OECD Global Forum on Agriculture

Constraints to Development of Sub-Saharan Agriculture

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I. Agricultural challenges in Sub Saharan Africa

More than seventy per cent of the poorest inhabitants of developing countries live in rural areas depending on agriculture directly or indirectly for their income and food security. The most desperately afflicted area is Sub-Saharan Africa, the world's poorest region, with nearly half of its 719 million people subsisting on less than 1$ per day according to World Bank figures.

In some Sub-Saharan countries, agriculture is the main engine of economic growth and export earnings, a source of employment and a major contributor to poverty reduction. With approximately one third of the population of Sub-Saharan Africa being undernourished, improving livelihoods of rural communities through the development of a sustainable agriculture sector and the effective management of natural resources is critical. Access to adequate nutritious food is a critical element of alleviating poverty and malnutrition. To meet such goals, it is essential for African farming to shift from a subsistence activity, which is still the case for the majority of African farmers, to entrepreneurship. At the same time, agricultural development has to go hand in hand with expanding private sector investment in other sectors.

This agricultural revolution faces a number of fundamental challenges that must be addressed for any solution to be sustainable. Some of these are: Although Africa's population seems moderate in absolute terms, population density is high in many areas, relative to the natural resources available for agriculture. Africa is the only continent where agricultural productivity has declined during the past three decades. In some parts, the rural labour pool is shrinking as a result of migration to cities and disease. In the continent's driest regions, acute water scarcity and shortages are widespread and the use of limited renewable water resources faces daunting technical and natural limits.

As a result, technologies are needed to help farmers adapt to this difficult environment by increasing production while making the most of already limited external inputs. The policy, economic and institutional environment needs to create the right incentives for agricultural production, the infrastructure requirements that give rise to them and economic development more broadly.

II. Role of investment for development

Agriculture is a key sector in Sub-Saharan Africa. Most poor people in the region engage in private sector activities through farming and associated agribusiness. Thus, enhancing growth, improving productivity and increasing diversification in the agriculture sector will contribute significantly to overall economic growth and poverty reduction. At the same time, improvements in the agricultural sector need to be accompanied and reinforced by economic development in other sectors of Sub-Saharan economies in order to make overall economic development sustainable. Agriculture must not be seen in isolation. The sector depends on a well functioning infrastructure as well as on poverty reduction and product demand generated by investment and business activities in the other sectors of the economies. Significant economic improvements and sustained poverty reduction in Sub-Saharan countries have to go hand in hand with expanding private sector investment as the main engine for economies' growth and development.

No other region of the world more urgently needs economic growth than Sub-Saharan Africa. In order to achieve the Millennium Developments Goals, Sub-Saharan countries would need to generate sustained high rates of real growth. However, instead of making progress, the Sub-Saharan region saw a decline in per capita GDP from $ 575 in 1980 to $ 524 in 2003.[1] Many Sub-Saharan economies have suffered from considerable underinvestment, including in the agricultural sector. Even Africans invest to a considerable extend abroad. Estimates suggest that some 40% of the region's privately held wealth is held outside the region.[2]

This trend urgently needs to be reversed as domestic investment is the most important pillar of economic growth. Sub-Saharan countries and donors have to do more to create an environment conducive to domestic private-sector investment and the development of small and medium enterprises (SME's). A vital domestic private sector is an indispensable partner for overseas investors who need local suppliers and distributors. Furthermore, many of the policies that foster domestic businesses contribute to a favorable environment for foreign direct investment. Issues of particular concern for the development of the private sector and agriculture include infrastructure, access to affordable credit, reliable and timely market information and entrepreneurial opportunities.

In addition, it is important to attract foreign direct investment (FDI) as a supplement to domestic investment. FDI contributes to the host countries' integration into the world economy and has the potential to increase economic efficiency by fostering enterprise restructuring and competition. It triggers positive spill-over effects, such as human capital formation and the transfer of technologies including environment friendly technology. FDI also indirectly enhances the quality of public governance as attracting FDI requires sound policies and the application of good practices for regulation and policy making. The promotion of private investment, domestic and foreign, is central to the sustainable development and poverty reduction in the Sub-Saharan region.

However, the quality of the investment environment is insufficient in Sub-Saharan Africa to generate economic growth in the agricultural and other sectors that is necessary to significantly reduce poverty. Improving the overall environment for investment and fostering good public governance will allow Sub-Saharan countries to better attract and retain much-needed investment for development. An improved investment environment includes government accountability, transparency and predictability of rules, rigorous law enforcement, and a credible commitment to fighting bribe solicitation and corruption. Open trade and investment policies can help to better integrate the countries into the global economy.

The availability and quality of physical infrastructure is another key determinant for the overall investment environment and for investment in the agricultural sector, as well as an efficient financial sector with a well-integrated micro-credit sector and the development of human capital.

Official Development Assistance (ODA), which constitutes the main part of external finance in many countries of Sub-Saharan Africa to date, has a role to play in leveraging private sector investment. OECD countries should assist Sub-Saharan countries in the formulation and implementation of policies aimed at attracting investment and based on the African countries' own priorities. In addition, donors should consider how to better support investment directly by combining public and private funds in a sustainable manner. Public-private partnerships (PPPs) can be an effective tool in generating investment for development, in particular for infrastructure and public services, including the areas of irrigation, power generation/distribution and road transport which are particularly

[1] World Bank, World Development Indicators 2005

[2] "First Get the Basics Right," The Economist, January 15, 2004

relevant to the agricultural sector. Through PPPs, the private sector can bring in additional funding for projects but also valuable technical and managerial experience. Thus, partnerships between public authorities and the private sector can allow for a better and less costly provision of services compared to public sector provision of service.

III. Challenges facing the agriculture sector

Although some countries in Sub-Saharan Africa are well-endowed with natural resources, hunger and poverty are extensive in the region. The majority of the poor depend on agriculture and farm labour for their main source of livelihood. Bearing in mind the above-mentioned challenges of creating an overall attractive investment environment for development, the agriculture sector in Sub-Saharan Africa therefore needs to be given particular attention and requires targeted responses.

- **The importance of sustainable agriculture**

It is widely accepted that strategies to develop African agriculture need to incorporate the sustainability of food production from the outset. Increasing food production and sustaining growing populations in Sub-Saharan Africa must be accomplished without major unwanted impacts for biodiversity, irreversible loss of agricultural land, etc. In the long term, it will therefore only be possible to address the challenges of a rapidly growing world population through the development of a sustainable agriculture sector.

The concept of sustainable agriculture involves long-term requirements and obligations. It is not only focused on food provision, but it also refers to issues such as biodiversity, water management enhancing technical needs in terms of innovations, infrastructure, capacity building, and energy provision. Sustainable agriculture therefore also includes issues such as stewardship in water and soil management as well as fertilizer use. Innovation and new technologies, including high-yielding varieties, biotechnology and crop protection products, will have an important role to play.

Sustainable agriculture is a dynamic process to meet the increasing and diversifying demands of society. It will require better access to knowledge, education, and the acceptance that certain trade-offs are involved. It is important to encourage the development of sustainable agriculture through a continuous improvement process along the three pillars of sustainability. Sustainability will be achieved if farmers are given the tools and necessary technical and political support to innovate and succeed.

- **The requirement of science and technology in agriculture**

The spread and development of innovative food and agriculture practices in Sub-Saharan countries will be crucial to alleviating poverty, stimulating economic growth and addressing sustainability challenges. Population growth and the resulting pressure from increased demand for goods necessitate an inevitable focus on technical, economic and managerial innovation. Agricultural productivity has a major place in development strategies. Agricultural research for new and better production and resource management technologies is essential to optimize and improve the use of land and environment. This goes hand in hand with increased diversification of activities focusing increasingly on the added value of crops.

Science and technology have already led to remarkable increases in food production, but more needs to be done. Benefits to small-scale farmers include pest and disease-resistant crops, improved harvest and post-harvest technologies, new approaches to livestock production and more efficient management of water and soil nutrients. The private sector plays a key role in helping to provide new technologies, which in the area of agriculture comprise a range of inputs. Industry can offer the benefits of modern crop protection chemicals and seeds to meet specific needs, and the targeted use of pesticides and modern biotechnology. Used efficiently, these technologies have the potential to achieve significant results.

At the same time, it is important to ensure that the emphasis in not solely on research. Lack of access to knowledge due to limited communication opportunities is a significant challenge for Sub-Saharan Africa. Communication includes open access to journals, information on new technologies to information on market prices, and is an indispensable prerequisite for further improvements.

- **Fostering sustainable water management**

Efficient water management is an indispensable prerequisite for a flourishing agricultural sector. In view of rapidly growing populations and general water scarcity in the arid parts of the region, sustainable water management is a particular challenge in Sub-Saharan Africa. Governments must ensure significant changes to improve water efficiency and productivity minimizing pollution, protecting the ecosystem without constraining farmers' aspirations.

Business can only thrive in a sustainable context where economic and environmental needs are satisfied. It requires efficient water supplies to manufacture products, safe sanitation systems to protect health of employees and customers. The efficiency of water management is a primary and necessary element to basic economic activity, but also attracts new and more developed businesses. Opportunities for irrigation with affordable technologies are an important consideration for the agriculture sector and part of a necessary infrastructure network. Government policies and public-private partnerships have a key role to play in this area. Efficient and sustainable water management need to be considered as a key priority to promote agricultural and rural development in Sub-Saharan agriculture.

- **Partnerships to address development challenges**

Certain types of societal innovations can best be achieved through cooperation between the public sector, international organizations, and private firms. Partnerships can address complex issues, combining research with product development and marketing, engaging research organizations, private companies and resource poor farmers in developing countries. The public and private sector often rely on each others' expertise, which is a case for public-private partnerships. For its part, the private sector can contribute technology, manufacturing skills, training and entrepreneurial spirit. Public-private partnerships can be an effective tool for addressing agricultural, sustainability as well as development and infrastructure challenges.

While public-private partnerships have a crucial role to play, they require appropriate framework conditions to be in place. They need to be based on realistic timelines, clear objectives, trust and transparency and the understanding of shared reward. In order to provide for successful PPPs, public authorities need to ensure that private partners can deliver their services according to sound commercial principles. These include ensuring transparent and predictable legislation, the opening of infrastructure sectors to domestic and foreign private investment, effective co-ordination of preparatory measures between the different public authorities involved and a fair allocation of risks.

- **The importance of capacity building**

Capacity building is an essential overarching requirement, and generic capacity building at all levels is crucial. However, in particular in regions like Sub-Saharan Africa, where agriculture is a predominant sector, generic capacity building has to go hand in hand with more targeted capacity building for science and technology in the agriculture sector to achieve tangible outcomes, in particular in high-priority areas.

There is a wide range of capacity building issues in Africa. A clear understanding of the nature, scope and desired outcomes should be established. While national governments and donors need to develop a more strategic approach to capacity building and institutional strengthening, the role that the private sector can play for capacity building should be given due attention. At the same time, the adoption and development of new technologies in Africa will not be achieved without a certain level of education. A massive effort must be applied in the training of farmers as well as in primary education services. Education for current farmers, but also for children to become modern farmers, is essential to provide full skills for gainful employment in diverse sectors in both agricultural and non-agricultural areas.

It will be crucial to support developing countries' efforts to implement good policies for investment through targeted capacity building. For example, initiatives of the New Partnership for Africa's Development (NEPAD), the Comprehensive Africa Agriculture Development Programme (CAADP) and the Africa Fertilizer Summit, can play an important role in this area.

IV. Conclusion

The private sector, both SME's and multinational companies, have a key role to play to work towards ensuring a sustainable agriculture sector in Sub-Saharan Africa. On the one hand, SME's and small-scale farms are the vital backbone of African economies and offer major employment opportunities. On the other, multinational enterprises are an essential part of global production and food security systems and can bring with them know-how in the areas of innovation, science and technology, and good production and management processes. As they focus on profitable agriculture, it is essential that good governance and the right framework conditions are in place for profitable and commercial agriculture and food production.

OECD, as an intergovernmental organisation, with major experience in agricultural trade, development and policy reform as well as in overarching areas, such as governance and investment, can play a major role. In particular, we recommend OECD to:

- Promote best agricultural practices and science and technology to increase productivity and foster sustainability in the Sub-Saharan agricultural sector.

- Increase its cooperation with Sub-Saharan countries in the area of good governance and setting an enabling investment environment.

- Support developing countries' efforts to implement good policies for investment through targeted capacity building.

- Explore ways to use ODA effectively as a leverage for promoting private investment in agricultural and other sectors and for PPPs to significantly improve the infrastructure in Sub-Saharan Africa to ensure safe and efficient production cycles and transportation to local/regional markets as well as the development of more market opportunities. DAC's donor guidance on using ODA for mobilizing private investment is a step in the right direction.

- Encourage information sharing and partnerships to address agricultural and development challenges based on clear and shared objectives and reward;

- Conduct further analysis that helps better understand the interaction between development, investment and agricultural policies.