



REGIONAL DEVELOPMENT BRIEFING N° 3

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

Financing agriculture in Southern Africa
Lilongwe, Malawi, 25-26th October 2010
<http://acpbriefings.net>

Objectives of the Briefing

In order to improve information sharing and promote networking, CTA, the European Commission (DG Development and DG EuropeAid), the ACP Secretariat and the Group of African, Caribbean and Pacific Ambassadors in Brussels, Concord in collaboration with SACAU, COMESA and SADC organise regional Briefings on key issues and challenges for regional rural development in the context of EU/ACP cooperation. The Briefing on 25-26th October 2010 in Malawi will discuss Financing Agriculture in Southern Africa and will aim at: (i) raising awareness on existing and emerging key challenges in the area of financing agriculture; (ii) promoting exchange of information and expertise; (iii) feeding in the debate various perspectives on the policy options.

Target group

More than 120 ACP-EU policy makers, representatives of governments, farmers organisations, private sector, civil society groups, research networks and development practitioners, international organisations from the region and other parts of Africa.

Context

82% of the rural sub-Saharan African (SSA) population lives in agriculture-based countries where agriculture is a major source of growth, accounting for 32% of GDP growth on average¹. The global food price crisis of 2007 brought renewed attention to agriculture and food security. Challenges ranging from climate change to energy security, population growth and youth unemployment, global land acquisition, migration and urbanisation, water scarcity, decrease of remittances, biofuels demand, the decrease of investment in research for the past two decades², etc. are increasingly affecting agricultural production and the nutrition levels of the rural poor in ACP countries³. The recession has had negative impact on trade, credit, FDI and foreign aid, especially for economies that rely on exports as their main source of foreign exchange⁴. The crisis has resulted in a reduction of investments in poor countries, a decrease in aid flows and remittances affecting the rural poor⁵. The World Development Report 2008 stressed the importance of agriculture-led growth to increase incomes and reduce poverty and food insecurity. Over the past decade, SSA has made remarkable gains in promoting growth - more than 6 % over the past 5 years - and achieving economic stability⁶ which are now at risk.

A variety of aid commitments potentially benefiting agriculture

Major initiatives in support of aid range from the Gleneagles G8 pledge in 2005 that sought to double aid to Africa by 2010 (only \$11bn of the promised \$25bn will be met this year); a global trust fund of \$900

¹ World Bank, 2008

² Oxford Policy Management, 2007, UNCTAD 2007

³ The number of undernourished people in the developing world has increased from 848 million to 1,020 million from 2003-05 to 2009, mainly because of the food crisis and the world economic recession (FAO).

⁴ FAO - WFP, The State of Food Insecurity in the World 2009, cit. In April 2009 the IMF estimated that FDI would fall 32% in 2009 in developing economies as a group, with 15% fall in Africa. IMF, The implications of the global financial crisis for low-income countries, 2009, <https://www.imf.org/external/pubs/ft/books/2009/globalfin/globalfin.pdf>

⁵ In Africa and Latin America, a 1% increase in the ratio of remittances to GDP results in 0.29 % decline in the number of people living below poverty line J.C. Anyanwu and A.E.O. Erhijakpo.2008. Do International remittances affect poverty in Africa? Tunis, African Development Bank. http://siteresources.worldbank.org/INTAFROFFCHIECO/Resources/Migration_and_Remittances.pdf

⁶ Regional Economic Outlook Sub-Saharan Africa- April 2009- IMF <http://www.imf.org/external/pubs/ft/reo/2009/afr/eng/sreo0409.pdf>

million in support of the Global Agriculture and Food Security Program (GAFSP) in April 2010⁷; US increased support for agricultural development assistance; the UN High-Level task Force on the Global Food Security Crisis; the World Bank Group new \$2 billion the Global Food Crisis Response Programme (GFRP) in 2009. At the European level, a €1 billion facility for rapid response to soaring food prices in developing countries was established (the 'Food Facility') to support farmers hit by the global food crisis. EC External aid represents 9 % (€12 billion) of the total EU budget (€143 billion). Social infrastructures (education, health, population and reproductive health, government and civil society and other social infrastructures) accounts for 34% of EC development cooperation with commitments amounting around to €4 billion; €1.7 billion (14 %) went to the production sectors (agriculture, forestry, fishing, industry, mining, construction, trade and tourism) and €1.2 billion (11%) were targeted at economic infrastructures and services (transport, communication, energy, banking and financial services and business).

In 2003 the African Union Assembly agreed to establish the Comprehensive Africa Agriculture Development Programme (CAADP), the agricultural programme of the New Partnership for Africa's Development (NEPAD) to eliminate hunger and reduce poverty through agriculture. To do this, African governments have agreed to increase public investment in agriculture by a minimum of 10% of their national budgets and to raise agricultural productivity by at least 6%.

Financing mechanisms

In 2002, the United Nations' Monterrey Consensus on Financing for Development⁸ acknowledged that external financial resources would not be enough to meet the MDGs, and that it was necessary to develop new strategies by mobilising *domestic* resources. The Monterrey Consensus embraces six areas of Financing for Development: (i) Mobilising domestic financial resources for development; (ii) Mobilising international resources for development: foreign direct investment and other private flows; (iii) International trade as an engine for development; (iv) Increasing international financial and technical cooperation for development; (v) External debt; (vi) Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development.

Official Development Assistance (ODA) to agriculture

Overall Official Development Assistance (ODA) to African countries fell by more than 50% between 1990 and 2000. ODA to Sub Saharan Africa increased from 13,9 billion dollars in 2001 to 37,7 billion in 2006. This figure includes debt cancellation that when excluded takes ODA back to stable levels. In 2006, the EU's ODA disbursements reached 0.43% of its combined gross national income (GNI) against the 0.39% target announced at Monterrey. The global ODA/GNI ratio in 2006 was 0.31% compared to 0.23% in 2002. A significant factor in this was, however, the exceptional level of debt relief. As debt relief returned to more normal levels in 2007, the global ODA/GNI ratio fell to 0.28%, resulting in a fall in total ODA, both globally and for Africa⁹. The EU Council acknowledged that the EU will not reach the collective EU intermediate target of 0.56% ODA/GNI by 2010¹⁰.

In times of recession, ODA is at risk. However, scaling-up aid to Africa would also benefit rich nations by boosting global demand, for example, for machinery and equipment needed for infrastructure projects.

Domestic public resources for development

Mobilising more and predictable financing for development through domestic resources is crucial for the provision of public goods and for the redistribution of wealth¹¹. Government budget and tax revenues are much less volatile and unpredictable than aid flows but tax revenues should not be seen as an alternative to foreign aid, but as a component of government revenues that grows as the country develops¹². Fair, effective and efficient tax systems, as well as sustained commitment to address harmful tax practices and

⁷ The United States, Canada, Spain, the Republic of Korea and the Bill & Melinda Gates Foundation with the World Bank serving as trustee and host of a coordination unit for the fund

⁸ *Monterrey Consensus of the International Conference on Financing for Development*, 2003.

<http://www.un.org/esa/ffd/monterrey/MonterreyConsensus.pdf>

⁹ <http://www.africapartnershipforum.org/dataoecd/63/44/42181391.pdf>

¹⁰ Council Conclusions of 24 May 2005 (doc. 9266/05, including Annexes 1 and 2), paragraph 4.

¹¹ Council Conclusions on the Millennium Development Goals for the United Nations High-Level Plenary meeting in New York and beyond - 3023rd Foreign Affairs Council meeting Luxembourg, 14 June 2010 -

http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/genaff/115157.pdf

¹² *Commission Communication on Tax and Development*, 21 April 2010.

tax evasion¹³, will increase domestic resources. Based on the 50-country survey, the *African Economic Outlook 2010*¹⁴ investigates how public resource mobilisation can help Africa reduce its dependence on aid and other external financial flows to finance its own development agenda; it reviews best practices in tax administration as well as policy options.

The trend of tax revenues on the African continent is positive and the average African tax revenue as a share of GDP has been increasing since the early 1990s (collected taxes in Africa increased from 22% of GDP in 1990 to 27% in 2007¹⁵). However, this positive trend has been mostly driven by resource-related tax revenues, rather than corporate income taxes on other industries, personal income taxes, Value Added Taxes (VAT) and excise taxes. Income taxes (mainly personal and non-resource corporate) have stagnated over the period. The difficulties to obtain direct tax revenues¹⁶ is partly due in many countries to the large informal economy and the size of the shadow economy as a proportion of official GDP¹⁷; limited capacity of revenue authorities, poor tax collection systems, failure of legal enforcement mechanisms for tax collection and small penalties for non-payment¹⁸.

Foreign direct investment and other private financial flows

Net private capital flows to Africa have risen by more than fivefold since 2002, reaching US\$81 billion in 2007—the highest level on record. Within this figure, North Africa accounted for about a third and sub-Saharan Africa for two-thirds of the increase. The rise was mostly due to a surge in FDI and private debt flows. FDI inflows to Africa rose from US\$13 billion in 2002 to US\$45 billion in 2007¹⁹. While the surge was in large part related to extractive industries, FDI also rose in various service industries. Other net private capital flows (portfolio equity, bank debt, and bonds) also increased sharply from US\$4 billion in 2002 to over US\$35 billion in 2007. Also, Africa has enjoyed renewed access to commercial bank lending. Workers' remittances are becoming important sources of development finance, increasing from US\$13 billion in 2002 to US\$38 billion in 2007. Private external funds are likely to fall sharply in the aftermath of the 2008 financial crisis. While FDI is historically more resilient to shocks, it, too, is expected to decline. As labour markets slacken in OECD countries, flows of remittances are also likely to be affected.

The low level of FDI in Africa, and in the agricultural sector specifically, is a reflection of the perceived high risks involved: political instability, lack of a favorable economic and legal environment for business and the absence of supporting infrastructure and services in rural areas. Although trade barriers have been reduced, the continued adverse world trade environment including the proliferation of non-tariff barriers, especially for agriculture, inevitably inhibits private investment in the sector. Lending in rural areas is more costly than in urban settings. Commercial bank lending to agriculture in Africa has been declining in recent decades. Although there are many rural Microfinance Institutions (MFIs) serving poor people, most are currently in urban and peri-urban areas because of the high transaction costs involved in serving scattered rural populations. Services need to be livelihoods based, using innovative approaches to creating networks, umbrella/apex organizations and inter-sectoral linkages with formal banks. Therefore, 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.

Future policy options

Precedence should be given to higher levels of public investment, in particular in electricity, water, roads, and information and communications technology (ICT)—all critical to tackling supply-side constraints. A well functioning infrastructure is essential to economic performance. A study²⁰ recently conducted in 24

¹³ Foreign public aid from rich to poor countries totals \$50 billion annually while developing countries lose \$500 billion every year in illegal private outflows on which no tax is paid.

¹⁴ *African Economic Outlook 2010*

¹⁵ *African Economic Outlook 2010*

¹⁶ 2 to 6% of GDP in poor countries compared to 12 to 18% for developed countries

¹⁷ Estimated for 2002-2003 at 43% in African countries, 30% in Asian countries, and 43% in Central and South American countries while in OECD countries the shadow economy is approximately 16%)

¹⁸ *African Economic Outlook 2010*

¹⁹ *Development Finance in Africa: from Monterrey to Doha*, OECD-ECA, 2008 -<http://www.oecd.org/dataoecd/63/17/41656352.pdf>

²⁰ *Africa's Infrastructure: A Time for Transformation*. The study was conducted by a partnership of institutions including the African Union Commission, African Development Bank, Development Bank of Southern Africa, Infrastructure Consortium for Africa, the New Partnership for Africa's Development, and the World Bank - <http://www.infrastructureafrica.org/aicd/highlight/Highlight-test-03>

African countries shows that the poor state of infrastructure in Sub Saharan Africa cuts national economic growth by 2 percentage points every year and reduces business productivity by as much as 40 percent²¹. The need to promote public/private partnerships (PPPs) and stimulate the involvement of the private sector as to create incentives for agribusiness to undertake investments is recognized by all institutions. The donor community and the recipient countries need to increase investment in science and technology and continue their efforts to promote the expansion of intraregional trade and market integration and the diversification of their economies. At the international level, trade can bring economic benefits as a successful outcome of the Doha round of WTO negotiations could generate three and half times as much revenue for poor countries as they receive in aid²². Yet the impact on tax revenues of the significant cuts in trade taxes such as import duties has reached in some cases 30 to 50% of total government revenue.

²¹ The report estimates that US\$93 billion are needed annually over the next decade, more than twice what was previously thought. The study found that existing spending on African infrastructure is much higher than previously known, \$45 billion a year and most of this is domestically financed by African tax payers and consumers. The study also found a number of efficiency improvements which could potentially expand the available resources by a further \$17 billion. However, even if major efficiencies are gained there is still a funding gap of \$31 billion every year, much of it for power and water infrastructure in fragile states. To close the funding gap a wide range of sources will need, including public budgets, resource rents, local capital markets, private sector and non-OECD finance, as well as traditional donor assistance.

²² House of Commons



SOUTHERN AFRICA REGIONAL DEVELOPMENT BRIEFING N° 3

A series of meetings on ACP-EU development issues

Financing agriculture in Southern Africa

Malawi, 25-26th October 2010

<http://acpbriefings.net>

Monday 25th October 2010

9h00-9h30: Opening remarks: *Alexander Baum, Head of the EU Delegation in Malawi, Isolina Boto, Head of CTA Brussels Office, Ishmael Sunga, CEO, Southern African Confederation of Agricultural Unions*

Objectives and Programme: *Isolina Boto, Head of CTA Brussels Office*

9h30-13h00 Panel 1: Key challenges for financing the agricultural sector in Southern Africa

This session will provide contextual background within which agriculture financing takes place in the region, highlighting those issues and matters that have a critical bearing on financing the sector. It will also discuss the major assistance mechanisms at global and EU level in support of the agricultural sector in Southern Africa. It will also review the commitments from governments in the region.

Panellists:

- Setting the scene: regional key priorities and issues in agriculture in Southern Africa
Ishmael Sunga, Chief Executive Officer, SACAU
- Regional integration: issues and challenges for the agriculture in the region
Sindiso Ngwenya, Secretary General, COMESA
- Opportunities offered by the Tripartite Free Trade Area (SADC, EAC and COMESA) to agriculture
Taku Fundira, Researcher, Trade Law Centre for Southern Africa (Tralac)
- Key challenges affecting agriculture in the region: perspective from the farmers groups
Dybom Chibonga, CEO, National Smallholder Farmers' Association of Malawi (Nasfam)
David Maree, Economist, Agri-SA

13h00-14h00 Lunch

14h00-17h30 Panel 2: Public and Development financing in the region

This panel will explore the current public and development support to agriculture in the region and strategic priorities.

Panellists:

- EC support to the agricultural and rural development sector in the region
Representative of the European Union
- Investments in the agricultural sector : key issues
David Phiri, Head of Field Policy Division, FAO
- Taxation and Financing for Development
Alvin Mosioma, Tax Justice Network, Coordinator, Kenya
- Public sector investments in the southern African agricultural sector
Ousmane Djibo, Advisor for Agriculture, NEPAD
- Public/private innovative partnerships: the case of Agricultural Growth Corridors
Sean de Cleene, Vice President, Global Business Development & Public Affairs, YARA

Tuesday 26th October 2010

9h00-13h00 Panel 3: The key role of the private sector and agribusiness firms

This panel will discuss the key role of the private sector in agriculture (commodities and agribusiness) and the new challenges.

- Increasing private sector financing in the agricultural sector : challenges and opportunities
Hans Balyamujura, General Manager ABSA - AgriBusiness/Africa
- Different forms of private financing of agriculture presently developed in Southern Africa
Dr Ward Anseeuw, Researcher, CIRAD / University of Pretoria
- Investment funds in East Africa and Southern Africa
Patrick Oketa, African Agricultural Capital, South Africa
- Private equity funds and agriculture: challenges and opportunities in Africa
Bothwell Hlahla, Investment analyst, Agricultural Investment Company, Emvest
- Risk management and insurance
David Rohrbach, Senior Agricultural Economist, World Bank Malawi Country Office
- Rural Development through Agricultural Commodity Exchanges and Warehouse Receipts
Kristian Schach Moller, Agricultural Commodity Exchange for Africa (ACE)

13h00-14h00 Lunch

14h00-16h00 Panel 4: The challenges ahead

This panel will wrap up the Briefing by underlining the coming challenges and proposed actions for the main areas discussed by sharing the views from the private sector, the donor's community and the financing bodies.

Conclusions

Press conference