distorting food aid, carefully targeted to the needs of food insecure and vulnerable households and used to finance food for assets or food for education, qualifies as a form of development finance. Therefore, the general principles of funding for development also apply to food aid.

While the three Rome-based agencies recognize the political, financial and policy challenges posed, they also believe that **the Millennium Development Goals are achievable**. A significant increase in resource flows (both domestic and international) in support of MDGs is an essential element of success, so are greater coordination and harmonization of donor and recipient policies and programmes, ownership and participation by all stakeholders.

In conclusion, the Secretary-General's report, *The Monterrey Consensus: Status of Implementation and Tasks Ahead,* seeks to further actualize our partnership for development. In order to do so, we believe that increased resource mobilization, combined with greater aid efficacy, should be focused where the poor are concentrated – the rural areas – on the livelihood on which they mainly depend – and on the basic commodities required for their labour productivity – food and water.

On behalf of the three Rome-based agencies, we commend the progress to-date achieved because of Monterrey Consensus. We also reaffirm our commitment to continue to work together to ensure achievement of the Millennium Development Goals and to advocate that hunger, agriculture and rural development are given priority concern in the national and international efforts to achieve the MDGs.