



**Rural Development Briefing in Southern Africa:  
A series of meetings on ACP-EU development issues**

**Financing agriculture in Southern Africa  
25-26<sup>th</sup> October 2010 9h00-13h00**

**Executive Summary**

**Agricultural investment and food security in Africa**

**Chimimba David Phiri  
Chief, Policy Assistance Support Service  
Food and Agriculture Organization of the United Nations**

**1. THE STATE OF GLOBAL FOOD INSECURITY**

The world faces a major challenge in the fight against hunger and food insecurity. FAO announced two weeks ago that 925 million people (1 in 6) in the world today are undernourished. This number is an unacceptably high number even though it represents a slight decline from the 1.02 billion reached in 2009. FAO estimates that global food production will have to grow by 70%, and double in developing countries, for all of the world's population, 9.1 billion, to be food secure in 2050.

**2. AGRICULTURAL INVESTMENT FOR FOOD-SECURE WORLD**

During the last fifteen years the international community has taken a number of initiatives towards eradicating poverty and food insecurity in the world. Among these, the most significant were the FAO World Food Summit in 1996, which agreed on a goal to reduce the number of hungry people by half by 2015, and the United Nations Millennium Summit in September 2000, which agreed on eight Millennium Development Goals (MDGs), the first of which is to halve the proportion of global poverty and hunger by 2015.

Since these two seminal events, many developing countries had been making some progress towards meeting the MDGs, or their own regional goals in case of Africa and Latin America and the Caribbean. However, the soaring food prices in 2007 and 2008 exposed the fragility of the world food security situation. As some traditionally food exporting countries banned exports of their staples, the situation put into doubt the commonly-held belief that global food supply was sufficient to meet the global food demand, and that hunger was essentially a problem of access.

In response to the soaring food prices, the world leaders gathered in Rome from 3 to 5 June 2008 for the *High-Level Conference on World Food Security: The Challenges of Climate Change and Bioenergy* in order to find a way to address the problem of food shortage. They recognised that agriculture in many developing countries has been chronically underfunded, and therefore could not produce enough food to feed their populations, let alone for resilience against such a crisis. They committed themselves to increasing investments in agriculture in order to stimulate food production. Subsequently this commitment was reaffirmed, at the G8 summit at L'Aquila, Italy in July 2009, where G8 countries pledged more than USD 22 billion to support food production in developing countries.

The USD 22 billion pledged at L'Aquila, even if fully delivered, which as we already know will not in fact delivered at nearly that level, should be put into perspective. FAO estimates that in addition to domestic resources and other international transfers, USD 44 billion of ODA is required annually to ensure a food secure world. Even the USD 44 billion should be put into perspective. It is small compared to the USD 365 billion support provided by rich countries to their farmers, tiny in relation to the USD 1340 billion the world spends on armaments, miniscule compared to the trillions of dollars found within weeks to support the financial sector in 2008 and 2009.

And yet Official Development Assistance (ODA) for agriculture had decreased steadily from 17% in 1980 to 3.8% in 2006, and only now with renewed interest in agriculture as it gone up again; but it remains at a paltry 5-6%. **Efforts should be made to increase ODA to at least the 1980 level.**

ODA is, of course, only one, if small, source of agricultural financing, with a majority of financing coming from domestic sources, foreign direct investment, and increasingly remittances.

All efforts must be made to increase the **quantity** of investment for agriculture. But quantity of investment is clearly not enough. For any investment to contribute to growth and development, it must lead to sustainable domestic capital formation. The experience of developing countries, including in Africa, with agricultural development strongly suggests that making a transition from economic stagnation to self-sustaining economic growth in agriculture - and consequently the overall economy - requires a sustained increase in the rate of domestic capital formation in agriculture.

The nexus between capital formation and agricultural growth, and agricultural growth and poverty alleviation are complex, but empirical analysis clearly suggests that the volume and composition of capital formation are the major determinants of agricultural productivity and output growth. Therefore, the **quality** of investment is as important as the quantity of investment.

The increase in domestic capital formation should be viewed in its broad sense, including thus investment in social overhead and economic infrastructure. Although such investment may yield only a small increase in income in the short term, it will create an environment necessary for more profitable and cumulative subsequent investments. The experiences in China, Thailand, Brazil and Vietnam clearly demonstrate how the sustained increase in capital formation in agriculture generates the subsequent growth opportunities in agriculture and the economy as a whole.

**The key message here is that farming should be considered as a business. While governments and their partners are seeking to support agriculture, they should adopt policies and extension methods that help farmers to develop a capacity to save, accumulate fixed capital, and continually reinvest in their own own farms; and use whatever support comes from public sources to leverage own resources.**

### **3. RATIONALE FOR FOREIGN SUPPORT FOR AGRICULTURE**

If we agree with the message above on the quality of investment, ODA and other forms of foreign support for agriculture can be justified on the basis that some developing countries are not in a position by themselves to generate the savings needed for investing in capital formation for sustainable growth and development. The purpose of any international aid and outside capital in a developing country should therefore provide the latter with a positive incentive for maximum national effort to increase the rate of domestic capital formation up to a level which could then be maintained and eventually increased without any further aid and international investment. Ideally then, international aid and investment should be directed to where it will have the maximum catalytic effect of mobilizing additional national effort or preventing a fall in the national effort.

### **4. COMMERCIAL PUBLIC AND PRIVATE INVESTMENT IN AGRICULTURE AND FOOD PRODUCTION: THE POLICY ENVIRONMENT**

With regard to commercial investment such investment, whether public or private, domestic or international) will only flow into the sectors and sub-sectors where there is profit to be made. Governments have an important role in setting a policy environment that allows this to happen, and thus ensuring that adequate investment flows to agriculture for a food secure world.

Recently, large-scale acquisitions of agricultural land in developing countries by foreign investors have taken place, raising complex and controversial economic, political, institutional, legal and ethical issues. The amount of land acquired and operated by foreign interests in Africa in the last three years is estimated around 20 million hectares, although figures as high as 50 million hectares are claimed by some commentators. Even at these levels, such land is only a small proportion of total land areas in host countries, but the local impacts of individual investments can be significant. As many developing countries are making strenuous efforts to attract international investments, the practical question is not whether such investments should be curtailed, but rather how the local impact can be optimised to maximize benefits and minimize inherent risks. Again then, the quality of investment matters.

The governments have a role in ensuring that such investment flows are of benefit to the country at large. The legal framework governing such investments is thus crucial.

In view of the above observations, the key issues underlying public domestic support, foreign assistance and international investment in agriculture are:

- What are the most efficient ways for making a sustained increase in domestic capital formation in agriculture?
- Which forms of investment, both domestic and international, are more effective in contributing to domestic capital formation?
- What are the appropriate domestic agricultural and rural development policies and programmes that would lead to greater international investment?
- In case of commercial international investments, how can the governments ensure that while profitable to the shareholders, they are beneficial to the local populations?

The answers to these questions are critical for enhancing appropriate investment to address food security, poverty and agricultural development in Africa and elsewhere.

FAO has launched a study, with funding from the Japan, to study some of these issues, and come up with policy recommendations.

## **5. AFRICA'S FOOD SECURITY CHALLENGE**

Of the 925 million undernourished people, 239 million are in Sub-Saharan Africa (SSA), where 30 percent of the population is undernourished. The agricultural sector in SSA accounts for about 30 percent of GDP and for 40 to 90 percent of foreign exchange earnings. Clearly, it is in agriculture that the battle against food insecurity and poverty will be won or lost. In fact, a recent World Development Report indicates that GDP growth originating in agriculture is about four times more effective in reducing poverty than growth originating outside the sector.

Paradoxically, although most SSA countries have enormous potential for increasing agricultural output and food production, many of them have not been able to avert the continuous decline in per capita food production. This is largely because agricultural production and productivity remain inadequate. Yields are very low compared to any other part of the world, and income generating opportunities outside the farming sector are few. As a result, Africa remains food insecure and reliant on external emergency food supplies and commercial food imports for a significant portion of its requirements.

The escalation of food prices in 2007 and 2008 in the global commodity market further exposed the structural weakness of the basic architecture of African agricultural development and food security of the continent. An additional 24 million Africans were plunged below the hunger threshold in 2008 alone. Furthermore, while food prices in the international market have declined from their peak in mid-2008, in most SSA countries prices are today still stubbornly high.

The low production and productivity has meant that since the early 1960s, when many African countries were gaining independence, the continent has slipped from being a net exporter of food to a net importer. A comparison with India makes for bleak reading. In 1960-61, Africa and India produced 32 million and 87 million tonnes of cereals, respectively. By 1990, India had more than doubled its output to 194 million tonnes, and Africa had increases its own output to a mere 54 million. Thus, in the space of a single generation, India managed to produce enough to not only feed itself, but also to contribute significantly to Africa's frequent calls for emergency food aid. By the year 2000, cereal yields in Africa were only 1225kg/ha, compared to 2900 kg/ha in Latin America and 3209 kg/ha in Asia.

The 1970s and 1980s were the most challenging for Africa. Droughts in 1973-74 and 1983-84 compounded an already weak base, and the resultant policy shifts did not help. The yo-yo effect of such policy changes hit agriculture hard. The loss of state subsidies during the structural adjustment era was reinforced by a steady reduction in ODA to agriculture, crippling farmers who were in no position to respond to such a swift policy change. The deteriorating situation led observers to label the eighties and nineties *the lost decades for agriculture*.

Although Africa has emerged from those dark decades, it remains the only region in the world where food production per capita has diminished year on year over the last forty years. In 1970, ten percent of the world's poorest people came from Africa. In 2000, that figure had reached 50 percent. Yet, with 10% of the world's population and 25% of world's arable land even under existing levels of technology, only 28% of Africa's arable land is under cultivation, using rudimentary production techniques that accelerate soil depletion and erosion.

Today, SSA utilises only 1.6 of its available water resources (compared to 14% in Asia) and irrigates only 4% of its arable land (compared to 14% in Latin America and 40% in Asia). Its fertilizer use is only 22kg/ha (compared to 144kg/ha in Asia). Africa's rural road network is lower than that of India in the 1950s (0.9km per 1000 people, compared to 1.8km in Asia).

Thus, because of its low technical levels, African agriculture lags considerably behind that of other developing regions.

## **6. AFRICA: THE POTENTIAL IS THERE**

There are indications that Africa's fortunes may be turning, however. Africa's GDP grew by 6.2 % in 2007 and 5.1% in 2008. Recent agricultural growth of 3.5% is well above the 2% population growth. Armed conflicts are down from 15 countries in 2003 to 5 in 2009. Recent evidence points to many local successes in food crop production, such as maize in several West African countries, beans in Eastern Africa, cassava in many countries, and maize also in Kenya and Malawi. The latter managed in the space of two years to triple exportable surplus from 0.4 million tonnes in 2005/06 to 1.2 million tonnes in 2006/07, and has maintained sizeable surpluses since then.

Importantly, Africa still hangs on to its large reserves of arable land and its irrigation potential. Such potential, however, requires action; and it is spiriting to note the renewed commitment of development partners to agriculture and food security in the aftermath of the recent food crisis. More importantly, there is increasing political will of African countries and institutions to put agriculture and food security at the top of their development agenda.

For example, in 2003 African Heads of State and Government launched the NEPAD Comprehensive Africa Agriculture Development Programme (CAADP) as a framework to give a new impetus to food security and agriculture development in the continent, and committed themselves to increase to 10% the national budgetary allocation for agriculture. They also set a long-term growth rate target of 6% of agricultural production (up from a historical average of 2.5-3%).

African leaders have also adopted a number of other resolutions in the context of CAADP: Sirte 2004; Fertilizer Summit in Abuja in June 2006; and Food Security Summit in Abuja in December 2006, among others.

However, despite such political commitment from African governments and buy-ins from development partners, the implementation on the ground has not been commensurate with declared commitments.

The current President of the African Union, President Bingu wa Mutharika of Malawi, declared upon his election in January 2010 that he would prioritize food security in his term of office, calling for Africa to get rid of child hunger within 5 years. If African countries can emulate the example of the African Union President's own country, such a dream would be achievable.

## **7. FAO SUPPORT TO AFRICA AND ITS NEPAD PROGRAMME**

FAO is pleased to have been associated with Africa's agricultural development over the years. FAO brings to the table a wealth of experience and a record of success in mobilizing resources and technical expertise to help member countries develop their food and agricultural sectors and achieve food security. Let me mention just a few examples.

**FAO Support to CAADP:** FAO actively supports the African Union and its NEPAD programme. In particular, FAO's assistance came in the elaboration of the Comprehensive Africa Agriculture Development Programme, or CAADP, which was adopted by the African Union Heads of State and Government in Maputo in July 2003.

In the context of CAADP, FAO supported 51 African countries in preparing National Medium Term Investment Programmes with an investment portfolio worth 26.7 billion US dollars and about 200 Bankable Investment Project Profiles for a total budget of over 10 billion US dollars.

In the wake of the 2007-08 food price crisis, a number of African countries accelerated the processes leading to the implementation of CAADP. As a result, some 22 African countries and their

development partners have now signed, and many more will soon sign CAADP Compacts that provide a framework for identifying priority investment needs for the agricultural sector. FAO is assisting a number of these countries in preparing their Compacts into comprehensive investment programmes leading into financing and accelerated CAADP implementation. Of these Rwanda, Sierra Leone and Togo have already been received funding from the Global Agriculture and Food Security Programme under the L'Aquila Initiative. FAO is committed to continue supporting Africa within the CAADP framework.

**National and Regional Programmes for Food Security (NPFS/RPFS):** FAO provides assistance to governments for developing their own strategies and plans of action under the National Programmes for Food Security (NPFS). These programmes are being fully integrated within the CAADP framework. They build on lessons learned from pilot projects implemented under FAO's Special Programme for Food Security between 1994 and 2008, which demonstrated the benefits of simple, low cost technologies that improved yields and income of poor farming households.

So far, 40 African countries have engaged in the process of preparing NPFS; and 12 countries are implementing them. Funded from their own resources and donor support, these programmes have a total value today of over 2 billion dollars and benefit over 20 million people.

African Regional Economic Communities - UEMOA, ECOWAS, SADC, COMESA, IGAD and AMU - have, with the support of FAO, also prepared regional food security programmes which focus on intra-regional trade and WTO sanitary and phytosanitary measures.

**South-South Cooperation:** FAO launched in 1996 the South-South Cooperation (SSC) initiative to enable developing countries to benefit from experiences of other advanced developing countries in enhancing production and productivity. The SSC provides the recipient countries the opportunity to have access to cost-effective expertise in areas such as water control, crop production, livestock, aquaculture and agro-processing. The initiative has proven to be a very effective instrument.

Since 1996, twenty-nine agreements for South-South cooperation have been signed to provide assistance to African countries, resulting in the fielding of over 1200 experts and technicians.

To meet the increasing demand, FAO has entered into strategic alliances with China, Indonesia and Argentina - countries that are in a position to mobilize large numbers of experts and technicians. Besides this initiative, several other new forms of South-South partnership in Africa are also emerging. Examples include:

- Financial support for small-scale water control projects (Venezuela);
- Establishment of agricultural training centres on the African continent and specialized training for African nationals in Chinese agricultural research institutes and training centres (China);
- Financial and technical support for South-South knowledge-sharing about improved rice and aquaculture technologies used in Asia (Japan).

**Water and Energy Investment Programme for Africa:** Improving water control and harnessing water power are crucial for achieving food security, particularly in Africa where 93% of cropland depends exclusively on rainfall and only 4% of water resources are utilized. Aware of the critical situation, FAO organized in December 2008 in Sirte, in partnership with the African Union, NEPAD and the African Development Bank and with the support of the Libyan Government, a Ministerial Meeting on water. On that occasion, a portfolio of projects worth 65 billion US dollars was approved for a short-, medium- and long-term programme of irrigation and hydro-electric power, established at country level by governments with FAO support.

**Improving plant production, protection and animal health:** FAO promotes sustainable intensification of crop and livestock production systems in Africa through an integration and harmonization of all appropriate production policies and practices. Some of the main activities include: Desert Locust and Ug99: a new strain of wheat stem rust disease; and Emergency Prevention System for Transboundary Animal and Plant Pests and Diseases (EMPRES), Rinderpest, African swine fever, Foot-and-Mouth Disease, among others.

**Dealing effectively with emergencies:** FAO has been operating several emergency projects in Africa. In 2009 alone, it supported a total of 171 active projects which were implemented in 30 countries and worth US\$300 million. Under FAO's Initiative on Soaring Food Prices launched in December 2007, poor farmers in 35 African countries were able to access costly seeds, fertilizers, animal feed and other inputs

**Prevention, preparedness and early warning:** FAO has been able to provide effective early warnings of food shortages and emergencies thanks to the development of the Global Information and Early Warning System (GIEWS). Countries in the world and indeed in Africa have free access to the information and tools, and the system is being used to manage agricultural production and food security issues.

**High level political commitments:** Above all there is a strong political will to put agriculture at the top of priorities and FAO has been campaigning to ensure that statements turn into action. For this reason, FAO was encouraged by the adoption by Heads of States of the World Food Summit Declaration at FAO headquarters in Rome in November 2009. FAO has also devoted much energy in pursuing the reform of the Committee on World Food Security (CFS) so that it can fully play its vital role in the area of food security and nutrition, including international coordination. The reformed committee has Africa at the core of its objectives, and highlights CAADP as one of the cornerstones around which it intends to build.