AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND

AGRICULTURE AND RURAL DEVELOPMENT SECTOR
BANK GROUP POLICY

OCOD
JANUARY 2000
# TABLE OF CONTENTS

## LIST OF ACRONYMS

<table>
<thead>
<tr>
<th>Executive Summary</th>
<th>i-xiii</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CHAPTER 1</strong> INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>1.1 Background</td>
<td>1</td>
</tr>
<tr>
<td>1.2 Strategic Re-orientations in African Agriculture</td>
<td>1</td>
</tr>
<tr>
<td>1.3 Key Differences between the 1990 Agricultural Sector Policy and the Revised Agricultural and Rural Development Sector Policy</td>
<td>4</td>
</tr>
<tr>
<td>1.4 Objectives of the Policy</td>
<td>5</td>
</tr>
<tr>
<td>1.5 The Macro-Economic Environment and Agricultural Sector Performance</td>
<td>6</td>
</tr>
<tr>
<td>1.6 Poverty and the Crucial Role of Agriculture in Africa</td>
<td>6</td>
</tr>
<tr>
<td>1.7 Major Constraints to Sustainable Agricultural and Rural Development</td>
<td>7</td>
</tr>
<tr>
<td>1.8 Main Challenges facing African Agriculture</td>
<td>10</td>
</tr>
<tr>
<td>1.9 Organization of the Policy Paper</td>
<td>11</td>
</tr>
<tr>
<td><strong>CHAPTER 2</strong> BANK PERFORMANCE IN AGRICULTURAL DEVELOPMENT</td>
<td>12</td>
</tr>
<tr>
<td>2.1 Agricultural Operations Portfolio and Performance</td>
<td>12</td>
</tr>
<tr>
<td>2.2 Bank Group Experience and Lessons Learned Since the 1980s</td>
<td>14</td>
</tr>
<tr>
<td>Integrated Rural Development</td>
<td>14</td>
</tr>
<tr>
<td>Credit Provision</td>
<td>15</td>
</tr>
<tr>
<td>Irrigated Crops</td>
<td>16</td>
</tr>
<tr>
<td>Agro-Industrial Projects</td>
<td>17</td>
</tr>
<tr>
<td>Livestock</td>
<td>17</td>
</tr>
<tr>
<td>Forestry</td>
<td>18</td>
</tr>
<tr>
<td>Fisheries and Aqua-culture</td>
<td>18</td>
</tr>
<tr>
<td>Agricultural Research and Education</td>
<td>19</td>
</tr>
<tr>
<td>Structural Adjustment and Policy-Based Lending (PBL)</td>
<td>20</td>
</tr>
<tr>
<td>2.3 Implications for Future Policy and Strategies</td>
<td>20</td>
</tr>
<tr>
<td><strong>CHAPTER 3</strong> THE VISION FOR AGRICULTURE AND RURAL DEVELOPMENT</td>
<td>21</td>
</tr>
<tr>
<td>3.1 Context</td>
<td>21</td>
</tr>
<tr>
<td>3.2 The Vision</td>
<td>21</td>
</tr>
<tr>
<td>Overall Bank Group Vision</td>
<td>21</td>
</tr>
<tr>
<td>The Bank’s Vision for Agriculture and Rural Development</td>
<td>22</td>
</tr>
<tr>
<td>3.3 Thematic Considerations and the Main Developmental Objectives</td>
<td>23</td>
</tr>
<tr>
<td>The Need for Sustained and Accelerated Economic Growth</td>
<td>24</td>
</tr>
<tr>
<td>Poverty Reduction and Food Security</td>
<td>24</td>
</tr>
<tr>
<td>Private Sector and Agro-Industry</td>
<td>25</td>
</tr>
<tr>
<td>Natural Resource Management And Environmental Protection</td>
<td>25</td>
</tr>
</tbody>
</table>
# TABLE OF CONTENTS (cont'd)

CHAPTER 4 THE AGRICULTURAL AND RURAL DEVELOPMENT STRATEGY ..... 28

4.1 Guiding Principles for Agricultural and Rural Development Lending ........................................... 28
4.2 Areas of Concentration for Bank’s Lending Interventions ........................................................ 29
4.3 Mainstreaming Gender ................................................................................................................ 30
4.4 Strategy for Dealing with the Main Development Objectives .................................................... 31
   **Poverty Reduction and Food Security** ................................................................................... 38
   **Natural Resource Management** ............................................................................................. 40
   **Human and Institutional Capacity Building** .......................................................................... 43
   **Complementary Investments in Rural Infrastructure and Social Services** ......................... 44

CHAPTER 5 THE WAY FORWARD: FROM POLICY TO ACTION ...................................................... 47

5.1 Operational Lending Policies ........................................................................................................ 47
5.2 Lending Instruments .................................................................................................................... 48
   **Project Lending** .................................................................................................................... 49
   **Agricultural Sector Investment Programs (ASIPs)** ................................................................ 49
   **Beneficiary Contribution through Matching Grants** ............................................................. 50
   **Private Sector Window** ......................................................................................................... 50
   **Policy-Based Lending (PBL)** .................................................................................................. 50
   **Agricultural and Rural Development Lines of Credit** ............................................................. 51
5.3 Action Plan ................................................................................................................................. 51
5.4 Recommendation ....................................................................................................................... 51

ANNEX 1: Agricultural Loans and Grants Approved by the Bank Group ........................................ 52

ANNEX 2: Bibliography .................................................................................................................... 1
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>ADF</td>
<td>African Development Fund</td>
</tr>
<tr>
<td>AMINA</td>
<td>African Development Fund Micro-finance Initiative for Africa</td>
</tr>
<tr>
<td>APPR</td>
<td>Annual Portfolio Performance Report</td>
</tr>
<tr>
<td>ASIP(s)</td>
<td>Agricultural Sector Investment Program(s)</td>
</tr>
<tr>
<td>CCD</td>
<td>United Nations Convention to Combat Desertification and Drought</td>
</tr>
<tr>
<td>CCEI</td>
<td>Caisse Commune d’Epargne et d’Investissement</td>
</tr>
<tr>
<td>CIGAR</td>
<td>Consultative Group on International Agricultural Research</td>
</tr>
<tr>
<td>CILSS</td>
<td>Commite Inter-Etats permanent de Lutte contre la Secheresse au Sahel</td>
</tr>
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<td>CNCA</td>
<td>Caisse Nationale de Credit Agricole/National Agricultural Credit Bank</td>
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<td>CSP</td>
<td>Country Strategy Paper</td>
</tr>
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<td>DO</td>
<td>Development Objective</td>
</tr>
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<td>ECOWAS</td>
<td>Economic Community of West Africa States</td>
</tr>
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<td>FAO</td>
<td>Food and Agriculture Organization</td>
</tr>
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<td>FY</td>
<td>Fiscal Year</td>
</tr>
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<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
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<td>IARC(s)</td>
<td>International Agricultural Research Center(s)</td>
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<td>International Center for Research in Agro-Forestry</td>
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</tr>
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</tr>
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</tr>
<tr>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IP</td>
<td>Implementation Performance</td>
</tr>
<tr>
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<td>Integrated Rural Development</td>
</tr>
<tr>
<td>ISNAR</td>
<td>International Service for National Agricultural Research</td>
</tr>
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<td>MIS</td>
<td>Management Information System</td>
</tr>
<tr>
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</tr>
<tr>
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<td>Non-Governmental Organization(s)</td>
</tr>
<tr>
<td>NTF</td>
<td>Nigeria Trust Fund</td>
</tr>
<tr>
<td>OPEV</td>
<td>Operations Evaluation Division</td>
</tr>
<tr>
<td>PBL</td>
<td>Policy-Based Lending</td>
</tr>
<tr>
<td>PCR</td>
<td>Project Completion Report</td>
</tr>
<tr>
<td>PIU</td>
<td>Project Implementation Unit</td>
</tr>
<tr>
<td>PSDD</td>
<td>Private Sector Development Department</td>
</tr>
<tr>
<td>RMC(s)</td>
<td>Regional Member Country (Countries)</td>
</tr>
<tr>
<td>SADC</td>
<td>Southern Africa Development Community</td>
</tr>
<tr>
<td>SECAL</td>
<td>Sector Adjustment Lending</td>
</tr>
<tr>
<td>SECAP</td>
<td>Sector Adjustment Program</td>
</tr>
<tr>
<td>SFI</td>
<td>Soil Fertility Initiative</td>
</tr>
<tr>
<td>SME(s)</td>
<td>Small and Medium-Scale Enterprise(s)</td>
</tr>
<tr>
<td>SPAAR</td>
<td>Special Program for African Agricultural Research</td>
</tr>
<tr>
<td>TAF</td>
<td>Technical Assistance Fund</td>
</tr>
<tr>
<td>UNSO</td>
<td>United Nations Office to Combat Desertification and Drought</td>
</tr>
<tr>
<td>WARDIA</td>
<td>West African Rice Development Association</td>
</tr>
<tr>
<td>World Bank</td>
<td>International Bank for Reconstruction and Development</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

1. Introduction

1.1 After nearly two decades of severe economic decline resulting from several factors, including external shocks and domestic economic mismanagement, Africa’s economic recovery has been gaining momentum over the past four years. Despite the encouraging signs of this renaissance, the growth rates are still not strong and broad-based enough to make a significant impact on the incidence of poverty in the continent. Overall economic performance continues to remain vulnerable to adverse external shocks arising from lower international prices for some key primary commodities, unfavorable weather conditions, and intermittent societal conflicts in some countries and sub-regions.

1.2 Poverty, the over-arching problem in Africa, is deeply rooted in rural areas. Thus, despite rapid urbanization, over 70% of the poor still live in rural areas. Up to 45% percent of the people of the continent live in absolute poverty. So Africans today have poorer access to food, water supply, primary health care and primary education, than 30 years ago. The continent needs to achieve and sustain economic growth of 8-10 percent per annum to arrest and reverse the spread of poverty. To do so, African countries need to increase investment from the current rate of 20 percent of GDP to between 25 to 30 percent of GDP. This would require increased access to concessional resources, as well as consistent policy actions to encourage private foreign investment, generate domestic savings and ensure an efficient use of investment funds. For African rural people and economies, agricultural development is the key engine to raising efficiency, increasing household incomes, improving standards of living and reducing poverty, at least in the medium-term.

1.3 The Agricultural and Rural Development Policy presented in this paper is both a continuation and a major revision of the 1990 Agricultural Sector Policy. Where major portions of the 1990 Agricultural Sector Policy are deemed to be still relevant, they have been retained and incorporated into this Policy. Likewise, specific references have been made to other Bank policies formulated since 1990, which have direct relevance to the revised Agricultural and Rural Development Sector Policy. It incorporates the objectives and priorities set out in both the ADF VII and ADF VIII Lending Policies with regard to the agricultural and social sectors, as well as in other Bank policies, especially those aimed at increasing private sector participation, improving natural resource management and environmental protection, and mainstreaming gender concerns into all Bank assistance operations.

2. The Objectives of the Policy

The specific objectives of this policy are to:

- identify major constraints that limit economic growth in the agricultural sector and the rural economy and focus attention on specific areas where the Bank can develop comparative advantage for future leadership;
- provide, based upon analysis of past experiences, a strategy by which the Bank’s agricultural lending program can systematically address the major constraints;
- provide a strategic framework for deepening and enriching the Bank’s dialogue with member states, regional organizations, and other donors on agricultural rural development policy issues and country development programming; and
- contribute to an improved operational framework to support more effective investments for agricultural and rural development.

3. Key Constraints to Sustainable Agricultural and Rural Development
3.1 Some of the critical constraints that impede agricultural and rural development in Africa are **exogenous** to the sector and, therefore, require attention at higher levels or in other sectoral programs. These constraints include:

- High population growth rates (about three percent per year), which put tremendous pressure on low input/low output agricultural systems and contributes to accelerated degradation of the environment;
- The poor state of the basic infrastructure for delivery of social services to rural areas, which hampers the contributions of the rural labor force to productive enterprises and limits the knowledge base of rural people;
- High external debt service, which poses a severe burden on tax revenues and export earnings, the main source of domestic resources for development;
- The declining trend of real international prices for most agricultural commodities;
- Persistent instability and civil unrest in some countries engender a widespread perception among potential private sector investors of high risks and uncertainties associated with doing business in all African countries; and
- The exposure and vulnerability of rural communities to health hazards through vector borne and viral diseases (such as malaria, schistosomiasis, onchocerciasis, HIV/AIDS and arboviruses like yellow fever), which impact negatively on the availability and quality of agricultural labor.

3.2 The key constraints **endogenous** to agriculture include the following:

- Heavy dependence on rain-fed agriculture and exposure to intermittent occurrence of severe and prolonged drought;
- Inappropriate policy environment for agricultural investment including relatively high taxation on primary agricultural commodity exports;
- Poor natural resource management;
- High post-harvest losses and poor adoption of available technology;
- Poor linkages in commodity chains;
- Weak rural financial intermediation;
- **Complex land tenure systems**, and
- Poor participation by end-users.

4. **Key Lessons Learned**

The key lessons learned by the Bank and other donors are the importance of:

- RMCs moving away from direct project implementation to creating an enabling environment for rural sector development;
- empowering local beneficiaries by giving them the voice and the means to set their own priorities and manage their own development;
- **promoting project designs that are adaptable to the local environment and can be implemented by the direct beneficiaries**;
- increased field presence, decentralized management, and effective MIS development;
- promoting project quality through careful preparation, studies and project supervision;
- using a multi-sectoral approach and increasing private sector experience within the Bank; and
- promoting new initiatives, such as the private sector lending window, and the micro-finance program under AMINA.

5. **Bank Group Vision for Agriculture and Rural Development**
5.1 The overall Bank Group Vision is to: strive to become the leading development finance institution in Africa, dedicated to assisting African regional member countries in their poverty reduction efforts. This Vision thus focuses on the central goal of poverty reduction and, therefore, on agriculture and rural development as a prime building block, given the dominant role agriculture plays in most RMCs, as the key employer of the people and the main contributor to GDP, rural transformation, and economic growth.

5.2 More specifically, the Bank’s vision for the agriculture and rural development sector is to assume a leading catalytic role, within the next decade, in supporting the technological, institutional and policy changes that would trigger a lasting transformation of the rural economies of RMCs by empowering their rural populations to improve their productivity and real incomes in an equitable and environmentally sustainable manner. Hence, the thrust of the vision is client-focus, with “people-centered development” as the principal theme.

5.3 The transformation of African agriculture requires a shift from the highly diversified, subsistence-oriented farming activity towards a more commercially-oriented agriculture with improved access to markets and agro-industry. It involves a greater reliance on input and output markets and increased integration of agriculture with other sectors of the domestic and international economies. It also involves a more efficient and balanced use of indigenous knowledge and "modern" scientific knowledge.

6. Guiding Principles for Agricultural Lending

6.1 The Bank’s lending for agricultural and rural development will be guided by the following principles:

- Conducive policy, institutional and legal environment for private sector development must be in place. A dynamic private sector holds the key to future agricultural and overall economic growth in Africa. Consequently, promoting agri-business and assisting RMCs to strengthen linkages between farmers and agro-industry in order to improve farmers' access to markets is critical for generating and sustaining economic growth. Strong linkages with agro-industry and an efficient marketing infrastructure contribute to improve value-added to agriculture, reduce post-harvest losses and, stimulate supply response;

- Appropriate macro-economic policies and a favorable environment for broad-based stakeholder participation must be in place commensurate with undertaking any major agricultural sector lending in RMCs;

- Effective participation, at the grassroots level, of beneficiary groups with officially recognized status in the fiscal as well as commercial aspects of economic activity. To this end, the Bank would promote participation that is locally-based, socially-legitimate and multi-sectoral in nature. In practical terms, this would involve both physical decentralization of existing bureaucratic structures as well as fiscal decentralization;

- Bank project cycle activities will be guided by in-depth sectoral studies in each RMC where major agricultural sector lending is envisaged. Program/project identification and design should proceed from rolling sectoral plans, which clearly lay out and prioritize RMC sectoral requirements for Bank assistance;

- Programs and projects should be designed to engender a holistic approach to rural development and
the rural economy; the Sector Investment Programs (SIPs) provide an excellent framework for implementing this broad-based integrated approach. In this regard, adequate rural infrastructure, decentralized savings and credit mechanisms, market information systems, input delivery systems, research, extension, and rural household access to education and health will be regarded as necessary for sustainable agricultural development;

- All lending operations must be designed with specific sets of implementation performance indicators and impact indicators so that they can be independently monitored at regularly specified intervals and evaluated by objective quantitative methods;

- The design of agriculture and rural development programs and projects will incorporate actions that would mitigate potential health hazards and negative impact on the environment as well as the livelihoods of rural communities; and

- Bank lending will be guided by the ILO Declaration on Labor Standards, which are also endorsed by the OAU Labor and Social Affairs Commission. The main elements include: freedom of association and collective bargaining, elimination of forced or compulsory labor, abolition of child labor and the elimination of discrimination in employment.

### 6.2 Areas of Concentration for Bank’s Lending Interventions

6.2.1 This policy fully recognizes the wide diversity in agricultural and rural development situations and potential in RMCs and the Bank’s operational regions. The composition of country assistance activities will vary in response to this diversity. Given tight and dwindling ODA resources globally, the Bank would focus its development assistance on selected key areas where it has gained ample experience and built capacity over the last three decades, and can take leadership to make a significant and measurable development impact.

6.2.2 On the basis of the foregoing strategy, the Bank envisages to center its core assistance programs for agriculture and rural development on the following key areas:

- **provision of rural infrastructure** that will facilitate and ensure the sustainability of rural economies. This will include, for example: road networks, water storage and delivery systems for both potable water supply and irrigated agriculture, rural electrification, and structures to facilitate the cost-effective delivery of complementary social services in order to minimize rural-urban migration and retain skilled human capital for development of the rural economies of Africa;

- **expansion of private sector agribusiness** for delivery of agricultural inputs and services to rural communities, and agro-industrial enterprises for commodity storage, conditioning, processing and marketing, more effectively linking private sector firms to rural households through contract farming and outgrower schemes; this is necessary to minimize post-harvest losses, improve value-added to agriculture, increase household incomes, and generate employment in a sustainable manner;

- **development and capitalization of more effective private sector financial networks**, with capacities to mobilize domestic savings and facilitate direct on-lending to rural communities and groups on a viable basis; this would help to deepen rural financial intermediation and improve investment in agriculture to generate and sustain growth of rural economies;

- **improved natural resource management** centered on effective innovation in and implementation of land tenure systems which guarantee rural households the long-term incentives needed to
manage and protect land, water, and other natural resources on a sustainable basis;

- **capacity building** including: (a) building institutional capacity for decentralized government institutions serving rural communities; strengthening rural institutions and associations (such as business groups and rural financial organizations); (b) building capacity at the grassroots to enable rural populations to set their own priorities and to access assistance relevant to their needs; (c) focus of rural education projects on more effective primary schooling, functional literacy, and adult education programs; and (d) institutional support to emerging inter-professional organizations promoting the development of the agricultural sector and the development of specific commodity/produce chains; and

- **increased regional integration** in product and factor markets within Africa.

6.2.3 In these focal areas, the Bank will build upon the lessons learned to further develop its staff capacity to create comparative advantage, in a dynamic context, and to modify its lending and other assistance instruments to better serve the needs of its clientele.

6.2.4 As already indicated, the Bank recognizes explicitly that effective leadership in other important areas will have to come from other multinational financial institutions and bilateral donor agencies with demonstrated capacities and long experience with development efforts in those areas. The Bank will, therefore, be selective in participating in formulation and implementation of well-articulated sector investment plans as a lender and highly interested and involved partner. This will include the following areas.

- Policy-based structural reform programs at the macro-economic level and agricultural sector investment programs;

- Agricultural research, with special interest in developing technologies for: improved management of soil fertility and moisture; integrated pest management; and reduction of post-harvest commodity losses through improved storage, conditioning, processing and marketing technologies; and

- Agricultural extension, with special emphasis on more effectively serving the needs of all end-users, especially rural women.

7. **Bank Objectives in Lending**

Bank’s lending for the sector will pursue four key developmental objectives, namely:

- accelerated economic growth with equity;
- poverty reduction and food security;
- natural resource management and environmental protection; and
- human and institutional capacity building
8. Accelerated Economic Growth with Equity

8.1 The Bank would promote broad-based economic growth as a crucial component of its poverty-reduction strategy. This would be achieved through assistance to: promote an enabling policy, institutional and legal environment; develop and adopt an Investment Code that attracts private domestic and foreign capital flows into Africa; develop agri-business and agro-industries; promote exports; and assist RMCs in their regional cooperation and integration efforts. Development aid to Africa has often been heavily biased towards the pre-harvest input delivery services with much less emphasis on the post-harvest aspects of the food chain. Investment in RMCs has been biased toward developing effective marketing infrastructure for export and cash crops in order to generate foreign exchange to service their debts. The relative neglect of the food crop sub-sectors has adversely affected overall economic performance of most African agrarian economies. Strong linkages with agro-industry and an efficient marketing infrastructure (for the food crop and other sub-sectors of agriculture) are necessary to improve value-added to agriculture, reduce post-harvest losses and, therefore, increase the level of adoption of improved technology. The Bank’s strategy will, therefore, put more emphasis on the post-harvest end of the (input-output) continuum by improving farmers’ access to markets and providing support to RMCs in identifying critical intervention points in the entire food chain.

8.2 Private Sector and Agri-Business Development: Development of the private sector holds the key to future agricultural and overall economic growth in Africa. Unfortunately, however, Africa’s private sector lacks capacity because it is relatively young and constrained by the weak economies in which it operates, as well as uncertainties regarding the credibility of public policies. The investment climate is unpredictable due to a number of factors including lack of the necessary public and institutional infrastructure, weaknesses in the legal and regulatory environment, and the dominance of the public sector in the provision of private and semi-private goods and services. This has had the effect of crowding out private sector activity and discouraged the use of domestic savings for domestic investment, especially in agriculture. At the same time, Africa has been able to attract only 2.6 percent of private global capital flows, which have increased more than eight-fold in the past decade.

8.3 The Bank will, therefore, play a catalytic role in helping RMCs to create the right environment for attracting both domestic and foreign investment to support agriculture and rural development in the continent. Agri-business must play a key role in generating and sustaining private sector-led economic growth. In this regard, the Bank recognizes farmers as the most dominant group to be targeted in the private sector. The strategy involves assistance to strengthen linkages between farmers and agro-industry, and to assist in the development of agribusiness and agro-industrial enterprises. The Bank will assist RMCs to build the enabling framework for financial sector development, private infrastructure development and micro-credit and savings services. It will also help RMCs to streamline their regulatory and legal environments, and to build entrepreneurial capacity of indigenous and grass-root institutions via training and technical assistance. In order to facilitate the exposure of African entrepreneurs to the global market, the Bank will operate via its private sector window to encourage joint ventures with more experienced and interested foreign counterparts.

8.4 Regional Cooperation and Integration: A key challenge for Africa in the new millennium is how to be properly integrated into the world economy. The Bank's strategy is to help RMCs integrate their economies into relatively more viable entities that can compete in the global market. To be competitive as a continent, it is essential that African states move forward on all possible trading fronts including liberalization of domestic trade, the promotion of intra-regional trade, and the maintenance and diversification of export opportunities to major world markets. The Bank will, therefore, promote the harmonization of policies relevant to agriculture, lower tariffs, and remove other impediments to free trade within and between RMCs and international markets. The Bank will strongly support the implementation of international trade agreements in active collaboration with the World Trade
Organization and other donors. It will encourage RMCs to implement necessary changes in tariff and trade structures called for in the world trade agreements, and serve as a regional voice in insisting that extra-African trading partners also comply expeditiously with these agreements.

8.5 **Technology Generation and Adoption:** To be more effective, the Bank’s assistance for research will be channeled through regional research centers with clear and relevant mandates and objectives for African agriculture, and emphasize coordinated sub-regional programs to improve the production, post-harvest handling, processing, and marketing of targeted agricultural commodities. The Bank will support farming systems research to promote better understanding of applied technology development for better resource allocations at the farm level as well as specific commodity sub-sector research in a globalized market environment. In order to ensure lasting results on the ground, the Bank will allocate resources to areas of high potential that have been under-funded or neglected by other donors. These would include labor-intensive technologies; greater integration of crop, livestock, and agro-forestry enterprises within farming systems; post-harvest technologies to minimize losses; and high-value but less well-researched export commodities.

8.6 The Bank would also assist RMCs to develop strong linkages between research and extension in order to ensure effective transfer of the benefits of research to farmers. Empirical evidence shows that no single agricultural extension model has proven itself sufficiently superior to justify its uniform adoption in all farming circumstances. Thus, the Bank would adopt basic efficiency principles to determine the most effective system to support. A key principle is that proposed recommendations in each system must be relevant to the actual conditions of the clientele being served. Given the dominant role of women in agriculture and household food security, the Bank will support extension systems that are gender-sensitive. The Bank will also encourage private sector efforts involving contract farming and out-grower schemes.

8.7 **Rural Financial Intermediation:** The Bank considers the establishment of effective and viable rural financial institutions as one of the critical building blocks of this policy paper. It will, therefore, work with informal rural finance institutions to increase their capacity to mobilize domestic savings and to provide more effective credit services to rural households and businesses. The Bank will also work with these institutions to create and strengthen their linkages with formal private sector banking systems. These objectives will be pursued through appropriate strategies, such as the capacity-building grants of the AMINA program designed to provide assistance to micro-finance institutions in the areas of organizational development, policies, procedures, management information systems, and specialized training in credit and savings account management for borrower groups and savers.

9. **Poverty Reduction and Food Security**

9.1 Involving the poor in the development effort will entail the establishment of mechanisms and processes that give them a voice in the investment planning and decision making process as well as the means (via fiscal decentralization) through which they can effectively participate as economic agents. Thus, participatory development, involving the poor and other stakeholders, is crucial to the sustainable alleviation of poverty in Africa, and would serve as the underlying principle the Bank would adopt to address poverty issues. To this end, the Bank will collaborate closely with multi-lateral development finance institutions like IFAD, FAO and the World Bank. As part of the management process at the country level, the RMCs will need assistance to formulate comprehensive development policies and strategies, which give priority to human development needs, by increasing both the allocation and efficiency of public expenditures for social services. In this regard, the strategy to broaden the scope
of agricultural development into an integrated approach of rural development, where direct agricultural activities of the poor are complemented by investments in the social services, is essentially a poverty reduction strategy.

9.2 Empirical evidence has shown that growth that hinges on labor-intensive technology (especially labor-intensive rural infrastructure) is the most direct and sustainable way to reduce poverty. The Bank would, therefore, promote labor-intensive growth in the RMCs to more effectively reach the poor. Given the dominant role of women in agriculture and the rural informal sector, the Bank would direct its assistance through programs that improve the access of women to basic social services, credit and land to enhance their capacity for direct agricultural production. It will also assist women in enterprise development and in nutrition and primary health programs to improve their capacity to cater to the needs of children. The Bank’s focus on poverty will be cast within a global context, by centering it around the internationally agreed Development Goals for the 21st Century, as articulated by the Development Assistance Committee of the OECD.

9.3 The Bank will collaborate with RMCs and other donors to support preparation of RMC food security strategies and to strengthen the capacity of national institutions to update these analyses on a regular basis. Moreover, the Bank will establish systematic collaboration with specialized and experienced executing agencies throughout the cycle of its operations aimed at improving food security. In this respect, collaboration will be particularly strengthened with the FAO, within the framework of its Special Program for Food Security (SPFS). The Bank will also support RMCs’ efforts to ground their food security strategies on investment in agricultural research, extension, market infrastructure and services, aiming at improving both the availability of, and access to, food. The Bank will thus support long-term investment programs to:

- increase productivity and reduce temporal and spatial variability in domestic food production;
- address intermittent shortages in food supply through the promotion of private/semi privately-managed buffer stocks;
- mitigate losses in post-harvest handling, storage, processing, and marketing of domestic food supplies;
- develop and transfer technologies for diversified production, marketing and trade of higher value crops;
- reduce product transfer costs through the development of improved transport infrastructure (including the construction and maintenance of good feeder road networks), means, and policies;
- reduce transactions costs in the food systems (especially in national and sub-regional markets) through adequate market information systems, improved legal and institutional systems and effective contract enforcement mechanisms; and
- create labor-intensive, non-farm rural employment opportunities, especially off-season income-generating activities targeted at the rural poor.
10. Natural Resource Management

10.1 To sustain the productivity of the natural resource base, Bank lending will be directed toward interventions that increase agricultural productivity per unit of resource used and halt practices that are “mining” the resource base beyond its regenerative capacity. To this end, the Bank will collaborate with both bi-lateral and multi-lateral development partners (such as the FAO, IFDC, ICRAF and the World Bank) involved in the Soil Fertility Initiative (SFI) to assist RMCs to develop National SFI action plans and programs for effective implementation. Sustaining productivity of the natural resource base would also entail some legal changes in land tenure and in the use of common resources exploited by producers. The Bank will promote rigorous analyses at all stages of the project cycle to detect potential and actual ecological effects of investment in agriculture, and how best to avoid or minimize damages resulting therefrom.

10.2 Land Tenure: Empirical evidence shows that more and more land is falling under de facto private control through formal sale and lease agreements and/or informal rental arrangements. Although some progress has been made in successful privatization of a few lands and settlements, the bulk of farmland in Africa is still under communal and traditional ownership. The Bank will assist RMCs to expand their institutional capacities to assist RMCs to formulate and implement land tenure systems, which provide incentives for long-term investments in sustainable use systems and resource conservation, and prevent the fragmentation of land holdings into non-viable plots.

10.3 The Bank will promote in-depth analyses on the impacts of existing land tenure systems on program/project implementation, impact and objectives. It will work with RMC governments, via pilot programs, to find feasible solutions for agricultural enterprises on communal land, such that restrictions on unlimited access to the resource can be effectively installed where use patterns are leading to permanent degradation. In addition, the Bank will ensure that rural households participating in its programs and projects have secured resource use rights commensurate with maintenance of sustainable agricultural systems. Finally, it will provide resources for cadastral surveys and other entitlement procedures to facilitate establishment of de jure controls of land by rural households.

10.4 Within the framework of policy dialogue, the Bank would encourage governments to promote land tenure reforms which recognize legally, the different types of socially-legitimate land ownership (both communal and private), and where feasible and appropriate, develop financial regulations that allow formal financial intermediaries to accept other forms of collateral, especially those associated with communal ownership of farmland. Furthermore, as much as possible, the Bank will encourage reforms that promote female ownership of land in rural communities where this is a constraint to agricultural growth.

10.5 Irrigation and Conjunctive Water Use: To be viable, an irrigation system must have: water supply of suitable quality in sufficient quantity; suitable soils for irrigation; producer access to remunerative markets; and available labour and energy to operate the system. Empirical evidence from newly developed irrigation systems show that operational and management policies, which accommodate farmer preferences and safeguard small holders’ sense of control over the land they irrigate, are most likely to generate higher productivity and more sustainable systems. The Bank would assist RMCs to adopt objective and monitorable criteria for selecting cost-effective, socially acceptable and appropriate irrigation technology on the basis of the foregoing guidelines.

10.6 Water resource use for irrigation will increasingly take place in the context of national water allocation planning, which in many countries will be complicated by riparian rights issues between countries which share major watersheds and river systems. The Bank would, therefore, help RMCs to: strengthen their legislative frameworks on water use and pollution control through careful analysis to
set the right price for water use charges; broaden participation in management of water resources; and establish planning frameworks for preventing and resolving conflicts among competing water users. It will also support RMC efforts to formulate and implement conjunctive water use plans, which recognize the rights of all end-users for water of acceptable quality and in appropriate quantities on a sustainable basis. Special attention will also be given to lowering the relatively high cost of irrigation in Africa. In this regard, the Bank will strengthen collaboration with key development organizations (such as the FAO, WARDA and IIMI) with demonstrated expertise and field experience in irrigated agriculture.

10.7 Apart from providing assistance for irrigation, the Bank would also work with RMCs to identify alternative ways to source and manage water efficiently for agricultural uses as well as for home consumption. This would, inter alia, entail support for training of rural households in various water-harvesting and management techniques. To this end, the Bank would promote a more integrated approach to optimal water resource management which would include for instance, integration of aquaculture with irrigation and water-harvesting techniques to boost agricultural productivity at the household level.

11. Human and Institutional Capacity Building

11.1 Low education levels and high illiteracy rates make it difficult for rural populations, women in particular, to access training and technical assistance. Also, traditional education programs do not provide adequate response to end-user needs, particularly in rural areas. Thus, to be effective, the focus of primary education has to shift to the functional areas, such as entrepreneurial skills, business management, technical subjects of relevance to rural life, and personal analytical and organizational skills. The Bank will, therefore, collaborate with RMCs and other donor agencies to increase grass roots capacity building to enable rural populations set their own priorities and access assistance relevant to their needs. Capacity building would also focus on training in income producing activities, group mobilization, financial management and marketing. This would enable rural women to develop decision-making and management skills that can improve their income earning potential.

11.2 A concerted effort of both donors and African countries is needed to build grassroots institutions that are sustainable and equipped over time to engender and support a process of modernization and transformation of African agriculture and rural economies. On its part, the Bank would help to strengthen existing rural institutions and associations, including business groups and rural financial organizations and to create effective linkages between international NGOs with proven track records in areas such as micro-finance, development of micro-, small- and medium-scale enterprises, and functional literacy programs, and local NGOs. Finally, the Bank would focus rural education projects on more effective primary schooling, functional literacy, and adult education programs.

12. Complementary Investments in Social Services and Rural Infrastructure

12.1 Bank policy toward the agricultural sector recognizes that, to promote and sustain economic and social development in rural areas, RMC governments and donors must undertake other important actions that are not agricultural interventions per se in order to broaden development assistance to cover service areas that support the rural economy. Herein lies the rationale for broadening the scope of Bank Group agriculture sector policy to rural development. Public investments in roads, bridges, water control structures, utility services, storage and processing facilities, telecommunications systems, and market infrastructure provide basic means of linking rural households to the modern world. However, absence of such essential infrastructure in rural areas creates disincentives to rapid rural development, drives entrepreneurs and skilled labor to look elsewhere for opportunities, accentuates the problem of
rural-urban migration and growing urban unemployment, and precludes complementary private sector investment in rural enterprises.

12.2 For the education sector, the Bank will work with RMCs to identify appropriate balance between primary, secondary, technical, and tertiary levels, in relation to demand on the ground and other supply factors (in terms of constraints faced). Also the balance between the “soft” and the “hard” ware aspects of investments is critical in determining the eventual benefit and outcome of the Bank’s intervention in the sector. The Bank will also provide assistance for broad-based basic educational services (including primary schooling for all), “second chance” basic skills training for youth, and adult literary and numeracy programs.

12.3 For the health sector, special emphasis will be placed on the provision of primary health care services (including access to information on nutrition, sanitation, and reproductive health), delivery of preventive health programs to rural areas, and provision of basic medical care through local dispensaries on a cost-effective basis. Given that HIV/AIDS needs urgent attention to save the human capital of the continent, efforts will be intensified to mainstream preventive and coping measures into agriculture training programs and rural extension services to reach the rural population. In addition advocacy activities both at a policy and grass root levels will be featured in appropriate projects and programs of the sector.

12.4 To improve access of rural people to markets, the Bank will promote expansion of road networks to open up rural areas of high agricultural production potential to facilitate development of market centers and to improve linkages between collection points, terminal markets and agro-industry. The Bank will also help RMCs to develop mechanisms, institutions and participatory systems to effectively promote improved maintenance of road networks, particularly secondary and farm-to-market roads. Furthermore, intermediate means of transport, such as road tracks, with user participation will receive increased support. To this end, more assistance would be channeled through adaptive research into design standards for simple vehicles, such as bicycles, ox-carts, and wheelbarrows, to allow rural communities to fully capitalize on the improved road networks. At the regional level, African governments need to collaborate with each other to build road networks that open their economies to trans-border trade. The Bank will support such endeavors through increased assistance to multi-national projects on a demand-driven basis.

12.5 The Bank will work with RMCs to identify their overall rural energy needs and promote technological solutions that take into account renewable sources of energy (such as solar energy, biogas and windmills) that are cost-efficient and environmentally friendly. This will include support for alternative energy sources such as, solar energy and bio-gas, as well as electricity generation through hydropower and windmills; expansion of existing electricity delivery networks, particularly in areas of high agricultural potential and agro-industrial processing; and electrification of rural infrastructure that supports efficient delivery of social services to rural households, particularly health and educational services.

12.6 Empirical evidence from successful village potable water schemes have shown that active involvement of end-users in the construction and management of the schemes is key to sustainable supply of potable water in rural Africa. The Bank will work closely with RMCs to support development of Water Users’ Associations (WUAs), headed by respected village or community heads, who fix user fees for their own communities, establish and maintain their own bank accounts for operations and maintenance, and train local artisans to maintain the water point. Assistance will also be given to RMCs to formulate and install conjunctive water plans that promote sustainable use of existing water resources and safeguard water quality. Finally, the Bank will promote water resource management with the active involvement of the end-users in the construction and management of the
potable water supply schemes.

13. From Policy to Action

13.1 Project Design: Quality at Entry: The Bank will take complementary actions to facilitate successful implementation of its agricultural and rural development policy. To this end, the project cycle will be modified, as necessary, to ensure both end-user participation and better integration of projects into sector and sub-sector strategies. This will include in-depth studies in key sub-sector areas to develop medium-term (five-year) Bank/RMC rolling plans for program and project identification and design. Long-term programming of TAF funds will help to improve the quality of sub-sector analyses and development of ASIPs in collaboration with other donors. Furthermore, design missions will be planned and timed so that the Bank has effective input into the development of programs and projects in the early phases of the project cycle. This would include, inter alia, the application of environmental and health impact assessment of Bank Group interventions. End-user participation will be strongly encouraged in the formulation of rural development strategies and in program/project identification, design, and implementation, and monitoring and evaluation.

13.2 Monitoring and Evaluation: The capacity for monitoring and evaluation will be strengthened. To this end, monitoring and evaluation operations for programs and projects will be refocused to include the strategic aspects of the Bank’s agricultural and rural development portfolio, in addition to the operational aspects of program/project implementation. To enhance the likelihood of success, projects and programs will be evaluated on a comprehensive basis to develop a synthesis of “lessons to be learned” to guide future Bank lending. Finally, the feedback system between the Evaluation and Operations Departments will be strengthened to ensure that appropriate incentives exist for timely and effective monitoring of programs/projects and quick implementation of recommendations made in evaluations.

13.3 Key Lending and Non-Lending Instruments: The Bank would adopt a balanced set of instruments for support to agriculture. Emphasis would be placed on projects and programs which build institutional capacity, along with an increased use of ASIPs and beneficiary contribution to enhance sustainability. The Bank will collaborate with the World Bank, IMF and other donor agencies to ensure a more integrated sectoral approach by RMCs and donors. Collaboration will include active participation in core sector reform programs, development of strategies for rural health, rural infrastructure, education and private sector development in rural areas. The Bank will continue its involvement in policy-based lending in close collaboration with other donors. In line with its Vision, the Bank will get more involved in the design of future adjustment programs aimed at addressing issues relevant to its areas of strategic interests, which feature agricultural and rural development. The Bank will use sector adjustment lending as a means to play an active role in policy dialogue with the RMCs in addressing sectoral policy gaps to promote an appropriate policy environment for agricultural and rural development, while ensuring that the social costs of adjustment are mitigated by appropriate interventions.

13.4 Most of the Bank’s RMCs have limited institutional capacity, including in the formulation of macro-economic and sectoral policies, and in project preparation and appraisal. As a result, most of them have not been able to internalize MDB-led initiatives such as PERs and Economic and Sector Work (ESW) and/or take the lead in formulating home grown policies to guide their development efforts. In the process, effective dialogue and ownership of development policies have been severely constrained. Systematic ESW will, therefore, be carried out in order to identify precise constraints, the needs and the potential of the agricultural sector and the overall rural economy of each RMC, and to ensure that identified projects and programs fit within the strategic framework of such sector studies. Furthermore, the Bank would collaborate with other development partners in assisting RMCs to build
sustainable and viable institutions through well-tailored training and technical assistance programs. The Bank would also help ease the path to adequate private sector funding through support for deepening and regulation of the financial sector.


14.1 An Action Plan for implementing the Agricultural and Rural Development Sector Policy has been developed, taking into account the diversity in regional specificity of the agricultural and rural economies of the continent. Given that the Action Plan is an implementation tool, it would be revised and updated every two to three years to reflect the changing needs of the Bank's clients, and also to guide the Lending Program of the Bank. For each of the Operational regions/departments of the Bank, specific actions are defined with respect to clearly identified constraints to achieving explicit development goals in a global vision. These regional Action Plans serve as the basis for the overall Bank Action Plan. In carrying out activities resulting from the Action Plan, projects and programs will emanate from the felt needs of the concerned populations in RMCs. The Bank Group interventions will therefore proceed from a “demand driven approach.”
CHAPTER 1
INTRODUCTION

1.1 Background

Since the issuance of the Agricultural Sector Policy of 1990, the development environment in Africa has undergone significant changes. These include moves toward economic globalization, market and price liberalization, currency devaluation, withdrawal of public enterprises from commercial activities, greater private sector and broad-based stakeholder participation in economic development. It is, therefore, necessary to update the 1990 Agricultural Sector Policy and broaden its scope to increase its utility for Bank lending operations in the future.

1.2 Strategic Re-orientations in African Agriculture

1.2.1 Socio-Economic Underpinnings: Africa is endowed with a wide diversity of agro-ecological zones. These zones range from the heavy rain-forest vegetation with bi-annual rainfall to relatively sparse, dry and arid vegetation with low uni-modal rainfall. This diversity is a tremendous asset, but it also poses a substantial challenge for African agricultural development. On the one hand, it creates a vast potential with respect to the mix of agricultural commodities and products which can be produced and marketed in domestic and external markets. On the other hand, the diversity implies that there are no universal solutions to agricultural development problems across the continent. Consequently, programming and implementing interventions in the sector must be tailored to the particular conditions of the different agro-ecological zones and to prevailing socio-economic conditions of rural households within individual countries.

1.2.2 Over the last three decades, increases in agricultural output in Africa have come largely through extending rain-fed crop cultivation, particularly food crops, on to more and more marginal soils and/or by reducing traditional fallow periods in cropping cycles. Under conditions of rapid human population growth, rural households have been forced to adopt such agricultural practices that guarantee their survival. Unfortunately, raising the productivity of crop enterprises through intensification per unit of land cultivated -- i.e., through increasing crop yields per hectare -- has not been as important to household food security strategies. Apart from commercial agriculture which covers a relatively small group of crops, the use of agricultural inputs -- i.e., improved seeds, inorganic fertilizers, insecticides and pesticides -- has been much lower in Africa than in other parts of the developing world. Inorganic fertilizer use is often less than ten kilograms of nutrients per hectare. Use of agro-chemicals and/or integrated pest management techniques to deal with plant diseases and pests is still largely confined to export crops.

1.2.3 Continuous expansion of crop agriculture has come at the expense of other natural resource use systems. One consequence has been the accelerated destruction of forest resources by land clearing and over-exploitation for fuel-wood and other household uses. Another, more subtle effect, has been the deterioration of trans-humant livestock systems as larger and larger areas formerly allocated for dry season grazing are put under the hoe and plough. Over-exploitation of fisheries resources has been a serious problem where common resources are exploited for private gain. Lack of adequate regulatory provisions and, where present, their ineffective enforcement have led directly to catch declines in the present and have severely challenged prospects for adequate stock replenishment in the future.
1.2.4 Rural households in Africa are often misperceived by development planners only as “farms”. However, they are multifaceted economic units with complex strategies for allocating the resources they control to spread risks and survive in conditions that are often very difficult. Where labor is the primary household resource, investment, choices must be made between member participation in on-farm crop and livestock enterprises and other more remunerative non-farming opportunities. Out-migration of household members on a seasonal basis is common. Not surprisingly, the rates of urban in-migration from rural areas greatly exceed those of natural population increase as factors in the growth of most Africa’s cities and towns. Conversely, throughout Africa, migration to urban and peri-urban areas in some cases has created new opportunities for production of high value agricultural and livestock commodities for sales to more affluent urban consumers and to increase household food security.

1.2.5 Allocatory decisions by farmers and the tradeoffs they face are made not only between alternative agricultural enterprises and technologies, but very importantly between farm and non-farm opportunities. Where cash is limited, choices have to be made between “investments” in the education of children, purchase of health services, participation in artisanal production and small trading activities, and farming operations per se. Development interventions aimed only at “farmers” are more likely to be met with indifference by end-users than those which more completely address the needs of rural households.

1.2.6 Diversified household economic strategies are extremely important to agricultural growth for two reasons. First, such strategies can serve to reduce direct population pressures on the natural resource base. And, second, where investment in agricultural enterprises is seen as profitable, household investment in new technologies is usually financed from intra-household earnings associated with non-agricultural and off-farm activities as well as family remittances (that is, savings of family members working in urban areas within and outside Africa).

1.2.7 The Globalization of the World Economy: Globalization has gained center stage and become the dominant feature of the world economy. Economic activity in developing countries has responded positively to policy initiatives in favor of macroeconomic stability, structural reforms, and private sector growth. As a result of more open and freer world trade, developing countries as a whole expanded trade much faster than the industrialized world, and their share of world trade is expected to increase further in the coming years. In this context of new opportunities that globalization offers for accelerating the process of economic recovery in Africa, two trends are particularly important for agricultural prospects. First, world stocks of grain have declined in the late 1990s to their lowest levels since the Second World War. Rising nominal prices for grain and currency devaluation in many African countries have increased the costs of commercial imports of food grain to Africa. Second, economic globalization has induced a surge in capital flows and foreign direct investment. Between 1990 and 1998, total official development assistance dropped from $56.3 billion to $45.0 billion, while private capital flows to emerging markets grew almost eight-fold, from $44.4 billion to $300 billion. Unlike in Asia and Latin America where foreign direct investment has accounted for a substantial share of private capital flows, net capital flows to Africa have consisted mainly of official flows. Despite substantial progress in policy reforms and in reducing overall levels of debt, high debt-service burdens and incidents of civil unrest and instability in some African countries have had negative impacts on private investment flows to African enterprises.

1.2.8 Liberalization of Markets and Price Structures: Throughout the 1980s, structural and sectoral adjustment programs in the RMCs concentrated on improving incentives and increasing the efficiency with which the public sector used resources. In the late 1980s and early 1990s, market-based approaches were being stressed in most economic reform programs. In agriculture, these programs have concentrated on eliminating price controls, developing competitive input and output markets,
reducing state interventions in international trade, improving regulatory systems, and privatizing the functions and assets of public agencies and parastatal enterprises. Promoting and sustaining private-sector investment in agriculture will require a continuity of these reforms and predictable government policies toward agriculture. Moreover, the response of aggregate agricultural supply to these reforms will depend significantly on complementary investment in rural infrastructure, agricultural input markets, research, credit, and social services.

1.2.9 **Currency Devaluation and Increased Export Competitiveness**: Many RMCs have either initiated national programs (e.g., Nigeria, Ghana and South Africa) or participated in regional programs (e.g., countries in the two CFA Franc sub-zones) to adjust currency exchange rates. The resulting devaluation of domestic currencies has contributed to increase the competitiveness of RMC exports in global markets and to value imports to consumers more appropriately. Currency devaluation has also brought reallocations of domestic resources into more productive enterprises as dictated by undistorted border prices. In the agricultural sector, these adjustments have increased the need to reconsider the emphasis put on use of imported agricultural inputs, the appropriate orientation of agricultural research and extension, the most remunerative production mixes at the farm-level, and investment strategies for agro-industrial systems. Producers are increasingly reallocating their resources toward both export commodities and import-substitution products. To sustain these encouraging trends, constant monitoring of exchange rates is needed to prevent market/trade distortions engendered by overvaluation of domestic currencies.

1.2.10 **Government Withdrawal from Direct Involvement in Commercial Activities**: Over a decade of crisis management and structural adjustment, there has been a far-reaching policy debate over the appropriate roles for the state and the private sector in key segments of national economies. African governments have traditionally tried to create modern economies directly, rather than supporting and strengthening private sector initiative and investment. Rapid growth, poor management and overly ambitious investment programs of the public sector have contributed to fiscal imbalances and other economic difficulties. Facing the challenge of reassessing what is required to build solid foundations for economic and social development, most RMCs adopt more pragmatic approaches. They acknowledge that most commercial activities are better conducted through competition in the private sector, and show greater willingness to build economic frameworks founded on partnerships between public and private interests. As a genuinely unique African financier and development partner, the Bank has greater freedom and prime responsibility to assist RMC governments in the iterative process of defining their development roles, goals and objectives for the future, and implementing new programs to respond to these goals and objectives.

1.2.11 **Moves toward Greater Private-Sector and Broad-Based Participation**: Many African countries have embarked upon development paths that ascribe to the private sector greater roles and responsibilities for economic growth. As efforts are being made to create an enabling environment for private sector participation, new opportunities become available to entrepreneurs and new public/private partnerships for development are being forged. The Bank is already responding to the new situation. A Private Sector Department and a special micro-finance initiative have been created for lending to the private sector. Bank resources are also allocated for technical assistance and training to assist emerging private-sector organizations and interest groups to formulate their own action plans, to organize themselves, and to obtain additional resources through leveraging Bank assistance with other financiers. Through these new initiatives, Bank’s assistance to the private-sector client base can facilitate greater investment in rural infrastructure, farming, storage, processing and marketing systems, and complementary services for rural households. Indeed, the economic and social adjustments of the last decade led to a rather speedy withdrawal of the public sector from certain activities without efficient alternatives to immediately take over those activities. This created a disruptive vacuum that the private sector should be encouraged to fill in a context of effective decentralization in decision-
1.2.12 **The Need for Greater Beneficiary Participation and Decentralization:** The economic and social adjustments of the last decade have created fluid situations in many countries and uncomfortable, but hopefully temporary, vacuums in management. Governments are still finding their way through the difficult transition from the public sector control modes of the past to more supportive and efficient modes for provision of support services in the future. The evolving situation calls for maximum and mutually respectful participation of all concerned groups in the development effort. The evolution away from public systems of authoritarian management has accentuated the needs for:

- greater and more effective decentralization in government decision-making under open and transparent processes of governance; and
- working with local groups who have organized themselves in pursuit of economic and social objectives.

1.2.13 **Internal Reforms at the Bank:** The African Development Bank Group has undergone a major self-evaluation and reorganization process aimed at better adapting its operations to the needs of Regional Member Countries. In this context, the Bank has issued several new policies, which have altered its objectives and approaches to development assistance and lending operations. Major new polices relevant to agriculture and rural development encompass environment and sustainable development, forestry, gender issues, private-sector participation, lending instruments, health, education, and water resources management.

1.3 **Key Differences between the 1990 Agricultural Sector Policy and the Revised Agricultural and Rural Development Sector Policy**

1.3.1 The Agricultural and Rural Development Policy presented in this paper is both a continuation and a major revision of the 1990 Agricultural Sector Policy. Where major portions of the 1990 Agricultural Sector Policy are deemed to be still relevant, they have been retained and incorporated into this Policy. Likewise, specific references have been made to other Bank policies formulated since 1990, which have direct relevance to the revised Agricultural and Rural Development Sector Policy.

1.3.2 The formulation of the revised Policy takes into account several comments expressed by the Bank staff on the 1990 Policy. Salient among these are that the 1990 Policy:

- proceeded from a sectoral approach that was too narrow to fully encompass the development needs of rural communities and generate the necessary synergies from Bank operations;
- reflected a “crisis management” atmosphere by concentrating too much on short-term actions and not enough on prospects for effective impacts on end-users or long-term sustainability;
- lacked sufficient emphasis on improving natural resource management and ensuring the sustainability of actions undertaken and the systems installed; and
lacked adequate prioritization of activities to be undertaken, commensurate with Bank experience in the sector and its comparative advantage vis-a-vis other financial institutions and donor agencies.

1.3.3 The revised Agricultural and Rural Development Sector Policy differs from the 1990 Agricultural Sector Policy in the following ways:

- it defines a clear vision, within the next decade, for African agriculture;
- it expands the scope from a narrow focus on agriculture to agriculture and rural development, and provides an in-depth analysis of the Bank’s experience, capacities and comparative advantage for the future in this area;
- it incorporates the objectives and priorities set out in both the ADF VII and ADF VIII Lending Policies with regard to the agricultural and social sectors, as well as in other Bank policies formulated since 1990, especially those aimed at increasing private sector participation, improving natural resource management and environmental protection, and mainstreaming gender concerns into all Bank assistance operations;
- it recognizes, and is responsive to, major changes in the world economy which impinge upon agricultural and rural development in Africa;
- it defines rural households as the primary clients for, and end-users of, Bank sectoral interventions and recognizes the need for a broader operational definition for “agricultural” sector development;
- it advocates for a “commodity chain” approach to identify major bottlenecks in improving agricultural productivity and increasing the value of outputs;
- it addresses the poor performance and non-viability of the “traditional” agricultural credit banks and the ineffectiveness of certain lending instruments (especially lines of subsidized credit) in the 1990s by suggesting alternative lending mechanisms for exploration, and defines areas of focus for the future intervention based upon the Bank Group’s Vision for agricultural and rural development and an analysis of the Bank’s experience, expertise and comparative advantages.

1.4 Objectives of the Policy

The specific objectives of this policy are, therefore, to:

- identify major constraints on economic growth in the agricultural sector and the rural economy and focus attention on specific areas where the Bank has or can develop comparative advantage;
- provide, based upon analysis of past experiences, a strategy by which the Bank’s agricultural lending program can systematically address the major constraints identified;
- provide a strategic framework for strengthening the Bank’s dialogue with member states, regional organizations, and other donors on agricultural rural development policy issues and country development programming; and
- contribute to an improved operational framework to support more effective investments for agricultural and rural development.
1.5  The Macro-Economic Environment and Agricultural Sector Performance

1.5.1  The process of economic recovery that began in Africa in 1994 has been sustained over the intervening four years, reversing the trend of persistent negative growth since 1980. From 1995 to 1998, real gross domestic product (GDP) grew between 2.8 and 5 percent per year, as compared to an annual average rate of 1.9 percent for the 1990-1995 period. As a result of increased fiscal prudence, the overall budget deficit was reduced to a historic low of 1.9 percent of GDP in 1997, and average rate of inflation fell from 40.4 percent in 1994 to 12 percent in 1998. Despite declines in some major commodity prices, total export volume remained strong and grew between 1994 and 1998. This encouraging recovery, however, started from a very low base, and the improvement in aggregate economic indicators also masks differences and deteriorating situations among individual countries. Moreover, the gains in export value are still offset by increases in the value of imports and shortfalls in net services, the servicing of the continent’s growing external debt continues to absorb about one-quarter of its export earnings, and real per capita GDP remains below its 1980 level.

1.5.2  Agriculture displayed an encouraging performance in the mid-1990s by recording a growth rate of 6.9 percent in 1996, resulting primarily from favorable rainfall in northern and southern Africa. In 1997, drought and flood conditions associated with the El Nino phenomenon adversely affected agricultural growth in the eastern and northern regions of the continent. Several countries in the Sahel region were also constrained by drought. As a result of the inherent vulnerability to the vagaries of nature, agricultural growth fell to 1.9 percent in 1997. Despite this limited performance, agriculture remains the most important sector in the rural economies of Africa, and serves as the mainstay of the bulk of vulnerable poor. Fortunately, increasing private sector participation in the rural economy offers brighter prospects for greater economic expansion. Improving the macro-economic framework through structural adjustment programs has played a significant role in rejuvenating the agricultural sector across the continent. However, the growth trend of the last three years must be nurtured and sustained by complementary actions over the next decade, as poverty reduction remains a crucial challenge throughout the Region.

1.6  Poverty and the Crucial Role of Agriculture in Africa

1.6.1  In both absolute and relative terms, Africa has lagged behind the rest of the world in the fight against poverty. An estimated 40 to 45 percent of Africa’s 730 million people live in absolute poverty. Of these, close to 30 percent fall in the extremely poor bracket, 70 percent of whom are women. Africans today have poorer access to food, water supply, primary health care and primary education, than 30 years ago. Per capita incomes have fallen by about 30 percent below the levels prior to the oil shock of the mid-1970s. The growing incidence of poverty is compounded by the adverse effects of inadequate policies, natural and man-made calamities, environmental degradation, weak institutional mechanisms, and declines in non-oil commodity prices. The continent’s mounting foreign debt tends to further complicate matters. In addition, at 3 percent per annum in the 1990s, population growth outpaces growth in food production (2 percent per annum), and the continent is more dependent on food imports today than 30 years ago.

1.6.2  It is estimated that Africa needs to achieve and sustain an annual level of economic growth of 8-10 percent to arrest and reverse the spread of poverty. Facing up to this challenge would require agricultural sector growth in real GDP above four percent per year. In comparison, early progress in agriculture was critical to the economic success of East Asia, where no country has achieved high rates of economic development without major contributions from agriculture. Conversely, the poor performance of agriculture in Africa over most of the last thirty years has been a major impediment to overall economic development. For rural people and the economy as a whole, agricultural
development, broadly defined, is the key engine to raising efficiency, increasing household incomes, improving standards of living and alleviating poverty. Indeed, agriculture contributes 30 percent of GDP in sub-Saharan Africa and 20 percent in North Africa. With an annual growth rate of 2 percent, rural population accounts for 70 percent of total population in sub-Saharan Africa and 50 percent in North Africa. About 90 percent of the rural labor force in sub-Saharan Africa engage directly or indirectly in agricultural enterprises. Agriculture contributes thirty percent of total exports from sub-Saharan Africa and five percent from North Africa. Yet, the 1980-1993 average annual growth rate for agriculture was four percent in North Africa and only two percent in sub-Saharan Africa. With over 70 percent of the poor living in rural areas, poverty alleviation is a socio-economic problem with definite spatial dimensions throughout the continent.

1.7 Major Constraints to Sustainable Agricultural and Rural Development

1.7.1 Experience gained from within the Bank and elsewhere have revealed that some of the most critical constraints that impede agricultural and rural development in Africa are exogenous to the sector and, therefore, require attention at higher levels or in other sectoral programs. First, high population growth rates of about three percent per year put tremendous pressures on low input/low output agricultural systems and contributes to accelerating the degradation of the environment. Second, the poor state of the basic infrastructure for delivery of social services (education and health) to rural areas in many countries hampers the contributions of the rural labor force to productive enterprises and limits the knowledge base of rural people in dealing with the challenges they face.

1.7.2 The growing population pressure, the relatively poor social services and poor infrastructure, coupled with relatively low profitability of agriculture engendered by significantly higher direct and indirect taxation, together exacerbate the problems of rural-urban migration. Where out-migration is dominated by unskilled labor, it tends to fuel urban unemployment which is an underlying cause of urban unrest in most African cities. On the positive side, some rural-urban migration is expected to take place in response to productivity increases at the rural level. However, empirical evidence places more weight on out-migration caused by the stark imbalance in the physical, social and economic infrastructure between the rural and urban centers. The net effect of this phenomenon is persistent loss of the relatively younger, generally more skilled and economically more mobile labor force, part of which is needed to develop the rural economies of Africa. Thus, an important challenge is how to retain a minimum threshold of skilled human capital to help transform the rural economies of Africa.

1.7.3 Third, the absence of good road networks in many areas and difficulties in the delivery of basic utilities (electricity, water and communications) to rural communities and agro-industrial facilities hinder establishment of sound market linkages between producers, processors, and consumers of agricultural commodities and products. Fourth, high external debt imposes a severe burden, which must be serviced from tax revenues and export earnings, the main source of domestic resources for development. Fifth, with the exception of cocoa and coffee, the international prices for most primary agricultural commodity exports as well as domestic prices of non-tradeable food crops have experienced a general decline in the last two decades, making farmers generally worse off. Sixth, persistent instability and civil unrest in some countries has engendered a widespread perception among potential private sector investors of high risks and uncertainties associated with doing business in all African countries.

1.7.4 Finally, in rural communities where vector borne and viral diseases (such as malaria, schistosomiasis, onchocerciasis, HIV/AIDS and arboviruses like yellow fever), are endemic, they become a health hazard to rural dwellers, especially those engaged in agriculture production. Of the vector borne diseases, malaria has the most devastating effect on the African population, 75 percent of whom live in endemic areas. Without appropriate mitigation measures to control and treat these diseases, their repeated
attacks can adversely affect labor productivity of affected rural communities. The rising incidence of HIV/AIDS pandemic among the African population has become a major new threat to the development of the agriculture sector, which is the backbone of Africa’s economic development. The virus has resulted in increased morbidity and mortality among the productive age group of the agricultural population in the rural areas where basic social services are inadequate to meet the increasing demand. As the new infections concentrate on age group 15-39, the prime age for reproduction, fertility is also expected to decline. The rise in morbidity and mortality due to HIV/AIDS will have direct effect of labor loss and reduction in household income, savings and investments. The loss of adults to AIDS often leads to a shift in cropping patterns from cash crops to subsistence farming. It will also lead to a loss of agricultural knowledge and management skill. In general, HIV/AIDS will increase vulnerability of the rural population and exacerbate poverty.

1.7.5 There are also constraints that are endogenous to agriculture in Africa. They include, among others, the following.

1.7.6 Heavy Dependence on Rain-fed Agriculture and exposure to intermittent occurrence of severe and prolonged drought: Vulnerability of rain-fed cropping systems to inter-annual variations in temporal and spatial distributions of rainfall is high, particularly in the Sahelian and Sudanian zones, in North Africa, and in semi-arid southern Africa. Yet, only 6.7 percent of arable land are under irrigation continent wide; a proportion which falls to 4.1 percent in sub-Saharan Africa. Coupled with the low degree of irrigated agriculture, African agriculture is also faced with severe intermittent drought which compounds the effects of other factors on food insecurity and poverty. Prolonged droughts can generate a series of negative shocks, which has the domino effect of eventually crippling agrarian economies. The immediate impact is usually reduced water supply to agricultural, industrial and domestic users. This, in turn, often translates into massive crop failure and can literally wipe out livestock populations in affected localities. Food prices rise, aggravating food insecurity for vulnerable groups of society and reduced agricultural output stifles agro-industrial growth, which can lead to a contraction of Gross Domestic Product. The net effect is increased unemployment and loss of income at household and national levels. Hence, drought is not just a food security or environmental problem, but also a social, economic and political issue.

1.7.7 Inappropriate Policy Environment for Agricultural Investment: Foreign exchange, trade and fiscal regimes, as well as food pricing schemes directed at urban consumers have discriminated against agriculture and rural enterprises and reduced incentives for rapid economic growth. Aside from their distortionary effects, subsidies have often not reached their intended beneficiaries, and have been more than offset by imposition of higher direct and indirect taxes on the same activities. Thus, for instance, African farmers continue to bear a substantial burden via relatively high producer taxes imposed on most of the export commodities which are the main source of foreign exchange in relatively agrarian economies. Coupled with the gradual decline in real prices of these commodities on the international market, this serves as a key disincentive to generating and sustaining the requisite supply response necessary to support the fast-growing populations of Africa.

1.7.8 Private sector investment and participation in agriculture have been impeded by heavy intervention of the public sector in agriculture, as well as by legal and regulatory structures that do not provide a firm basis for impartial enforcement of contracts. Reforms have yet to create the predictable business environment necessary to attract foreign direct investment into agribusiness enterprises. Government failures to negotiate and implement mutually beneficial adjustments in intra-regional trade and monetary conditions have added to the high formal and informal transactions costs in trans-border commerce. Finally, weak human and institutional capacities continue to hinder government efforts to support the agricultural sector.
1.7.9 **Poor Natural Resource Management:** The increasing pressure of fast growing populations has led to continuous expansion of crops on more and more marginal lands, accelerating the destruction of forest resources by land clearing, indiscriminate livestock grazing, and over-exploitation for fuel-wood and other household uses. Lack of alternative domestic fuel sources has compounded the problem of deforestation and diminished prospects for rapid regeneration of forest resources and maintenance of biological diversity. Trans-human livestock systems have deteriorated in the wake of stiffer competition for relatively more economic land uses. This, coupled with inefficient use of existing feed resources in sedentary livestock production systems, has reduced prospects for sustainable production of meat and other livestock products. Poor capacity to conduct effective surveillance of water resources have led to over-exploitation of fisheries resources for private gain, catch declines and compromised prospects for adequate stock replenishment in the future.

1.7.10 **Complicated Land Tenure Systems:** Traditional tenure systems for agricultural land constitute a serious problem with regards to the use of land as a collateral and/or guarantee for loans from formal financial intermediaries. The extended family structure of most African societies, in general, tends to promote and favor more communal, as opposed to, private ownership of farmland. This is due to the fact that in most rural communities, land as a resource, has multiple uses including cultivation, grazing, and collection of firewood for fuel energy, just to mention a few. Coupled with a complex and varied array of inheritance systems, this makes transferability (in terms of long-term contracts) of farmland between non-members of the extended family system even more difficult. For the same reasons elucidated above, transfer of land titles in an inter-temporal context, has been dominated more by lease-holds rather than free-holds. In rural communities characterized by male dominance of inheritance rights, women are relatively disadvantaged and suffer from lack of title rights which they need as real guarantees or collateral for accessing rural credit. The net effect of these bottlenecks is that agricultural modernization is hampered, given farmers' limited access to formal sources of rural finance for investment.

1.7.11 **High Post-Harvest Losses and Poor Adoption of Available Technology:** While aggregate crop output has increased, crop yields per hectare have often remained static or even declined. Low adoption and poor application of improved technologies for management of soil fertility and soil moisture have increased the vulnerability of crop enterprises and diminished prospects for rapid and sustainable advances in agricultural production, even where improved seeds, plant materials, and farming practices are available. Extraction of soil nutrients without effective replacement with organic and inorganic fertilizers leads to further declines in crop yields. Poor access to markets and inappropriate storage systems are largely responsible for high post-harvest losses (15-25 percent), which in turn have the indirect effect of slowing down adoption of tested technologies for certain crops (traditional crops in particular) and livestock classes (especially large ruminants).

1.7.12 **Poor Linkages in Commodity Chains:** Failure to fully exploit the backward and forward linkages in commodity chains has resulted in poor coordination between activities at different stages of sub-sectors and impeded the exploitation of the potential value-added from such linkages. Market linkages between producers and consumers are often weak due to inadequate investments in appropriate infrastructure for conditioning, storage, processing, transport, and marketing of agricultural commodities. Lack of effective communication systems to and from rural areas also limits the timely transmission of accurate market signals. Investment strategies have often failed to recognize the vertical nature of commodity systems, concentrated efforts on farm-level production or large-scale processing, and overlooked major bottlenecks at the storage, transport and marketing stages of the chain.

1.7.13 **Weak Rural Financial Intermediation:** Absence of effective mechanisms for servicing the financial needs of rural households makes their full participation in the agricultural economy difficult.
Limited access to, and limited confidence in, formal financial institutions by rural households severely affect their ability to mobilize savings and to borrow for productive enterprises of their choice.

1.7.14 Poor Participation by End-Users: Design of activities without client participation at all levels has led to inappropriate choice of interventions, lack of end-user ownership and commitment, failure to develop effective incentives for implementation of planned activities, and gender-based exclusion of participants. Also, failure to mainstream gender issues in the sector has further resulted in small holder female farmers being less productive than they could be in agricultural production and marketing activities. Since women contribute significantly to household food security and poverty alleviation by spending high proportions of their incomes on investments in household welfare, giving inadequate attention to women has had adverse impacts on.

1.8 Main Challenges facing African Agriculture

1.8.1 The primary goal in African agriculture must be to contribute to poverty alleviation by raising domestic incomes and net returns to rural households through broad-based equitable economic growth. This can be accomplished through:

- increased aggregate output of crops, livestock, fishery and forestry commodities and products, wildlife and eco-tourism in a context of sustainable resource use systems;
- increased capture of value-added shares from these commodities and products through backward linkages to input supply and forward linkages in agro-industrial conditioning and processing for domestic, regional, and extra-continental markets;
- strengthening trade relationships in the context of open and competitive global markets;
- taking deliberate action to enhance women’s productivity and access to income; and
- assisting RMCs to effectively control and arrest the debilitating effects of AIDS and malaria on rural household labor.

1.8.2 Substantial progress toward poverty alleviation cannot be made simply through equitable distribution of income derived from a static agricultural sector, i.e., in a “zero-sum” situation where the gains for one group result from reductions in the economic welfare of others. Hence, the main challenges for the future, therefore, are that:

- economic contributions from rural enterprises at all levels must be increased and equitably shared;
- food security must be addressed as an income problem – where income is defined broadly to include income in cash and in kind from own production and/or transfers -- commensurate with population growth and the spatial distributions of need;
- continuous flows of technological innovation must provide the base for increased productivity and income generation;
- resource use systems must be sustainable and participatory; and
- poverty in specific disadvantaged populations must be reduced through targeted approaches and social safety net programs, especially for women and children.
1.9 Organization of the Policy Paper

1.9.1 The remainder of the Policy Paper is organized as follows. Chapter 2 reviews the agricultural lending experience of the Bank over the last decade. It summarizes Bank operations by category, extracts lessons from the experience, and draws implications for the new policy. Chapter 3 presents a conceptual framework which discusses the Bank's vision for agriculture and rural development within the context of the overall Bank Group Vision, and the key thematic considerations underlying the new Agricultural and Rural Development Sector Policy. Chapter 4 embraces the new policy and what it intends to do in the specific areas of focus discussed in the previous chapter. Chapter 5 concludes the presentation of the policy and introduces elements for its implementation. It discusses the implications of the revised policy for the Bank's operational lending policies and lending instruments, and proposes orientations and actions for moving forward.

1.9.2 Recognition of the diversity of agricultural situations and constraints facing the Bank and the RMCs is reflected throughout the Policy. This concern is further accounted for by the development of sub-regional action plans and the affirmation of the need to operationalize Bank lending priorities and operations on a country-by-country basis through dialogue and partnership between the Bank, RMCs, ultimate clients, and other financiers and donors.
CHAPTER 2

BANK PERFORMANCE IN AGRICULTURAL DEVELOPMENT

2.1 Agricultural Operations Portfolio and Performance

2.1.1 As of Fiscal Year (FY) 1997, the Bank’s active portfolio comprised 654 on-going projects, programs, and technical assistance activities. The projects amounted to UA 10.7 billion in commitments. Of the 53 Regional Member Countries, 47 had on-going portfolios in 1997. The distribution among the five Bank regions shows North Africa with the largest share of allocated commitments (38%), followed by West Africa (26%), East Africa and Southern Africa (14%), and Central Africa (8%). In terms of the number of operations, West Africa had the most with 218, and Central Africa had the least with 88.

2.1.2 The agricultural sector had the largest share of the existing portfolio with 26 percent of total Bank commitments and 30 percent of total operations. The next most important sector, public utilities, represents 23 percent of commitment value and 18 percent of total operations. Project lending was by far the most common lending instrument in use in the FY 1997 portfolio. This instrument was used for 66 percent of all portfolio operations and 80 percent of the commitment value of all loans. The next most common lending instrument -- *i.e.*, lines of credit -- accounted for only four percent of portfolio operations and nine percent of commitment value. Technical assistance was provided to 27 percent of portfolio operations, but accounted for only two percent of commitment value in the FY 1997 portfolio. All other lending instruments combined -- *i.e.*, sector investment, sector adjustment, and structural adjustment -- amounted to 4 percent of portfolio operations and 10 percent of portfolio value.

2.1.3 The distribution of the existing portfolio by source of funding shows 57.7 percent of total commitment value from the African Development Bank, 38.7 percent from the African Development Fund, 2.8 percent from the Technical Assistance Fund, and 0.8 percent from the Nigerian Trust Fund. Of all operations, 51 percent were funded by the African Development Fund, 27 percent by the Technical Assistance Fund, 20 percent by the African Development Bank, 2 percent by the Nigerian Trust Fund.

2.1.4 The weighted average percentage of total commitments to agriculture has varied over the years. It has gone from a low of 18 percent during the 1970-1979 period to a high of 32 percent in the period 1985-1988. During the period 1989-1997, there has been a drop to 19 percent. This is due primarily to non-availability of ADF resources in 1994 and 1995.

2.1.5 Analysis of age of the agricultural portfolio indicates that 54 percent of the projects in the portfolio are older than the six-
year average time span for agricultural projects. Of this group, 51 percent of the projects are 10 years or older and 13 projects (or 12%) are more than 15 years old. Other than cancellations, there has been little change in the Bank’s agricultural portfolio since 1994, due to the non-availability of ADF resources during the 1994 to 1996 period.

2.1.6 Performance of the agricultural portfolio is below the Bank’s average performance. In 1997, 16 percent of 142 agricultural sector projects in the on-going Bank portfolio were rated as problem projects with respect to implementation progress (IP). Twenty-three percent of the agricultural sector projects were rated as unlikely to attain their development objectives (DO). This compared to average IP and DO ratings for the entire portfolio of 16 percent and 15 percent, respectively. Moreover, 45 percent of agricultural-sector commitments were considered to be at risk against an overall Bank average of 40 percent in 1997.

2.1.7 The impediments to successful implementation of agricultural sector projects are essentially generic problems, which affect virtually all Bank projects. They include, at the project level, poor quality at entry, resulting from inadequate preparation, poor design and insufficient or no involvement of beneficiary groups, insufficient and inadequate supervision, and overall sub-optimal handling of projects due to high projects/staff ratios. At the sectoral level, improving project performance requires greater attention from the Bank and the RMCs for increased involvement of rural communities in the preparation, monitoring and evaluation of projects, enhanced coordination among donors, and improved policy formulation.

2.1.8 Adequate review of sectoral issues is crucial for improving the agricultural portfolio. Thorough sector studies enable RMCs to identify key constraints and sources of growth as a vehicle for the public investment program. Bank collaboration with other multinational development banks and donor agencies to share results of sector studies and to work on joint studies is important. There is also a need for better linkages between sector studies, the preparation of the Country Strategy Papers and the development of the Bank’s Lending Program.

2.1.9 The recent improvements in the rating of the agricultural portfolio are due primarily to a cleaning of the Bank’s portfolio through cancellation and restructuring of projects and enhanced supervision, rather than the introduction of a new generation of innovative projects. In 1996 and 1997, 62 agricultural projects were canceled by the Bank. This represents 23 percent of the total projects cancelled, and points to the need to draw lessons from past design flaws for a new generation of improved projects.

2.1.10 For agricultural projects (as well as projects in other sectors) to improve in performance, the Bank needs to apply strategic planning and effectively incorporate feedback into on-going and future activities. To address this need, a three-year portfolio improvement program was designed in 1997 to raise the Bank-wide level of project performance. It includes an emphasis on quality-at-entry issues such as participation, adequate design, and establishment of performance indicators.
2.2 Bank Group Experience and Lessons Learned Since the 1980s

2.2.1 The emphasis in this section is drawing lessons from the Bank’s experience in its areas of primary focus. The Bank’s primary focus in the agricultural sector has been on rain-fed cropping, small-holder agriculture, irrigation, and agro-industrial projects. These activities represent 52 percent of the Bank’s total agricultural portfolio. Within these areas, particular attention is paid to design, implementation mechanisms and partnerships. Lessons drawn from these areas are applicable to the whole agricultural sector and have important implications for the future success of the agricultural/rural development strategy. A special focus is placed upon integrated rural development, credit provision, irrigation and agro-industrial projects and the role of parastatals.

2.2.2 The Bank’s approach has generally combined assistance for cash crops and food crops. This is illustrated in the sample group chosen in the Synthesis of Project Performance 1982-1987 Operations Review. Of the eighteen representative projects in crop production chosen for review, 67 percent involved a combination of cash crops and food crops. Four projects (or 22%) focused on food crops only, and two projects (or 11%) exclusively on cash crops.

2.2.3 The environment, women in development, and poverty alleviation are areas in which the Bank has become increasingly involved since the late 1980s. During the 1980s, environmental issues and natural resource management were not well integrated into the Bank activities in forestry, irrigation, and integrated rural development projects. Direct Bank lending in natural resource management currently amounts to $188 million, or three percent of cumulative Bank lending to the agricultural sector. The Bank has developed guidelines for integrating gender issues into its agricultural sector projects. Environmental guidelines have also been developed and the Bank now requires environmental impact assessments on all agricultural projects.

Integrated Rural Development

2.2.4 Integrated rural development (IRD) projects have been one of the primary vehicles used for implementing agricultural projects in the Bank’s portfolio since the 1980s and into the 1990s. Such projects represent $1,173 million, or 16 percent of the Bank’s cumulative agricultural portfolio. Seventy percent of the funds for IRD have been provided by the ADF. In the Bank’s 1990 Agricultural Sector Policy, developing competency in integrated rural development was a stated goal. The average life of this type of projects in the Bank portfolio is 10 years, contrasting with an average estimated time span of five years at appraisal. Design and implementation problems in integrated rural development projects typify, in many ways, past difficulties in the Bank’s agricultural sector interventions.

2.2.5 Although the idea of integrating rural development is a good one, the Bank’s experience, as well as that of other major donors, has not been positive in general. The concept of integration, inherent in IRD projects, provided an appropriate basis for addressing rural development, as opposed to a narrow focus on agriculture. However, the organizational complexity of the different components of integrated rural development projects -- i.e., health, roads, infrastructure, extension, credit, input supply marketing -- led to considerable delays in project implementation. In addition, these multi-component projects were focused on a regional rather than a national basis, and channeled in weak institutional environments via Project Implementation Units (PIUs) usually located in a ministry of agriculture. Often one component, corresponding to the expertise of the technical assistance team, was stressed to the disadvantage of the other components.
2.2.6 Successful implementation of IRD projects was experienced only in the North Region, where the countries have stronger institutions and line ministries. Throughout most regions, institutional strengthening has concentrated on government agencies and graduate-level training for high-level civil servants rather than end-users and the rural and urban private sectors. Despite these efforts, most IRD projects failed to meet their development goals as PIUs and government ministries were adversely affected by high staff turnover. The drive toward an integrated approach via Agricultural Sector Investment Programs (ASIPs) promises to address more effectively the institutional weaknesses and the problem of narrow geographic focus in IRD.

2.2.7 The IRD approach was top-down and focused primarily on agricultural production, instead of the full spectrum of rural enterprise activities. Beneficiaries were viewed as recipients of technical know-how instead of as partners and decision-makers in their own economic development. This translated into a unidirectional and narrow focus on inappropriate production technologies and cropping systems, which failed to take adequate account of the farming strategies and the economic decision-making processes of rural households. Lack of sustainability, in developing effective rural systems, was a key weakness in the approach not only of IRD projects but also of irrigation projects and agro-industrial enclave projects. Production and input delivery systems were conceived to rely on procurement by project management units or government services without participation or involvement of beneficiaries and the private sector. IRD project staff also tended to focus on infrastructure components of projects that could provide immediate signs of project advancement. This resulted often in the installation of inappropriate infrastructure and equipment for production, processing and irrigation and, at the end of the project cycle, an absence of local capacity to sustain the infrastructure and the production and input systems, which have been imposed and operated outside of the rural system.

2.2.8 The key lessons learned from past IRD projects for future efforts toward agricultural and rural development are the following. First, narrow focus on production and infrastructure does not provide sustainable answers to the development of rural economies, which calls for a much broader focus in rural development. Second, successful implementation of integrated rural development projects requires strong institutional capacity of line ministries and relevant local structures involved, to adequately manage and integrate the complex components of such activities. Third, project design and implementation approaches demand more time and expertise to effectively take into account the strategies, aspirations and technical capacities of rural households. Fourth, participation of the private sector and rural associations and organizations is of critical importance in the development of sustainable systems.

Credit Provision

2.2.9 Lines of credit to development banks represent $1,722 million, or 23.5 percent of the Bank’s agricultural portfolio. ADB countries have received the largest share (88 percent) of this total. Foreign-currency risks and the closing of development banks in most ADF countries have caused a significant drop in the demand for lines of credit for which institutional strengthening has rarely been provided to development banks by the Bank. In North Africa, lines of credit have had a relative success, mainly because the institutional and macro-economic environments in this region were conducive for effective delivery of the service, as illustrated by the success story of the Caisse Nationale de Credit Agricole (CNCA) in Morocco.

2.2.10 The experience has not been satisfactory in other parts of Africa because of the following flaws: top-down approach, inability to mobilize savings and to develop risk-sharing mechanisms, weak institutional capacity, information asymmetry, lack of field-level presence, high transaction costs and interest rate subsidies. Credit programs have also focused on farm production instead of the overall
rural and peri-urban economy, thus contributing to increasing the risk level in credit portfolios and inducing credit diversion by borrowers to other activities. Lax credit recovery procedures and government interventions to forgive loan indebtedness have resulted in a general perception among borrowers that credit is more of a free entitlement rather than a loan, which needs to be reimbursed.

2.2.11 With the demise of development banks in most RMCs, the Bank has shifted toward private commercial banks and other structures to fill in the intermediary gap in rural finance. This strategy, however, has been constrained by the general aversion of private banks to agricultural credit for smallholders with its high transaction costs. The Bank has integrated local credit unions, their regional and national apex structures and NGOs into some rural finance programs with more encouraging results. A redesign of the credit component of the National Corn Project in Madagascar uses 173 functioning credit unions, with 20,000 members, operating as an on-lending mechanism to end users. These credit unions have already mobilized 1.28 billion Malagasy Francs in member savings and total resources amounting to 1.71 billion Malagasy Francs, in addition to providing group mutual guarantee systems.

2.2.12 The African Development Fund Micro-finance Initiative for Africa (AMINA) Program approved in September 1997 is a promising effort of the Bank to deepen rural financial intermediation. Given the low population densities in rural areas, direct involvement of rural beneficiaries and associations is critical to providing permanent access to savings mobilization and credit, as well as linkages to the formal banking sector. Of particular relevance in this respect are AMINA strategies of grants for micro-finance institutional capacity building, and for establishing linkages between micro-finance institutions and formal-sector financial institutions (banks).

2.2.13 Future initiatives to develop rural finance should take into account the following lessons. **First**, emphasis must be placed on promoting rural financial intermediation, mobilizing savings and using mutual guaranty funds and group guaranties involving end-user associations and credit organizations. **Second**, technical assistance is required in systems management for credit unions, apex organizations and NGOs, as well as training for private banks in the areas of medium and long-term investments in agriculture and agribusiness. **Third**, effective linkages need to be developed between informal credit systems and the private banking sector. **Fourth**, the development of member-owned credit unions and mutual-guaranty societies requires a flexible policy environment. **Fifth**, the use of credit subsidies should be limited, clearly budgeted, time-bound, and linked solely to start-up activities and training programs of indigenous credit and savings societies. **Finally**, banks involved in on-lending of lines of credit should be evaluated for their financial viability, and systems should be developed to monitor sub-project financing and impact on borrowers.

**Irrigated Crops**

2.2.14 Lending to irrigated agriculture -- including both large scale and small-scale irrigation systems -- amounts to $1,369 million, or 19 percent of the cumulative agricultural portfolio. In the 1980s focus was on mono-cropping systems, primarily rice production. In the late 1980s and early 1990s, the focus was extended to multi-cropping systems in response to market liberalization and increasing cognizance of farmer strategies. Watershed management has also gained in emphasis since the mid-1990s.

2.2.15 The main challenge that the Bank has faced in this area is the weak institutional capacity to carry on operations in management and maintenance of the irrigation structures installed. This has brought about an increased focus on rehabilitation of existing perimeters, particularly in North Africa. The issue of lack of foreign currency to purchase spare parts is a recurring problem in all irrigation project-completion and audit reports. The inability to solve land tenure problems has often affected negatively end-users’ willingness to invest in the systems and to pay user fees. Unless these two questions are resolved via beneficiary involvement in project design and implementation, irrigation
systems are not likely to be sustainable. Yet, irrigation system design has traditionally been considered to be a technological question and has been carried out in isolation, without end-user involvement and with little input from other development disciplines.

2.2.16 The following lessons can be drawn from this experience for successful irrigation projects. **First**, beneficiaries must be involved in the design, implementation and monitoring and evaluation of the irrigation systems. **Second**, project design and appraisal activities must be conducted by multi-disciplinary teams. **Third**, irrigation technology and infrastructure should be adapted to end-users’ management abilities to sustain operations after project financing. **Finally**, feasibility studies should be conducted and include adequate sensitivity analysis with respect to market fluctuations, water availability, and irrigation management systems.

**Agro-Industrial Projects**

2.2.17 The Bank’s cumulative lending to this sub-sector amounts to some $1,220 million, or 17 percent of the cumulative agricultural portfolio. Sixty-five percent of this lending has been provided by the ADB. Projects have included mainly funding for sugar, oil palm, coffee and cocoa enterprises. The bulk of funds have gone to large agro-processing industries, with an average loan size of $14.186 million. The majority of the companies involved were parastatals operating under special tariff conditions. Funding for cottage industries has been limited to sub-projects under some lines of credit. The capacity of parastatals to operate under open regional or international market conditions are severely limited, and the majority of the projects concerned were designed under protected and subsidized conditions. Their size or technology is often not adapted to the current economic and business environments of RMCs.

2.2.18 A challenge facing the Bank is that, given the privatization programs in RMCs, the traditional clients in the agro-industrial sector, mainly parastatal sugar companies, among ADF countries, are no longer valid options for the future. With structural adjustment, the remaining parastatals face challenges in competing in international and regional markets because of the removal of trade barriers and operating subsidies. Many have already been privatized or face privatization in the near future. The Bank will need to adapt its structures and lending mechanisms in order to provide appropriate assistance in this privatization process.

**Livestock**

2.2.19 Cumulative Bank lending in the livestock sub-sector is about $561 million, or eight percent of cumulative agricultural portfolio. This lending has been primarily to cattle, for 70 percent of the portfolio and 88 percent of projects. Industrial poultry production received 30 percent of the portfolio value and 13 percent of total projects in the sector. But lending for poultry production is skewed by the presence of one large industrial poultry project in Algeria, which accounts for 82 percent of total commitment value.

2.2.20 Parastatals in ADF countries have generally experienced management and financial profitability problems in this area also. As a result, an industrial poultry project in Cameroon was privatized. Financing for cattle production was provided for several large production farms in Uganda and Gabon, and for feedlots, slaughterhouses, quarantine services and pasture management projects. The livestock farms in Gabon met the production targets, but only at the cost of unsustainable levels of technical
assistance and higher price for their meat, which is not competitive in open regional or international markets. The CAR model provided a good example of effective privatization of veterinary services. Yet, there has been little focus on other types of livestock and on dairy facilities in Bank lending.

2.2.21 Future projects for the livestock sub-sector, therefore, should incorporate the following lessons. First, lending should be diversified beyond meat production to include dairy production and small ruminant development. Second, feasibility analyses should include an evaluation of comparative advantage and competitiveness at the regional and global levels. Third, project development must be demand-driven by end-users. Fourth, greater emphasis should be placed on promoting private sector investment in providing reliable veterinary services and other livestock-related inputs.

Forestry

2.2.22 Cumulated Bank lending directly for projects in the forestry sub-sector amounts to $188 million, or three percent of the cumulative agricultural lending. ADB accounts for 70 percent of total funds committed to the sub-sector, not including forestry components in IRD projects. Lending in forestry has been primarily for development of plantations for industrial use. Since 1990, two projects focusing on industrial timber plantations have been funded in Morocco and Burundi.

2.2.23 The Bank strategy to integrate forestry and natural resource management into farms is based on the evidence that deforestation must be dealt with at both industrial and farm/rural levels. World Bank estimates indicate that logging only accounts for 20 percent of deforestation, while encroachment by transhumance herdsmen and land expansion by farmers, coupled with fuel-wood gathering for household energy consumption are jointly responsible for about 80 percent of forest destruction. The challenge, therefore, is to design appropriate environmental policies, which will provide the right incentive framework to reverse the current trends in deforestation, while allowing rural communities and industry to efficiently exploit the available natural resources for their livelihood.

2.2.24 Hence, the key lessons to be retained from past experience include the following. First, forestry should be integrated into farm management systems. Second, rational exploitation of forests requires the application of a principle of full-cost recovery of environmental degradation that reflects the costs of exploitation, including the environmental costs of renewal and regeneration. Third, the regulatory and enforcement mechanisms for forest-resource management need to be strengthened. Fourth, RMCs should work systematically with traditional authorities, which have a documented record of good management of natural resources, to foster effective supervision and control access particularly to parklands and forest reserves.

Fisheries and Aqua-culture

2.2.25 Bank lending in this sub-sector amounts to $249 million, or three percent of the cumulative agricultural portfolio. ADF funding accounts for 61 percent of this amount. Lending has primarily been to artisanal fisheries, for equipment and infrastructure in fishing ports and the development of fishery master plans. ADB funding has been used for two projects in industrial fisheries and shrimp farming. Aqua-culture has received very little funding or focus. Bank Projects have contributed to build extensive infrastructure for cold storage and other facilities, with limited success because of lack of involvement of the private sector. Credit programs neglected women and resulted in unsustainable repayment rates. Focus on development of master fishery plans, however, has allowed the Bank to identify key constraints to be addressed in the sub-sector, where emphasis has been so far placed on marine and inland fishing, whose natural regenerative capacities have dwindled due to over-fishing from local and international groups.
2.2.26 It is estimated that Africa’s catch has declined slightly from 7.5 million tons in 1977 to a current level of about seven million tons. In terms of the exploitation of fisheries resources, African fleets account for about 30 percent of the total, foreign fleets 45 percent, inland fisheries 24 percent, leaving only one percent for aqua-culture. The pressure will continue to increase on inland and offshore resources in the future. Thus, aqua-culture holds real potential for intensifying fisheries production. Improved technology is needed to enhance efficiency of the traditional techniques. Better management and surveillance of fisheries resources and effective taxation of foreign fleets are needed to control foreign exploitation of off-shore/deep-sea fishing within the international boundaries of the coastal countries.

2.2.27 Future projects aiming at developing fisheries should incorporate the following lessons. First, appropriate control and monitoring systems need to be developed for industrial fishing. Second, interventions in the sub-sector should be based on evaluations of market potential for fisheries production in domestic and international markets and, accordingly, the building of market and credit linkages between artisanal fisheries activities and commercial private sector processing and marketing companies. Third, access to credit should be improved for women who have the primary role for in-country fish processing and marketing. Fourth, private sector involvement and investment need to be encouraged in the area of storage and processing facilities for artisanal fisheries harbors, in parallel with developing port and harbor structures. Fifth, aqua-culture enterprise development should be promoted wherever appropriate conditions exist. Finally, strong links with FAO and support to CGIAR research are instrumental to improving traditional fishing methods and facilitating their adoption at the fisherman level.

Agricultural Research and Education

2.2.28 Notwithstanding some assistance to regional institutions, direct lending for agricultural research, agricultural extension, and agricultural education has not been a major focus area for the Bank. Limited support has been provided to regional research facilities and initiatives, such as the West African Rice Development Agency (WARDA), Special Program for African Agricultural Research (SPAAR) and Consultative Group on International Agricultural Research (CGIAR). The Bank has rather focused on technology adoption primarily through IRD projects. In the area of agricultural education, the Bank has mainly provided infrastructure for training centers, where other donor partners have generally provided technical assistance. Yet, the Bank’s experience in IRD projects has highlighted the importance of supporting primary education and adult education particularly in the area of functional literacy.

2.2.29 Experience in agricultural research highlights the following lessons. First, to be useful, research must be demand-driven, and yield practical applications for end-users and adequate/usable results for extension programs. Second, explicit efforts should aim at bridging the gap between known research on post-harvest commodities technologies and their application by end-users. Third, research should focus on appropriate technologies that take into account farmers’ financial capacity, socio-cultural traditions and farming systems. Fourth, increased productivity and impact of the research systems requires improving intra-regional information linkages between agricultural researchers and developing regional centers of expertise for commodities that are shared within particular regions. Fifth, sustainable financing of agricultural research calls for encouraging private sector involvement in research, wherever commercial conditions permit. Lessons learned in agricultural education include the importance of designing training curricula adapted to the country and/or regional context, ensuring linkages between training institutions and industry, and matching training requirements with appropriate infrastructure needs.
Structural Adjustment and Policy-Based Lending (PBL)

2.2.30 In the area of policy-based lending, the Bank has collaborated closely with the World Bank and the International Monetary Fund (IMF) in formulating Sector Adjustment Programs (SECAPs) aimed at correcting distortions engendered by pursuit of policies adverse to agriculture. Compared to project lending, sector adjustment and structural adjustment programs account for only three percent of the Bank’s operations and nine percent of commitments.

2.2.31 The experience on PBLs points to the following lessons. First, success depends primarily on government ownership and continued commitment to the philosophy and concepts underlying the reforms to be undertaken. Second, the development of policy reform packages must be based on comprehensive economic and sector analyses, and a logical framework establishing causal relationships between the goals, objectives, inputs, outputs, and impacts of the reforms. Third, special attention should be given to the quantification, time scheduling and sequencing of the reform measures. Fourth, the social dimensions of reforms should be studied thoroughly and adequate safeguards should be developed to minimize social costs. Finally, environmental issues should receive adequate attention in macro-economic and sectoral reforms.

2.3 Implications for Future Policy and Strategies

For effective agricultural and rural development, the key lessons learned by the Bank and other donors highlight the strategic importance of:

- assisting member governments in redefining their role away from direct project implementation to creation of an enabling environment for rural development;
- empowering local beneficiaries, ensuring their inclusion in all project phases, and focusing on end-users skills and ability to set their own priorities and manage their own development;
- moving away from centralized and complex structures to simpler designs that increase the implementation skills of the direct beneficiaries and of the existing private sector;
- ensuring adequate time, human resources and scheduling for careful preparation, studies and project supervision;
- using a multi-sectoral approach and increasing private sector experience within the Bank;
- seeking new partners and modifying procedures and management structures to fill their needs for new initiatives, such as the private sector lending window, and the AMINA initiative;
- focusing on sustainable economic development of rural areas and developing a consensus that sustainability requires a stronger commitment to human resource development of beneficiaries; and
- identifying a socially-desirable and economically optimal solution to the land tenure problem.
CHAPTER 3
THE VISION FOR AGRICULTURE AND RURAL DEVELOPMENT

3.1 Context

After nearly two decades of severe economic decline resulting from several factors, including external shocks and domestic economic mismanagement, Africa’s economic recovery has been gaining momentum over the past four years. Despite the encouraging signs of renaissance and economic recovery across the continent, the growth rates are still not strong and broad-based enough to make a significant impact on the incidence of poverty. Overall economic performance continues to remain vulnerable to adverse external shocks arising from lower international prices for some key primary commodities, unfavorable weather conditions, and intermittent societal conflicts in some countries and sub-regions. A concerted effort of both donors and African countries is needed to build grassroots institutions that are sustainable and equipped over time to engender and support a process of modernization and transformation of African agriculture and rural economies. A critical challenge is how to transform and modernize the rural economy in order to retain skilled human capital, the backbone of economic development. This calls for a rethinking of the development business, in terms of what is necessary -- not only by way of resources, but also more importantly the vision and approach of the client countries -- to restore Africa’s competitiveness.

3.2 The Vision

Overall Bank Group Vision

3.2.1 The overall vision of the Bank Group is to “strive to become the leading development finance institution in Africa, dedicated to assisting African regional member countries in their poverty alleviation efforts”. In line with this vision, the Bank has adopted a development assistance strategy, which promotes accelerated, sustainable economic growth with equity and poverty reduction as its central goal. This strategy is articulated around: three broad sectoral themes at the country level, i.e., agriculture and rural development, human resource development and private sector development; a generic theme of governance; regional integration and cooperation at the regional/continental level; and two crosscutting issues of environment and gender.

3.2.2 On regional integration and cooperation, the Bank's strategy is to help RMCs integrate their economies into relatively more viable entities that can compete in the global market. Specifically, the Bank will promote the harmonization of policies relevant to agriculture, lower tariffs, and remove other impediments to free trade within and between RMCs and international markets. The Bank will also facilitate integration of policies that cut across regions and assist regional groups in the actions that they initiate to harmonize and adopt common approaches to resolving common problems, such as the rational management of natural resources and the environment.

3.2.3 Development of the private sector holds the key to future agricultural and overall economic growth in Africa. Unfortunately, however, Africa’s private sector lacks capacity because it is relatively young and constrained by the weak economies in which it operates, as well as uncertainties regarding the credibility of public policies. The investment climate is unpredictable due to lack of the necessary public and institutional infrastructure, weaknesses in the legal and regulatory environment, the dominance of the public sector in the provision of private and semi-private goods and services, and the
problem of governance. The net result of the foregoing is that Africa has been able to attract only 2.6 percent of private capital flows to developing countries, which have increased more than eight-fold in the past decade.

3.2.4 The Bank will play a catalytic role in helping RMCs to build the right environment for investment on the continent. To this end, the Bank will assist RMCs to build the enabling framework for financial sector development, private infrastructure development and micro-credit and savings services. It will also help RMCs to streamline their regulatory and legal environments, and to build entrepreneurial capacity of indigenous and grass-root institutions via training and technical assistance. In order to facilitate the exposure of African entrepreneurs to the global market, the Bank will operate via its private sector window to encourage joint ventures with more experienced and interested foreign counterparts.

3.2.5 Respect for the rule of law and human rights, enhanced accountability and transparency in the legal and regulatory frameworks, and commitment to sound management of public resources (to inter alia, fighting corruption) are the building blocks for a structurally sound macroeconomic environment. Hence, promoting good governance in the RMCs is probably the single most important catalytic role the Bank will play in helping to lay the appropriate foundation for transforming Africa’s rural economies. At the individual country level, the Bank will encourage RMCs to decentralize decision-making and investment programming processes in order to give targeted beneficiaries both the voice and the means necessary to ensure their effective participation in the development agenda.

3.2.6 Given the relatively agrarian nature of most African economies, effective transformation and modernization of the agriculture and rural sectors into viable economic units will form the basis for overall economic development across the continent. Thus, identifying a vision for agriculture and rural development is a first step towards sustainable economic development in Africa. Agriculture and rural development feature, therefore, as one of the key sectoral themes and building blocks of the overall Bank Group Vision.

The Bank’s Vision for Agriculture and Rural Development

3.2.7 The Bank’s vision for the agriculture and rural development sector is:

*to assume a leading catalytic role, within the next decade, in supporting the technological, institutional and policy changes that will trigger a lasting transformation of the rural economies of Regional Member Countries, by empowering their rural populations in order to improve their productivity and real incomes in an equitable and environmentally sustainable manner.*

3.2.8 In pursuing this vision, the Bank will identify those areas where it has or can build capacity and expertise to provide leadership. In areas where other development partners have demonstrated comparative advantage, the Bank will collaborate closely, as a highly interested development partner, to jointly assist RMCs in their development efforts. In order to assure lasting results, the RMCs and their targeted beneficiaries must be in the driver’s seat. Hence, the thrust of the vision is *client-focus*, with “*people-centered development*” as the principal theme.

3.2.9 In order to achieve a real transformation of African agriculture, there has to be a shift from highly diversified, subsistence-oriented agriculture, usually marked by poor access to markets and weak linkages with agro-industry, towards a more commercially-oriented agriculture with improved access to markets and strong linkages with agro-industry. It involves a greater reliance on input and output markets and increased integration of agriculture with other sectors of the domestic and
international economies. It also involves a more efficient and balanced use of indigenous knowledge vis-à-vis "modern" scientific knowledge. During the transformation process, the source of output growth shifts from area (land) and especially labor expansion to increased use of technological knowledge, improved management practices, and better institutional arrangements.

3.2.10 In order to ensure a people-centered development, the Bank will support a transformation process that empowers rural people to:

- manage their own development;
- be fully engaged in productive agricultural and non-farm activities that are well articulated (through backward and forward linkages) in sub-sectors that are competitive domestically and internationally;
- improve their real incomes in an equitable manner;
- be food secure;
- manage the natural-resource base in a sustainable manner; and
- gain access to basic social goods and services such as primary education and healthcare.

3.2.11 The main thrust of the agriculture and rural development vision is the importance of identifying and broadening market opportunities for the rural people by providing them with the appropriate incentives and entitlements to help them participate as full economic agents in the development agenda. The vision calls for a holistic approach to development of the rural sector. At the individual country level, this entails broadening the scope of agriculture development to include other productive (especially, non-agricultural) sources of income and employment generation in the rural economies of Africa. At the continental level, emphasis would be placed on promoting economic activities in those areas (such as research and technology generation) where potential gains in economies of size and scale can be exploited to the advantage of individual RMCs.

3.3 Thematic Considerations and the Main Developmental Objectives

3.3.1 The Bank has identified four main developmental objectives, which represent the building blocks of the vision for agriculture and rural development. These include:

- poverty alleviation and food security;
- accelerated economic growth;
- natural resource management and environmental protection; and
- human and institutional capacity building.

3.3.2 Successful achievement of these objectives will hinge on technological, institutional and policy changes that are necessary to trigger off a lasting transformation of the rural economies of RMCs. The ability of African countries to sustain accelerated economic growth depends on a consistent adherence to, and application of, sound macroeconomic and sectoral policies, coupled with structural reforms that minimize the risk of conducting business. The strategy will, therefore, pay due attention to the importance of eliminating price controls, developing competitive markets for agricultural inputs and outputs, reducing state interventions in international trade, improving regulatory systems, and privatizing the functions and the assets of inefficient public agencies enterprises. These must be complemented by relevant technological innovations leading to significant improvements in productivity and real incomes of rural communities. The strategy will also build on the empirical evidence that complementary actions need to be taken to increase the capacity of reforming economies to respond to the economic reform programs underway, and that many of these complementary actions lie outside conventional definitions used for “agricultural sector” programs. Finally, strong grassroots
organizations and institutions are needed to create the right environment for efficient service delivery to the target population.

The Need for Sustained and Accelerated Economic Growth

3.3.3 Given the rising incidence of poverty and high population growth across the continent, it is estimated that African economies will need to more than double GDP growth (to 8 to 10 percent per annum) in order to make serious in-roads into the poverty problem. Tackling this daunting task requires, for most African countries, a major transformation of the rural economies, where the bulk of the vulnerable poor reside. The task also requires that African countries increase their investment levels from the current rate of 20 percent to 25-30 percent of GDP, not only through increased access to concessional resources from bilateral and multilateral sources, but also through the pursuit of consistent policies to encourage private foreign investment, generate domestic savings and ensure efficient use of investment funds.

3.3.4 This calls for a shift in paradigm of the budgetary process from adequacy of resources to efficiency of the use of investment funds, hence. Increasing allocative efficiency in the planning and budgeting process, in turn, requires a close attention to public expenditure management issues. To this end, the Bank will collaborate with the World Bank through joint Public Expenditure Reviews (PERs) and, more importantly, work with RMCs to help them internalize the PERs as a vehicle for assessing and rewarding performance in the preparation of national budgets. The Bank will also intensify its collaboration with the World Bank and the IMF on macro-economic analysis and planning. As in the past, part of ADF resources will be employed for technical assistance, particularly for project cycle activities, and in institutional capacity building to enhance RMC skills in macro-economic management and in designing, implementing, monitoring, and evaluating programs and projects.

3.3.5 An important lesson from the Asian crisis is that sustaining accelerated economic growth requires due attention to certain structural factors that underlie the ability of developing economies to win investor confidence and commitment. Thus, getting the overall macroeconomic aggregates right is only a necessary, but not the sufficient condition for sustaining economic growth. In the African economic context, political instability and uncertainty of the policy environment are among the dominant constraints that also have to be overcome.

Poverty Reduction and Food Security

3.3.6 While the developing world as a whole has made substantial progress in reducing poverty during the past three decades, Africa has lagged behind both in absolute and relative terms. It is currently estimated that between 40 to 45 percent of Africa’s 730 million people live in absolute poverty, with about 30 percent in the extremely poor bracket. Food insecurity, defined as lack of sustained access to adequate food, is by essence an income problem and a primary dimension of poverty in Africa. Although urban poverty is estimated to be on the rise, the bulk (about 70 percent) of the world’s poor still live in rural areas in most developing economies. Despite growing rural-urban migration in developing countries, 1993 United Nations population projections show that rural populations will exceed urban populations for another 20 years. Alternatively, the Overseas Development Institute estimates that the correlation between poverty and remoteness from urban centers is strong and will likely remain so for at least another 20 years. Thus, since the bulk of the poor live in rural areas, poverty will continue to be largely a rural phenomenon in the short to medium term.

3.3.7 The poor are entrapped in a vicious cycle. Lack of access to productive assets, technology and information keeps them in poverty, which denies them access to social services and basic infrastructure. This, in turn, compounds the problem by depriving them of the basic entitlements for
effective participation as economic agents in the development effort, thereby, making the poor an “economic and social burden” to society rather than effective contributors to economic development. Thus, poverty reduction is not just a noble goal (of equity) and a worthy cause; it is central to the achievement of long term sustainable development of the continent. This is why the Bank’s development assistance strategy seeks to promote accelerated, sustainable economic growth with poverty reduction as its central goal. This will be achieved through promotion of programs that provide opportunities to the poor by improving their access to productive assets, technology, information and social services.

3.3.8 Sustainable poverty reduction in Africa requires the collaborative efforts of RMC governments, NGOs, civil society, and donor agencies. These partners need to work together flexibly and to subordinate their own objectives to the primary goal of poverty reduction. Six basic principles should form the framework for more effective action to reduce poverty, and underlie dialogue and agreements between the Bank, RMC governments, and the international donor community.

- Poverty reduction should be viewed as both good economics and good politics and must, therefore, be at the heart of any African economic and social development strategy.
- Government commitment is essential to reducing poverty on a sustainable basis.
- Economic growth is a necessary, but not sufficient, condition for eliminating poverty.
- Design and implementation of efforts to reduce poverty must be guided by the needs of the poor as identified by them.
- Poverty is a gender issue in Africa because women are particularly vulnerable to the social and economic effects of poverty.
- Poverty is an environmental issue because the desperation that drives it leads directly to resource degradation and further impoverishment and vice versa.

**Private Sector and Agro-Industry**

3.3.9 Given the agrarian nature of the majority of African economies, agri-business has a critical role to play in generating and sustaining private sector-led economic growth, at least for the next decade or so. The underlying objective is to help improve value-added to the sector through processing, quality control and standardization of grading systems to differentiate between quality and grade of raw and semi-processed farm produce for agro-industrial consumption.

3.3.10 Assistance to RMCs, aimed at identifying critical intervention points in the entire food and agricultural system will be the focus of the Bank Group. At the operational level, the Bank will place emphasis on the development of agri-business and the diversification of the export base. In this regard, the Bank recognizes farmers as the most dominant group of the private sector to be targeted. The Bank will, therefore, assist RMCs to strengthen linkages between farmers and agro-industry in order to improve real incomes of farmers via increased value-added to the sector.

**Natural Resource Management And Environmental Protection**

3.3.11 Apart from a sound macroeconomic, financial and institutional environment, the “natural environment” for agricultural activity has to be managed in a fashion that can sustain the dual pressure of population growth and on-farm productive activity. By definition, a sustainable agricultural system
is one that generates harvests of food, feed and/or fiber consistently over a long period of time. Thus, such a system does not consume the basic stock of resources needed to generate new resources, but extracts only those resources that are surplus to the maintenance of the physical environment. As African populations continue to grow, along with competing demands for urban development and industrialization, intensified agriculture remains the only feasible option for sustaining output and productivity at the farm level. Yet, intensifying agricultural activity is a major challenge, given the relatively weak and fragile tropical soils. These soils are generally lower in humus content, and hence, more fragile than temperate soils. They are also more predisposed to wind erosion and water erosion caused by heavy runoff. As a result, the regenerative capacity of African soils is relatively low. Furthermore, lack of alternative fuel sources, coupled with inefficient use of those products extracted from existing forest resources, has led to precipitous declines in forest inventories. Over-exploitation has diminished prospects for rapid regeneration of these renewable resources and maintenance of biodiversity.

3.3.12 Thus, the “environmental” challenge in African agriculture is how to ensure a natural resource system that will guarantee/sustain agricultural production. To be sustainable, African agriculture must generate adequate harvests of food, feed and/or fiber consistently over a long period of time to meet the demands of the fast-growing population of the continent. With increasing population pressure, degradation of the environment, and the need to invest in the enhancement of sustainable production systems, the Bank will pay greater attention to land and watershed management and the impacts of tenure arrangements on it.

3.3.13 **Land Tenure:** Land tenure is one of the most difficult resource management issues in the agriculture sector. It is not a clear-cut issue of choosing between communal ownership and private ownership. Thus, decision-making about ownership and management of land lies on a continuum between totally private control and totally communal or public control. Also, there are neither easy, nor uniform solutions to the problem, as the continent is marked by a wide array of varied approaches that have been adopted to date. The approaches generally reflect the socio-cultural and political systems that fashioned land ownership in the period before colonization and after independence. With increasing population pressure, degradation of the environment, and the need to invest in enhancing sustainable production systems, the Bank must pay greater attention to land management and the impacts of tenure arrangements on it. Rapid population growth and socio-political instability are undermining traditional systems of individual tenure and group control over land use, leading to a downward spiral in short-term exploitation of the natural resource base.

3.3.14 Despite spotted progress in successful privatization of a few lands and settlements, the bulk of farmland in Africa is still under communal and traditional ownership. The latter form of ownership is built on socially legitimate structures that are respected at the village and community levels. A crucial challenge is how to incorporate the socially acceptable tenure systems into the legal structures of RMCs to minimize political conflicts. Where politically legitimate tenure systems have worked (as in Zambia and Uganda, for example), the lessons learned need to be carefully adopted as appropriate.
3.3.15 **Irrigation and Conjunctive Water Use:** Water, as a primary resource for agriculture, is becoming more and more scarce. As competition for available surface and ground water resources increases in most African countries with rapid human population growth, urbanization and industrialization, pressure is mounting up for changing allocations of available water resources and for safeguarding water quality. Water resource use for irrigation will increasingly take place in the context of national water allocation planning, which in many countries will be complicated by riparian rights issues between countries which share major watersheds and river systems. A major concern in water resource management, therefore, will be the strengthening of the legislative frameworks on water use and pollution control by raising penalties and water use charges, broadening participation in management of water resources, and establishing planning frameworks for preventing and resolving conflicts among competing water users.

3.3.16 There were an estimated 11.046 million hectares of land (about 6.7 percent of total arable land) under irrigation in Africa in the mid-1990s. The proportion of arable land under irrigation varies greatly between North Africa (22.5 percent) and sub-Saharan Africa (only 4.1 percent) in 1994. In the face of growing populations and food demand, irrigated agriculture offers more reliable, and potentially year-round, production possibilities for rural households, and an incentive for the use of improved seeds and plant materials, fertilizers, and other agricultural inputs. An important challenge in Africa is how to reduce the cost of irrigation through adoption of a cost-efficient technology. The main factors to consider include: the physical characteristics of the project site; the specific crops and crop rotations envisaged; the technical characteristics of alternative irrigation systems; the financial and environment costs and the benefits of these systems; the socio-economic characteristics of the anticipated end-user community; and the capacity of system operators and local suppliers to ensure operating and maintenance of alternative systems. Apart from water-use for irrigation purposes, there is also a need to consider alternative ways to source water for agricultural production as well as for home consumption. In this regard, various water-harvesting techniques have to be examined.
CHAPTER 4
THE AGRICULTURAL AND RURAL DEVELOPMENT STRATEGY

4.1 Guiding Principles for Agricultural and Rural Development Lending

The Bank’s lending for agricultural and rural development will be guided by the following principles:

- A well-developed private sector holds the key to future agricultural and overall economic growth in Africa. Consequently, promoting agri-business and assisting RMCs to strengthen linkages between farmers and agro-industry in order to improve farmers' access to markets is critical for generating and sustaining economic growth. Bank lending should, therefore, enhance and reinforce private sector contribution to agricultural development by increasing the ability of entrepreneurs to invest, produce, price, market, and export their products in a competitive environment;

- Appropriate macro-economic policies and a favorable environment for broad-based stakeholder participation must be in place commensurate with undertaking any major agricultural sector lending in RMCs;

- Effective participation, at the grassroots level, of beneficiary groups with officially recognized status in the fiscal as well as commercial aspects of economic activity. To this end, the Bank would promote participation that is locally-based, socially-legitimate and multi-sectoral in nature. In practical terms, this would involve both physical decentralization of existing bureaucratic structures as well as fiscal decentralization. Thus, the Bank would work closely with RMCs to ensure that target groups have both a recognized voice in decision-making on issues that affect them, as well as the means to effectively participate in the development agenda in the RMCs;

- Bank project cycle activities will be guided by in-depth sectoral studies in each RMC where major agricultural sector lending is envisaged. Program/project identification and design should proceed from rolling sectoral plans, which clearly lay out and prioritize RMC sectoral requirements for Bank assistance;

- Programs and projects should be designed to engender a holistic approach to rural development and the rural economy; the Sector Investment Programs (SIPs) provide an excellent framework for implementing this broad-based integrated approach. In this regard, adequate rural infrastructure, decentralized savings and credit mechanisms, market information systems, input delivery systems, research, extension, and rural household access to education and health will be regarded as necessary for sustainable agricultural development;

- All lending operations must be designed with specific sets of implementation performance indicators and impact indicators so that they can be independently monitored at regularly specified intervals and evaluated by objective quantitative methods;

- The design of agriculture and rural development programs and projects will incorporate actions that would mitigate potential health hazards and negative impact on the environment as well as the livelihoods of rural communities; and
• Bank lending will be guided by the ILO Declaration on Labor Standards, which are also endorsed by the OAU Labor and Social Affairs Commission. The main elements include: freedom of association and collective bargaining, elimination of forced or compulsory labor, abolition of child labor and the elimination of discrimination in employment. Small holder agriculture contributes close to 90 percent of agriculture output and relies heavily on household labor, which is a critical input for its survival. With such systems, the risk of abuse of child labor is relatively minimal compared to large-scale commercial agriculture. The Bank would, therefore, pay particular attention to this issue when appraising large-scale agro-industrial projects of commercial nature.

4.2 Areas of Concentration for Bank’s Lending Interventions

4.2.1 This policy fully recognizes the wide diversity in agricultural and rural development situations and potential in RMCs and the Bank’s operational regions. The composition of country assistance activities will vary in response to this diversity. Given tight and dwindling ODA resources globally, the Bank would focus its development assistance on selected key areas where it has gained ample experience and built capacity over the last three decades, and can take leadership to make a significant and measurable development impact. However, for those areas where the Bank does not have capacity to play a leadership role, it would build synergy with, and complement the work of other development partners working in the sector.

4.2.2 Furthermore, the policy recognizes the historical bias of past development aid in two critical areas. First, there has been a relative bias towards the pre-harvest input delivery services (including supply of seed, fertilizer, research and extension services), as against post-harvest assistance with respect to storage, processing and marketing of the producer surplus. Second, there has also been a relative neglect of support for non-tradeable food staples in favor of export and cash crops because the latter provide a good source of foreign exchange and domestic revenues to service investment and mounting public debts. This is partly responsible for the poor growth performance of the agriculture sector. To address these biases, the Bank’s assistance strategy will focus on the post-harvest end of the continuum by improving farmers’ access to markets and providing support to RMCs in identifying critical intervention points in the entire food chain. On the basis of the foregoing strategy, the Bank envisages to center its core assistance programs for agriculture and rural development on the following key areas:

• **provision of rural infrastructure** that will facilitate and ensure the sustainability of rural economies. This will include, for example: road networks, water storage and delivery systems for both potable water supply and irrigated agriculture, rural electrification, and structures to facilitate the cost-effective delivery of complementary social services in order to minimize rural-urban migration and retain skilled human capital for development of the rural economies of Africa;

• **expansion of private sector agribusiness** for delivery of agricultural inputs and services to rural communities, and agro-industrial enterprises for commodity storage, conditioning, processing and marketing, more effectively linking private sector firms to rural households through contract farming and outgrower schemes; this is necessary to minimize post-harvest losses, improve value-added to agriculture, increase household incomes, and generate employment in a sustainable manner;

• **development and capitalization of more effective private sector financial networks**, with capacities to mobilize domestic savings and facilitate direct on-lending to rural communities and groups on a viable basis; this would help to deepen rural financial intermediation and improve investment in agriculture to generate and sustain growth of rural economies;
• **improved natural resource management** centered on effective innovation in and implementation of land tenure systems which guarantee rural households the long-term incentives needed to manage and protect land, water, and other natural resources on a sustainable basis;

• **capacity building** including: (a) building institutional capacity for decentralized government institutions serving rural communities; strengthening rural institutions and associations (such as business groups and rural financial organizations); (b) building capacity at the grassroots to enable rural populations to set their own priorities and to access assistance relevant to their needs; (c) focus of rural education projects on more effective primary schooling, functional literacy, and adult education programs; and (d) institutional support to emerging inter-professional organizations promoting the development of the agricultural sector and the development of specific commodity/produce chains; and

• **increased regional integration** in product and factor markets within Africa.

4.2.3 In these focal areas, the Bank will build upon the lessons learned to further develop its staff capacity to create comparative advantage, in a dynamic context, and to modify its lending and other assistance instruments to better serve the needs of its clientele.

4.2.4 As already indicated, the Bank recognizes explicitly that effective leadership in other important areas will have to come from other multinational financial institutions and bilateral donor agencies with demonstrated capacities and long experience with development efforts in those areas. The Bank will, therefore, be selective in participating in formulation and implementation of well-articulated sector investment plans as a lender and highly interested and involved partner. This will include the following areas.

• Policy-based structural reform programs at the macro-economic level and agricultural sector investment programs;

• Agricultural research, with special interest in developing technologies for: improved management of soil fertility and moisture; integrated pest management; and reduction of post-harvest commodity losses through improved storage, conditioning, processing and marketing technologies; and

• Agricultural extension, with special emphasis on more effectively serving the needs of all end-users, especially rural women.

4.3 **Mainstreaming Gender**

To cope with the past drawback of compartmentalizing gender issues, the Bank will promote a “mainstream approach” in which gender considerations are integrated into all policies and programs. To this end, the Bank will take the following steps:

• implement a multi-sectoral approach which incorporates gender concerns in country strategy preparation, sector assessments, poverty analyses, and project design and appraisal, and participatory methods for gender analysis to insure that gender concerns are reflected;

• support micro-finance programs and training for micro-, small- and medium-scale enterprises programs which exploit and encourage linkages with existing professional women’s associations in agro-processing and marketing;
• focus on women-friendly technologies in agricultural research, including improved vegetable production techniques, introduction of simpler lightweight tools for weeding and harvesting, and improved village-level food processing and storage techniques;

• increase women’s skills in training and networking -- e.g., in training of trainers, community development, and agricultural extension programs;

• increase support for functional literacy programs that focus on practical areas of concern to women in business creation and development, in agro-processing and marketing, and in primary health care, nutrition, family planning, water management, and sanitation;

• incorporate health, nutrition, family planning, water management, and sanitation components into project designs, where applicable; and

• train RMC government planners on incorporating gender dimensions into selection, design, implementation, monitoring and evaluation of agricultural and rural development programs.

4.4 Strategy for Dealing with the Main Development Objectives

4.4.1 Accelerated Economic Growth with Equity: Agriculture must play a decisive role in eliminating poverty in Africa. Growth in employment and productivity in agriculture must be the engine to raise incomes of rural households. Growth must be broad-based and equitable to become the sector’s most effective contribution to poverty alleviation. In order to achieve this goal, the Bank will adopt the following strategy:

• promote an enabling policy, institutional and legal environment;

• assist RMCs to develop and adopt an Investment Code that attracts private domestic and foreign capital flows into Africa;

• assist RMCs to develop agri-business and agro-industries; and

• work with RMCs to develop markets, promote exports and regional cooperation and integration.

4.4.2 A well-developed private sector holds the key to future agricultural and overall economic growth in Africa. Agri-business, therefore, must play a crucial role in generating and sustaining economic growth. In this regard, the Bank recognizes farmers as the most dominant group of the private sector to be targeted. The Bank would, therefore, assist RMCs to strengthen linkages between farmers and agro-industry, the prime end-users of farmers produce. Quality control and standardization of grading systems to differentiate between quality and grade of raw and semi-processed farm produce for agro-industrial consumption are key to adding value to the agricultural sector. To this end, the Bank would work with RMCs to identify critical intervention points in the entire food chain from production to the finished industrial product. In addition to the direct benefits of economic growth at the household level, governments must take responsibility to ensure that the most vulnerable groups in both rural and urban areas share in the benefits of sustained economic growth. This will require:

• removal of all barriers -- legal, financial, regulatory, gender, etc. -- to full participation of all groups in the civil society and economic enterprises;
• provision of the basic economic and social infrastructure -- schools, health care facilities, roads, utilities, communications systems -- to improve living standards and access to opportunities for all groups within national borders; and

• effective use of transfer payments and other means at the government’s disposal in targeted social safety net programs to assist those particularly vulnerable individuals who are unable to participate fully in society due to physical and/or mental disability.

*Agribusiness and the Development of Agro-Industrial Enterprises*

4.4.3 In the context of liberalization of agricultural markets, competitive conditions demand that rural households and countries focus on those commodities that they can produce most profitably. To facilitate this process, producers must be strongly linked to markets so that decisions throughout commodity chains are driven by undistorted market prices. In this new environment, the question of whether producers should concentrate on food crops or export crops has become less relevant. Research findings have established ample empirical evidence of positive synergies between cash crops and food crops in farming systems and farm-household food security and investment strategies. Thus, what matters most for improved household food security is income growth, whether the source of income growth is higher production of food crops or export crops.

4.4.4 Agricultural markets and agribusiness are the primary links between the rural economy and the urban and export economies. The degree to which public and private sector investments in agriculture contribute to poverty alleviation, productivity gains, food security, and economic growth will depend on the proper functioning of input and commodity markets and the performance of agribusiness enterprises. The agribusiness system communicates market signals and incentives to rural households, assists in balancing market-related risks, matches commodity supply and market demand, and stimulates consumer demand and producer supply response. Developing efficient agribusiness systems, therefore, helps to increase household incomes, while at the same time reducing food costs to urban consumers -- thereby providing a “double” development and poverty-alleviation impact. It reduces post-harvest losses, improves value-added to agricultural commodities, and stimulates diversification to specialized high-value crops.

4.4.5 The Bank will seek opportunities to finance the development of agribusiness and agro-industrial enterprises through direct loans, lines of credit, and equity participation in private sector firms engaging in vertically-integrated production, processing, and marketing operations. Additional funding will be available to RMCs through ASIPs and other arrangements to support privatization and complementary programs with rural households participating in contract farming and private-sector, agro-industrial outgrower schemes. Furthermore, opportunities will be investigated for privately owned agribusiness and agro-industry growth by financing of installation, rehabilitation, and operation of critical infrastructure, including farm-to-market roads, telecommunications systems, public utilities, ports and other transport facilities. Finally, through its compulsory project-level environmental impact assessments and other analyses, the Bank will ensure that these investments are environmentally and socially sound and sustainable.

*Agricultural Marketing and Regional Trade*

4.4.6 A major challenge for Africa in the new millennium is how to be properly integrated into the world economy. Although some progress in trade has been made within and across a few regional blocks (such as the SADDC group of countries), the continent is largely fragmented, with little inter-regional trade is taking place. To be competitive as a continent, it is essential that African states move forward on all possible trading fronts -- *i.e.*, at the liberalization of domestic trade, the promotion of
intra-regional trade, and the maintenance and diversification of export opportunities to major world markets. The market targeting process in most African countries should include detailed reassessments of domestic market prospects given rapid population growth, increasing urbanization, rising disposable incomes, and the changing border price relationships created by structural adjustment reforms. Undistorted border prices have created new possibilities for local production of “import-substitution” products that should not be ignored.

4.4.7 The Bank sees the private sector as having primary responsibilities for the conduct of commercial marketing operations for agricultural commodities and products in domestic, intra-regional, and international markets. It recognizes that such marketing will be conditioned by the reality of the globalization of commodity and product markets, and the influence of undistorted border prices for imports and exports. Bank contributions to agricultural marketing will, therefore, be affected through its lending to private sector agribusiness and agro-industrial enterprises, and through infrastructure development projects jointly undertaken with RMCs and other donor agencies.

4.4.8 In many situations in Africa, however, agricultural commodity chains extend across national borders. To achieve optimal producer and consumer prices and efficiency in commodity chains, African countries must remove barriers to free and competitive trade between neighboring economies and strongly promote rational spatial development of commodity chain infrastructure and organizational structures. In this context, the Bank will assist RMCs, regional economic organizations, and other donors to evaluate and pinpoint those remaining barriers that increase formal and “informal” transaction costs in intra-regional commodity chains, and also help them to develop action programs to remove them. This process of harmonization of regional trade policies and regulations will include:

- equalization of tariffs within sub-regional groupings;
- removal of quantitative restrictions on imports and exports between countries;
- elimination or reform of unnecessary licensing and other requirements, which penalize both intra-regional producers and consumers by raising costs and restricting market flows;
- removal of impediments to the functioning of intra-regional banking mechanisms to cut down the turn around times needed for currency-exchange transactions and transfers of commercial funds between countries; and
- national efforts to prevent illegal extractions of bids and “privileges” from marketing chain participants engaged in legitimate trading operations (bribes, illegally assessed payments, which can amount to up to 20 percent of the total marketing costs of trans-border trade).

4.4.9 To compete effectively in international markets, RMCs must forge a new partnership between governments and private sector enterprises in order to promote African products and negotiate better access to foreign markets for these products. Elements in this new partnership may include:

- developing mutually reinforcing agreements between countries to promote exports to international markets and, as appropriate, to share the costs of product advertising, market information systems, and installation of appropriate marketing infrastructure;
• removing monopoly and quasi-monopoly conditions in the transport sector (air, sea and surface freight) that contribute to raising marketing costs for African producers and make export products less competitive;

• creating conditions for production and/or import of inputs necessary to allow African products to meet the demand conditions in international markets -- e.g., packaging requirements, phyto-sanitary treatments, timing of exports in “niche” markets;

• facilitating mechanisms that promote face-to-face contacts between international buyers and African producers of export commodities and products; and

• harmonizing financial intermediation mechanisms to promote increased capital flows to and joint venture arrangements between international and domestic marketing partners.

4.4.10 The Bank will strongly support these elements, as well as the effective implementation of international trade agreements in active collaboration with the World Trade Organization (WTO) and other donors. It will encourage RMCs to implement necessary changes in tariff and trade structures called for in the world trade agreements. The Bank will be a regional voice in sensitizing extra-African trading partners to also comply expeditiously with these agreements.

Technology Development and Transfer

4.4.11 Development aid has been heavily biased towards pre-harvest input delivery services with much less emphasis on the post-harvest aspects of the food chain. The underlying premise was that traditional farmers are conservative and would not typically adopt improved technology without extension services. However, empirical evidence from export-based commodities and cash crops show much higher adoption rates by the same farmers who display low adoption rates for improved varieties of food crops. The reason for this anomaly is that investment in RMCs has been biased toward developing effective marketing infrastructure for export and cash crops in order to generate foreign exchange to service their debts. For such crops (e.g., rubber, cotton, and horticultural produce), funding for research and extension is typically a shared burden between RMCs and the organized private sector, thus enhancing the sustainability of the services.

4.4.12 Food crops have not received the same level of funding, presumably because they do not generate foreign exchange. This relative neglect has adversely affected overall economic performance of most African agrarian economies, given the relatively high contribution of food crops (30-40 percent) to agricultural GDP, which in turn contributes 30 to 40 percent of overall GDP. Strong linkages with agro-industry and an efficient marketing infrastructure contribute to improve value-added to agriculture, to reduce post-harvest losses and, therefore, to increase the level of adoption of improved technology. Consequently, the Bank’s assistance strategy will focus on the post-harvest end of the continuum by improving farmers’ access to markets and providing support to RMCs in identifying critical intervention points in the entire food chain.

4.4.13 Agricultural Research: Technology development and adoption in agricultural production and processing systems are key elements in achieving rapid economic growth with equity. The Bank’s lending has been largely limited to provision of buildings and infrastructure, and some financing of studies and research projects, in collaboration with selected International Agricultural Research Centers (IARCs). During the past two decades, RMC governments and their donor partners put more emphasis on expanding the capacity of the National Agricultural Research Systems (NARS) than on improving the efficiency and management of the overall research system. This raises serious concerns about the sustainability of the NARS, given the inadequacy of national funding for public research
institutions. The NARSs and RMC governments must take full responsibility for technology development and the transfer of knowledge to rural communities. However, external financing for agricultural research in Africa has a key role to play in helping to enhance the sustainability of investments in NARSs, and to improve the management of these systems.

4.4.14 Bank resources that can be used to support research on a grant basis are limited. Thus, Bank support to agricultural research will, therefore, be concentrated on those countries that have access to its concessional resources. The Bank’s assistance for research will be channeled in priority through regional research centers, which have clear and relevant mandates and objectives for African agriculture. This assistance will be guided by the following principles:

- Emphasize the importance of capitalizing and building on indigenous knowledge;
- Emphasize coordinated sub-regional programs to improve the production, post-harvest handling, processing, and marketing of targeted agricultural commodities;
- Establish appropriate incentive systems to reward performance and quality research results;
- Encourage, through investments in agribusiness and agro-industrial processing, effective linkages between appropriate research organizations, private-sector agribusiness firms, and rural households participating in contract farming and out-grower programs.

4.4.15 The Bank’s lending will support farming systems research to promote better understanding of, and applied technology development for, improved resource allocations at the farm level. Effective agricultural research in a global-market environment must also be increasingly directed at specific commodity sub-sector research. By carefully selecting from among its opportunities for lending to agricultural research, the Bank will seek to affect greater allocations of resources to areas of high potential that have been under-funded or neglected by other donors. Focus areas in this regard include: development of technologies that build on indigenous knowledge and focus on operations that are less intensive in purchased inputs/capital; integration of crop, livestock, and agro-forestry enterprises within farming systems; cutting down on post-harvest losses; development of high-value but less well researched export commodities; development of drought-tolerant varieties; and assistance for research into traditional/plant medicine.

4.4.16 In addition, the Bank will collaborate with other donors to assist RMCs in designing and implementing institutional mechanisms that facilitate retention of highly qualified researchers, and foster better linkages between agricultural researchers and extension agents as a means to build communication between NARS specialists and rural households. Strengthening such a communication is of particular importance for the food-crop sub-sectors where available research results have very little impact, mainly because of weak linkages between research and extension.

4.4.17 Agricultural Extension: No single agricultural extension model has proven itself sufficiently superior to justify its uniform adoption in all farming circumstances. Rather, several basic principles determine the effectiveness of extension systems, the key one being that extension recommendations must be relevant to the actual conditions of the clientele being served. To be successful and relevant, extension services must be underpinned within an integrated system by an effective research capacity to generate and adapt technologies to operative farming systems.
Although investments in extension services, as in agricultural research, are usually justified as a public good, financial realities dictate that programs be as cost-effective as possible to minimize demands on national budgets and enhance prospects for sustainability. Much more work, therefore, is needed to ensure that RMC recurrent cost funding is available to guarantee that extension agents are provided with the means to reach and service the needs of their clients. The Bank will work with RMCs to promote the decentralization of such systems and techniques for increasing client participation in program targeting and implementation of specific activities.

The following points will guide the Bank’s intervention in agricultural extension services:

- The Bank recognizes that extension services can be structured in different ways according to local circumstances. The Bank will not advocate any one model to be replicated wholesale in RMCs. It will rather consider funding of phased pilot testing of alternative service delivery approaches to find those responding best to local circumstances and that can mobilize maximum producer support.

- The Bank sees cost-effectiveness of extension service delivery as critical to long-run sustainability. In the past, single export and industrial crop extension models have proved their worth in many RMCs; multi-crop, generalized extension services must be held to similar standards of performance if they are to receive Bank support in the future.

- Returns to investments in extension are linked to the structure of incentives for extension service. The Bank will therefore support systems where producers are given a major role in evaluating the field performance of extension personnel and deciding on appropriate rewards for good performance.

- The Bank will support extension systems that explicitly recognize the place and role of women in the agricultural labor force and family food security.

- The Bank will support the establishment of multi-disciplinary, inter-agency specialist groups and innovative mechanisms for translating agricultural research results into optimal extension packages for use at the farm level.

- The Bank, through its lending to agri-businesses and agro-industrial processing enterprises, will encourage complementary private sector extension efforts with participants in contract farming and out-grower schemes.

- The Bank will support extension systems that have strong links with public or private organizations generating improved production, processing, and marketing technologies, and support for agricultural extension systems will also be evaluated on the strength of the linkages between agricultural research and extension institutions within the requesting RMC.

- The Bank will support extension systems to develop education programs to disseminate information to rural communities about preventive health-care, infant health and nutrition, sanitation and control measures on communicable diseases like HIV/AIDS and malaria.

**Financing Rural Development**

Empirical evidence shows that informal sector credit associations have been able to overcome most of the major problems faced by formal sector institutions in rural areas. The approach is bottom-up, decentralized, with relatively low transaction costs and risks on lending through mutual guaranty
mechanisms. Unlike traditional formal financial intermediaries, their emphasis is on mobilizing savings as collateral and not credit delivery alone. These systems, however, face their own challenges, which include: focus on short-term/high-interest rate credits for the social needs of individuals and households; rudimentary management structures; low membership and credit volume; lack of strong apex structures to provide services and technical assistance to member organizations and create linkages with the formal banking sector; and inability to cope with high seasonal demand for credit in the rural economy.

4.4.21 The Bank will sensitize RMCs about the importance of developing informal rural credit institutions as part of the permanent solution to credit problems in rural areas, and providing technical assistance by qualified local NGOs. This is fundamental to the ultimate success of developing sustainable rural financial structures. The Bank also needs to continue increasing its own knowledge of, and capacity to deal with, NGOs. In this regard, an effort has been made by the Bank to make better use of NGOs to provide training services at the grassroots level and, to some degree, in implementing rural credit schemes. Concerns about the competence of NGOs to provide effective assistance on a larger scale still need to be addressed through pilot projects and other innovative lending programs.

4.4.22 Changes in the Bank’s traditional clientele environment mean that it must seek out new financial partners, and develop new expertise and lending products. In this regard, expansion of the Bank’s private sector window is a step in the right direction. Entrepreneurs in small and medium-scale enterprises need assistance to increase their capacity to present viable business and financial plans and effective loan guarantees. Mutual guaranty systems have been successfully adopted in many countries. Introduction of venture capital funds is another innovative way of providing funds, management skills and knowledge, and access to markets. Private banks are not yet apt to provide medium and long-term credits to businesses based in rural areas. The Bank, therefore, needs to work with them to improve their capacities to evaluate agricultural and agribusiness projects and to weigh more objectively these investment opportunities against alternative investments in other sectors.

4.4.23 The Bank considers the establishment of effective and viable rural financial institutions to be one of the most important components of its Agricultural and Rural Development Sector Policy. It will, therefore, work with informal rural finance institutions to increase their capacities to mobilize domestic savings and to provide more effective credit services to rural households and businesses. It will also work with these institutions to create and strengthen their linkages with formal private sector banking systems within RMCs. These objectives will be pursued through appropriate strategies, such as the capacity-building grants of the AMINA program designed to provide assistance to micro-finance institutions in the areas of organizational development, policies, procedures, management information systems, and specialized training in credit and savings account management for borrower groups and savers.

4.4.24 To improve mechanisms and delivery systems for financing the needs of rural development, the Bank will support initiatives and efforts of informal rural finance institutions to:

- widen the scope of agricultural credit to include the financing of all legal business activities in rural and peri-urban finance;
- provide technical assistance and matching grants to professional groups and indigenous credit schemes to encourage savings mobilization and the financing of rural enterprises;
- develop networks and apex societies in order to deepen rural financial intermediation.
• provide funds for loans and technical assistance in the area of portfolio management, commercial credit techniques, credit tracking and client rating systems, MIS and accounting systems;

• create and strengthen linkages to international and domestic NGOs with demonstrated expertise in the area of micro-, small- and medium-scale enterprise (SME) finance;

• conduct studies on the formal and informal banking sectors to help in policy dialogue with RMC governments and central banks, and encourage banking legislation adapted to the special needs of rural credit and finance institutions;

• foster effective linkages with private banking institutions through mobilization of savings channeled to private banks from the rural finance community; and

• assist in the development of deposit insurance instruments.

4.4.25 With the formal banking and SME sectors, the Bank will support efforts to:

• increase use of the private sector window and strengthen the capacities of private banks to mobilize domestic savings in order to provide medium and long-term credit for SME agribusiness and agro-industrial projects;

• develop mutual guaranty societies and provide mutual funds, guaranteed by the Bank, for investment in agribusiness and agro-industrial enterprises;

• create venture capital funds and provide lines of credit to private sector agribusiness and agro-industrial firms for on-lending to contract farmers and out-growers.

Poverty Reduction and Food Security

Poverty Reduction

4.4.26 Involving the poor in the development effort will entail the establishment of mechanisms and processes that give them a voice in the investment planning and decision making process as well as the means (via fiscal decentralization) through which they can effectively participate as economic agents. Thus, participatory development, involving the poor and other stakeholders, is crucial to the sustainable alleviation of poverty in Africa, and would serve as the underlying principle the Bank would adopt to address poverty issues. To this end, the Bank will collaborate closely with multi-lateral development finance institutions like IFAD, FAO and the World Bank. As part of the management process at the country level, the RMCs will need assistance to formulate comprehensive development policies and strategies, which give priority to human development needs, by increasing both the allocation and efficiency of public expenditures for social services. In this regard, the strategy to broaden the scope of agricultural development into an integrated approach of rural development, where direct agricultural activities of the poor are complemented by investments in the social services, is essentially a poverty reduction strategy.

4.4.27 Consistent and intensive policy dialogue with African governments is needed to sensitize the RMCs to continue to give top priority to poverty alleviation in their development policies and strategy frameworks. The Bank would also assist RMCs to develop and maintain a sustainable data-base system to conduct routine poverty assessments for their Public Investment Programs as a means of improving the planning capacity of RMCs’ interventions for the poor. To bring the poor closer to the monetized economy, the provision of social services will be complemented by the provision of basic
infrastructure. Empirical evidence has shown that growth that hinges on labor-intensive technology (especially labor-intensive rural infrastructure) is the most direct and sustainable way to reduce poverty. The Bank would, therefore, promote labor-intensive growth in the RMCs to more effectively reach the poor.

4.4.28 Given the dominant role of women in agriculture and the rural informal sector, the Bank would direct its assistance through programs that improve the access of women to basic social services, credit and land to enhance their capacity for direct agricultural production. It will also assist women in enterprise development and in nutrition and primary health programs to improve their capacity to cater to the needs of children. The Bank’s focus on poverty will be cast within a global context, by centering it around the internationally agreed Development Goals for the 21st Century, as articulated by the Development Assistance Committee of the OECD.

Food Security

4.4.29 Food security is a primary dimension of poverty reduction that agriculture must address. Defined as access by all people at all times to enough food for active and healthy lives, food security involves two essential components: first, the availability of food and, second, people having the means to acquire food. The definition is comprehensive in that it incorporates RMC efforts to achieve appropriate levels of domestic food production in sustainable resource use systems, and is consistent with the realities of global competitive markets and trade liberalization. It is recognized that there are tradeoffs among variables in the food security equation, that there are differences between meeting security needs in the short and long term, and that national strategies have to be concerned both with human need and with cost minimization. It is also acknowledged that domestic food production has an over-riding importance as a key determinant of overall income, availability of, and access to, food and, therefore, a critical element of food security strategies for most rural households in Africa. This notwithstanding, each RMC must address the key policy question of finding the most effective mix of domestic food production, external trade, and, as necessary, concessional food aid to meet national food security needs in both the short and long term.

4.4.30 In this regard, the Bank will support RMC efforts to define national food security strategies that involve balancing domestic production, commercial imports of food, and, as necessary, tightly-run systems to provide food aid on an emergency basis to needy people. The Bank sees comprehensive RMC food security strategies as encompassing the following elements:

- realistic assessments of trends and variability in domestic food and non-food production, RMC comparative advantage in food crops, and status of necessary infrastructure and institutions to support food security programs;
- analysis of national food price and marketing policies to detect and remove barriers to competitive food trade, while improving incentives for domestic food producers;
- establishment and maintenance of early warning systems for food crops and more broadly-based agricultural market information systems for effective decision-making;
- operational planning for the requirements and management of emergency food purchase funds or physical food stocks for distribution to needy populations, and accurate targeting of food assistance to the poorest groups to ensure minimum nutritional standards; and
- provisions for institutional capacity building to conduct necessary analyses and manage national food security programs.
4.4.31 The Bank will collaborate with other donors to support the preparation of RMC food security strategies and to strengthen the capacity of national institutions to update the necessary analyses on a regular basis. Moreover, the Bank will establish systematic collaboration with, and involve as much as possible, specialized and experienced executing agencies throughout the cycle of its operations aimed at improving food security. In this respect, collaboration will be particularly strengthened with the FAO, within the framework of its Special Program for Food Security (SPFS) conceived in 1994 and initiated in 1995.

4.4.32 The Bank will also support RMCs’ efforts to ground their food security strategies on investment in agricultural research, extension, market infrastructure and services, aiming at improving both the availability of, and access to, food. The Bank will thus support long-term investment programs to:

- increase productivity and reduce temporal and spatial variability in domestic food production;
- address intermittent shortages in food supply through the promotion of private/semi privately-managed buffer stocks;
- mitigate losses in post-harvest handling, storage, processing, and marketing of domestic food supplies;
- develop and transfer technologies for diversified production, marketing and trade of higher value crops;
- reduce product transfer costs through the development of improved transport infrastructure (including the construction and maintenance of good feeder road networks), means, and policies;
- reduce transactions costs in the food systems (especially in national and sub-regional markets) through adequate market information systems, improved legal and institutional systems and effective contract enforcement mechanisms; and
- create labor-intensive, non-farm rural employment opportunities, especially off-season income-generating activities targeted at the rural poor.

Natural Resource Management and Drought Control

4.4.33 The Bank’s Environmental Policy emphasizes the importance of natural resource management in the agricultural sector. The dominant philosophy that underlies the Bank’s approach to natural resource management is one of long-term sustainable productivity. Careful use, management and rehabilitation of the natural resource base must be a central consideration for any country program or investment strategy. The agricultural and rural development policy of the Bank, then, supports and strengthens its commitment to long-run solutions to this major cross-cutting problem through adherence to the following environmental agenda:

- conservation and regeneration of soil resources;
- conservation and efficient use and management of watersheds and water resources;
- use of environmentally safe chemicals and integrated pest management techniques, as well as the destruction and banning of obsolete/unwanted pesticides;
- maximum use of biological processes for the maintenance of agro-ecosystem productivity;
- sustainable exploitation of grazing, forestry, fishery and wildlife resources; and
- conservation of genetic resources, and maintenance of farm, plant and animal diversity.

4.4.34 To sustain the productivity of the natural resource base, Bank lending will be directed toward:

- choosing among alternative resource management systems to deliberately favor those which demonstrate that they can be used over the long-run without degrading the resource base;
- interventions that increase agricultural productivity per unit of resource used and halt practices that are “mining” the resource base (e.g., the uncontrolled logging of tropical hardwoods with no strategy for selective cutting or reforestation). This may involve legal changes in land tenure and the use of “public resources” which are used by producers in common; and
- encouraging the use of practices that will rehabilitate or strengthen the ability of a resource base to be used sustainably. An example is the applied research and development work on agro-forestry systems, which is being conducted across the continent. Another example is the Soil Fertility Initiative (SFI) which aims at assisting RMCs to develop and implement appropriate cross-sectoral package of activities to arrest the problem of declining soil fertility. The Bank will collaborate with both bi-lateral and multi-lateral development partners (such as the FAO, IFDC, ICRAF and the World Bank) involved in the initiative to assist RMCs to develop National SFI action plans and programs for effective implementation.

4.4.35 The Bank’s support for promoting sustainable agricultural systems will also entail rigorous analyses at all stages of the project cycle, and with all lending instruments, of the potential and actual ecological effects resulting from investment in agricultural sector and sub-sector activities, and acting to avoid or minimize damage resulting therefrom. To cope with the negative effects of drought (see para. 1.7.6), the majority of sub-Saharan African countries have initiated efforts towards implementation of the United Nations Convention to Combat Desertification (CCD). In line with this, the Bank would support implementation of National Action Programs developed under the framework of the CCD to help affected RMCs combat drought. Furthermore, the Bank will collaborate closely with specialized international organizations such as the United Nations Office to Combat Desertification and Drought (UNSO), to support the initiatives of sub-regional organizations (such as CILSS, ECOWAS, IGAD, SADC), which, in turn, are already actively fostering cooperation through action programs to develop a comprehensive approach to mitigate the effects of drought.

**Land Tenure**

4.4.36 Land in Africa is increasingly falling under *de facto* private control through formal sale and lease agreements and/or informal rental arrangements. Yet, most households outside of urban and peri-urban areas do not yet possess freehold tenure to their land or participate in active land markets. The challenge for the future, therefore, is to recognize the *de facto* private control of land that is already occurring and formalize it in *de jure* forms of private tenure. This will be a formidable challenge because existing systems are complex and involve a mixture of collective and individual rights. Moreover, increased private control of land for agricultural purposes can be achieved in many different ways -- e.g., purchase and freehold rights, long-term leases to individuals, government grants to agro-industrial operations, agreements for communal use subject to management plans and use restrictions.
4.4.37 The Bank cannot recommend legal solutions on land tenure issues in lieu of RMC governments and traditional authorities. As a pan-African institution, however, the Bank will stand ready to assist in expanding the institutional capacities of RMCs to deal with the complex issues raised by land tenure policies and laws. Management of land for sustainable agricultural productivity raises three major questions related to security of tenure. First, how can secure, long-term land tenure rights be given to rural households to encourage intensification of crop production and better integration with livestock and agro-forestry enterprises, without degrading the natural resource base? Second, how can producer incentives and government regulations be changed to foster sustainable use and management of land and water resources under communal or public ownership? Third, what types of legal, social and economic reforms are required to promote women’s access to land?

4.4.38 Explicitly, the Bank will assist RMCs in formulating and implementing land tenure systems, which provide incentives for long-term investments in sustainable use systems and resource conservation, prevent the fragmentation of land holdings into non-viable plots, allow, where appropriate, the use of land as collateral in lending, and promote women’s access to land. The Bank will support land tenure reforms by:

- providing technical assistance, training opportunities, and institutional support to RMC governments and traditional authorities to build their capacity to deal with land tenure issues;
- ensuring that the project cycle include in-depth analyses on the probable impacts of existing land tenure systems on program/project implementation, impact and objectives;
- ensuring that rural households participating in Bank-supported programs and projects have secured land-use rights commensurate with the need for sustainable agricultural systems;
- in the framework of policy dialogue, encourage governments to promote land tenure reforms which recognize legally, the different types of socially-legitimate land ownership (both communal and private), and where feasible and appropriate, develop financial regulations that allow formal financial intermediaries to accept other forms of collateral, especially those associated with communal ownership of farmland. Furthermore, as much as possible, the Bank will encourage reforms that promote female ownership of land in rural communities where this is a constraint to agricultural growth;
- providing resources for cadastral surveys and other entitlement procedures to facilitate establishment of de jure controls of land by rural households; and
- working with RMC governments to find and pilot test management solutions for agricultural enterprises on land that is communally-owned, such that restrictions on access to the resource can be effectively installed where use patterns are leading to permanent degradation.

Irrigation and Conjunctive Water Use

4.4.39 To be viable and sustainable, irrigation systems must meet the following four conditions: available water of suitable quality in sufficient quantity; suitable soils for irrigation; producer access to remunerative markets; and available labor and energy to operate the system. Evidence shows that operational and management policies, which accommodate farmer preferences and safeguard small holders’ sense of control over the land they irrigate, are most likely to generate higher productivity and more sustainable irrigation systems. This is usually easier to accomplish in small-scale and privately managed irrigation systems. However, small-holder irrigation is typically very labor-intensive for rural households, and engineers and planners of irrigation schemes often fail to grasp the complexity of
household labor availability and allocation preferences. This has often resulted in poorly designed and
managed systems, as frequently demonstrated by project planners’ overestimation of the willingness
and/or ability of farmers to commit available household labor to cultivation of parcels assigned within
single source/multiple user irrigation systems.

4.4.40 A wide range of irrigation technology is available. The issues at stake are what criteria to use in
selecting the technology to adopt, and how participatory the selection process is. In line with its
emphasis on improved natural resource management, the Bank will support RMC efforts to formulate
and implement conjunctive water use plans, which recognize the rights of all end-users for water of
acceptable quality and in appropriate quantities on a sustainable basis. As already indicated, the cost of
irrigation in Africa is one of the highest in the world. Special attention will, therefore, be given to
efforts aimed at lowering the cost of irrigation through careful selection of the most appropriate
technology. In this regard, the Bank will strengthen collaboration with development organizations
(such as the FAO, WARDA and IIMI) with demonstrated expertise and field experience in irrigated
agriculture, to help RMCs to adopt and manage their irrigation schemes.

4.4.41 Apart from providing assistance for irrigation, the Bank would also work with RMCs to
identify alternative ways to source and manage water efficiently for agricultural uses as well as for
home consumption. This would, inter alia, entail support for training of rural households in various
water-harvesting and management techniques. To this end, the Bank would promote a more integrated
approach to optimal water resource management which would include for instance, integration of aqua-
culture with irrigation and water-harvesting techniques to boost agricultural productivity at the
household level.

**Human and Institutional Capacity Building**

4.4.42 Low education levels and high illiteracy rates make it difficult for rural populations, women in
particular, to access training and technical assistance. Traditional education programs do not provide an
adequate response to end-user needs, particularly in rural areas. The focus of primary education is not
on functional areas, such as entrepreneurial skills, business management, technical subjects of
relevance to rural life, and personal analytical and organizational skills. The prevalent weaknesses in
this area necessitate serious attention to human and institutional capacity at all levels.

4.4.43 The Bank, therefore, will undertake the following actions with RMCs and in collaboration with
other donor agencies:

- Increase grass roots capacity building to enable rural populations to set their own priorities and to
access assistance relevant to their needs. Capacity building should focus on training in income
producing activities, group mobilization, financial management and marketing. Capacity building
should also aim at enabling rural women to develop decision-making and management skills that
can improve their income earning potential;

- Strengthen rural institutions and associations, including business groups and rural financial
organizations;

- Focus rural education projects on more effective primary schooling, functional literacy, and adult
education programs;

- Increase the management and implementation capacity of local private sector enterprises and
NGOs; and
• Create effective linkages between international NGOs with proven track records in areas such as micro-finance, development of micro-, small- and medium-scale enterprises, and functional literacy programs, and local NGOs.

Complementary Investments in Rural Infrastructure and Social Services

4.4.44 Bank policy toward the agricultural sector recognizes that, to promote and sustain economic and social development in rural areas, RMC governments and donors must undertake other important ancillary actions that are not agricultural interventions per se in order to broaden development assistance to cover service areas that support the rural economy. Herein lies the rationale for broadening the scope of Bank Group agriculture sector policy to rural development. Public investments in roads, bridges, water control structures, utility services, storage and processing facilities, telecommunications systems, and market infrastructure provide basic means of linking rural households to the modern world. However, absence of such essential infrastructure in rural areas creates disincentives to rapid rural development, drives entrepreneurs and skilled labor to look elsewhere for opportunities, accentuates the problem of rural-urban migration and growing urban unemployment, and precludes complementary private sector investment in rural enterprises.

4.4.45 Thus, some of the most important lending operations affecting the prospects for agricultural growth and poverty reduction in rural areas will need to be financed through:

• programs in other sectors, such as education and health; rural infrastructure, basic utility services (rural electrification and potable water supply in particular); and

• reshaping and decentralizing government services to improve rural people’s access to relevant services and to ensure that responsibilities for decision-making on local issues are shared between government representatives and their rural constituencies through open and transparent governance.

Rural Social Services

4.4.46 Though education and health are the subjects of their own Bank policy papers, given the rural development focus of this policy, it is important to emphasize the role of such social services in fostering economic growth and social evolution in rural communities. Critical issues concern the affordability, the sustainability, the relevance and the effectiveness of social services.

4.4.47 On education, the appropriate balance between primary, secondary, technical, and tertiary levels need to be handled properly, in relation to demand on the ground and constraining supply factors. Also the balance between the “soft” and the “hard” ware aspects of investments is critical in determining the benefit and outcome of Bank Group’s interventions. As a complement to direct efforts in the agricultural sector, the Bank will provide assistance for broad-based basic educational services (including primary schooling for all), “second chance” basic skills training for youth, and adult literacy and numeracy programs. Agricultural training activities specific to Bank lending operations will be treated as components within the larger programs and/or projects. These activities will include graduate-level university training for specialists, short courses for program/project participants, group observational tours to successful program/project sites, market observation and intelligence gathering trips, and other such educational opportunities. The Bank will also support multi-donor programs for training in agricultural program/project management.

4.4.48 On health, special emphasis will be placed on the provision of primary health care services (including access to information on nutrition, sanitation, and reproductive health), delivery of
preventive health programs to rural areas, and provision of basic medical care through local dispensaries on a cost-effective basis. Given that HIV/AIDS needs urgent attention to save the human capital of the continent, efforts will be intensified to mainstream preventive and coping measures into agriculture training programs and rural extension services to reach the rural population. In addition advocacy activities both at a policy and grass root levels will be featured in appropriate projects and programs of the sector.

Road Networks

4.4.49 Access to markets is key to sustained increases in supply response. The lack of adequate transportation to move farm commodities and agricultural inputs to and from markets stifles the development and integration of product and factor markets, mutes the potential gains from market liberalization, raises marketing costs, and reduces the competitiveness of agricultural commodities in domestic and international markets.

4.4.50 To increase access to and within rural areas at the national level, the Bank will lend for the following:

• expansion of road networks to open up areas of high agricultural production potential, facilitate the development of market centers, and improve linkages between collection and terminal markets;

• construction of farm-to-market roads to foster stronger linkages between rural households, input-supply businesses and agro-industrial enterprises;

• development of mechanisms and institutions and participatory systems to effectively promote improved maintenance of road networks (notably secondary and farm-to-market roads);

• intermediate means of transport, such as road tracks, with user participation; and

• adaptive research into design standards for simple vehicles (e.g., bicycles, ox-carts, and wheelbarrows) to allow rural communities to fully capitalize on the improved road networks.

4.4.51 At the regional level, African governments need to collaborate with each other to build road networks that open their economies to trans-border trade. The Bank will continue to provide financial support for such endeavors through multi-national projects to foster regional integration and economic cooperation as demand arises from RMCs.

Rural Energy

4.4.52 Rural electrification helps to raise agricultural productivity by facilitating the adoption of simple power-based technology, which can stimulate agro-processing and small-scale rural industries, including tourism. It has the indirect effect of improving the environment by reducing the use of fuel wood. It reduces domestic hardship of women in offering more efficient alternatives for food processing at the household and village levels. It helps to improve health and food security through refrigeration of medicines and perishable farm produce after harvest. Finally, rural electrification improves educational performance of the rural poor by extending the study hours.

4.4.53 The Bank will work with RMCs to identify their overall rural energy needs and promote technological solutions that take into account renewable sources of energy that are cost-efficient and environmentally friendly. This will, inter alia, include support for:
• alternative, cost-efficient sources of energy (such as solar energy and bio-gas) and electricity generation (through hydropower and windmills);

• expansion of existing electricity delivery networks, particularly in areas of high agricultural potential and to centers of agro-industrial processing; and

• electrification of rural infrastructure that supports efficient delivery of social services to rural households, particularly health and educational services.

**Potable Water Supply**

4.4.54 Over 70 percent of Africa’s rural population do not have easy access to safe drinking water. Efforts have been made, through financing of village water supply schemes to improve access of the rural dwellers to potable water. Empirical evidence has shown that active involvement of the end-users in the construction and management of the schemes is key to sustainable supply of potable water in rural Africa. Established Water Users’ Associations (WUAs), headed by respected village or community heads, fix user fees for their own communities; establish and maintain their own bank accounts for operations and maintenance; and pay local artisans to maintain the schemes. Drawing on these essential ingredients for the success stories (in Jos, Nigeria and in Ghana), the Bank will work closely with RMCs to support more such schemes in the future.

4.4.55 The Bank will, therefore, promote:

• formulation and installation of conjunctive water plans that promote sustainable use of existing water resources and safeguard water quality;

• water resource management with the active involvement of the end-users in the construction and management of the potable water supply schemes;

• development of water users’ associations, headed by legitimate village or community heads, to fix user fees for their communities, establish and maintain their own bank accounts for operations and maintenance, and pay local artisans to maintain potable water supply systems.
CHAPTER 5
THE WAY FORWARD: FROM POLICY TO ACTION

5.1 Operational Lending Policies

5.1.1 The Bank has made significant progress in the 1990s in implementing changes to its structure and in developing a new generation of lending instruments and mechanisms. Effective agricultural and rural development requires the integration of activities in many different fields, not all of which are in the purview of Bank agricultural staff. The central recognition of this policy is that many of the most important interventions the Bank can fund to foster rural development lie in areas such as the provision of infrastructure including roads, rural electrification, potable water supply, basic education, rural health and other services. Programs, lines of credit and projects, which focus narrowly on agricultural interventions, are less likely, in and of themselves, to attain rapid economic growth and comprehensive evolution in rural communities. This implies the need for greater integration of Bank design activities for programs and projects to attain the stated vision of rural development in Africa. Therefore, the Bank will take the following complementary actions to facilitate successful implementation of its agricultural and rural development policy.

5.1.2 The Project Cycle

- The project cycle, in the agricultural and rural sector, will be modified to ensure end-user participation and better integration of projects into sector and sub-sector strategies that expand the scope of Bank Group interventions from a narrow view of agriculture to the broader vision of rural development.

- TAF funds will be programmed to enhance the quality of sub-sector analyses and development of ASIPs in coordination with other donors.

- Design missions will be planned and timed so that the Bank has effective input into the development of programs and projects from the start of identification and planning process.

- The Bank will ensure that multi-disciplinary capacity exists among Bank staff and that the necessary skills are applied in program/project design, appraisal and supervision work.

- End-user participation will be sought in the formulation of rural development strategies and in program/project identification, design, implementation, monitoring and evaluation.

- Institutional capacity will be built among professional associations such as inter-professional, commodity-based groups, informal credit associations, and local NGOs.

- Project design and implementation will take into account the health and environmental impact assessment requirements outlined for Bank operations.
5.1.3 Project Implementation

Project implementation has relied heavily on semi-autonomous Project Implementation Units (PIUs) usually located in ministries in charge of agriculture. This mechanism has proved to be unsustainable as the PIUs disappear at project completion without building local capacity that can be sustained in the long term. To address this problem, emphasis will be placed on building the institutional capacity of the line ministries to channel development assistance via established local structures rather than bypassing them through the creation of PIU appendices.

5.1.4 Project Design: Quality at Entry

The Bank will take complementary actions to facilitate successful implementation of its agricultural and rural development policy. To this end, the project cycle will be modified, as necessary, to ensure both end-user participation and better integration of projects into sector and sub-sector strategies. This will include in-depth studies in key sub-sector areas to develop medium-term (five-year) Bank/RMC rolling plans for program and project identification and design. Long-term programming of TAF funds will help to improve the quality of sub-sector analyses and development of ASIPs in collaboration with other donors. Furthermore, design missions will be planned and timed so that the Bank has effective input into the development of programs and projects in the early phases of the project cycle. This would include, inter alia, the application of environmental and health impact assessment of Bank Group interventions. End-user participation will be strongly encouraged in the formulation of rural development strategies and in program/project identification, design, and implementation, and monitoring and evaluation.

5.1.5 Monitoring, Evaluation and Feedback

- The capacity for monitoring and evaluation will be strengthened in the areas of agriculture and rural development. Monitoring and evaluation operations for programs and projects will be refocused to include the strategic aspects of the Bank’s agricultural and rural development portfolio, in addition to the operational aspects of program/project implementation.

- Agricultural sub-sector projects will be evaluated on a comprehensive basis to develop synthesis “lessons to be learned” reports to guide future Bank lending.

- The feedback system between the evaluations and operations departments will be strengthened to ensure that appropriate incentives exist for timely and effective monitoring of programs/projects and quick implementation of recommendations made in evaluations.

5.2 Lending Instruments

5.2.1 The Bank will increasingly fund projects in the private sector through its private sector window. This will include assistance to RMCs for the privatization processes. Project lending will be done increasingly in an integrated manner including, but not limited to the use of ASIPs.
5.2.2 Bank lending will be oriented toward creating viable private banking systems in RMCs capable of mobilizing necessary funds for on-lending to agricultural operations, rural and agribusiness enterprises. The Bank will place particular emphasis on increasing financial intermediation and linkages between informal sector financial institutions, apex organizations, and the formal banking sector. The Bank understands that this will involve significant assistance for institutional capacity development. The Bank will restrict lending and technical assistance to selected viable development banks, and where feasible, assist in the privatization of these institutions and the development of permanent private sector mechanisms for funding rural development. Consequently, lines of credit will not be renewed to development banks and other financial institutions which have not made significant progress in attaining long-term financial viability, in the development of effective management information systems, and in portfolio analysis and monitoring techniques.

5.2.3 Bank lending to micro-enterprises will be carried out, as much as possible, by matching grant funding to informal-sector financial organizations and apex societies. Subsidies will only be used on a limited, time-bound basis, to provide start-up assistance to institutional skills and capacity development. Lending to SMEs will be done mainly through private sector banks and informal institutions with a particular focus on creating permanent access to credit funds through the development of sustainable guarantee mechanisms, such as end-user owned mutual guarantee funds, mutual and venture capital funds.

5.2.4 The Bank will continue to collaborate with other donors in the area of policy-based lending to ensure that the necessary policy environment exists in RMCs for sustainable development of rural economies. The Bank will pay particular attention to poverty alleviation and to buffering the negative short-term effects of structural adjustment lending on the poor and women.

**Project Lending**

5.2.5 Project lending has been the dominant Bank lending instrument for agricultural development. However, the traditional project approach to development assistance has had limited impact in increasing rural incomes and reducing rural poverty in Africa. Fragmentation, duplication, and lack of participation by local stakeholders in project design, implementation, and supervision are among the reasons for the lack of success. As a consequence, financing of traditional stand-alone projects will continue but become increasingly subjected to overcoming these drawbacks.

**Agricultural Sector Investment Programs (ASIPs)**

5.2.6 ASIPs will likely play an increased role as an alternative vehicle for providing development assistance. The use of ASIPs by the Bank is anticipated to overcome some of the demonstrated weaknesses of project-based lending. ASIPs serve as a vehicle for a joint approach to country programming at the sectoral level. They are structured to minimize duplication of effort by ensuring that the borrower is in the driver’s seat and all stakeholders participate fully in the development program of an RMC. Complementarity and synergy can thus be built among development partners through shared experiences, best practices and lessons learned, with the end result of minimizing the risk of failure while enhancing development impact. The Bank will
collaborate with the World Bank, IMF and other donor agencies to ensure a more integrated sectoral approach by RMCs and donors. Collaboration will include active participation in core sector reform programs, development of strategies for rural health, rural infrastructure, education and private sector development in rural areas.

**Beneficiary Contribution through Matching Grants**

5.2.7 The Bank will actively promote beneficiary contribution through the use of matching grant mechanisms, in order to foster increased grassroots participation. The matching grant mechanism has proven itself to be an effective instrument in providing institutional development support to local institutions, including credit and savings associations and NGOs. These grants provide support for strengthening management capacity and systems, developing competency in the areas of commercial credit analysis, and developing apex organizations, which can then provide technical assistance to informal sector financial institutions and linkages to the formal banking sector. Matching grants also encourage indigenous savings mobilization. The Bank’s AMINA program will play a key role in this area.

**Private Sector Window**

5.2.8 The private sector in Africa is still heavily resource-based, with agriculture being the most important source of employment. There is increased recognition of the role of the private sector in fostering growth to reduce poverty. Increased use will be made of the Bank’s private sector window to develop agri-businesses, efficient commodity chains, and small and medium-scale enterprises. This lending will be primarily in the form of direct loans and equity participation for new private sector initiatives in agricultural diversification. Assistance in the privatization of remaining agricultural parastatals is of secondary importance.

**Policy-Based Lending (PBL)**

5.2.9 One of the key lessons learned by the Bank and other donors is that sustainable economic development can not take place in the absence of a conducive policy framework. Effective allocation of resources in rural economies and development of sustainable financial intermediation in RMCs is contingent on this. Sector adjustment lending is of critical importance to removing market distortions in agriculture, rural economies and financial institutions, and to building effective linkages between informal financial institutions and the formal banking sector.

5.2.10 The Bank, therefore, will continue its involvement in policy-based lending in close collaboration with other donors. In line with its Vision, the Bank will get more involved in the design of future sector adjustment programs aimed at addressing issues relevant to its areas of strategic interests, which feature agricultural and rural development. The Bank will use sector adjustment lending as a means to play an active role in policy dialogue with the RMCs in addressing sectoral policy gaps to promote an appropriate policy environment for agricultural and rural development, while ensuring that the social costs of adjustment are mitigated by appropriate interventions.
Agricultural and Rural Development Lines of Credit

5.2.11 The drop in demand for agricultural lines of credit in both ADB and ADF countries has necessitated a fundamental reassessment of the utility of this approach. The number of traditional clients (mainly the agricultural credit banks) for this type of Bank lending has declined significantly as a result of the closing of agricultural development banks in many RMCs. In the remaining cases, there has been increased reluctance to assume the foreign exchange risks inherent in lines of credit.

5.2.12 The Bank, therefore, will focus its assistance efforts on helping rural households and enterprises to mobilize their own savings and on creating sustainable rural financial institutions and apex organizations, which can form the base for a new generation of financial systems in RMCs. Provision of funds to private sector financial institutions and selected viable agricultural development banks will be based on objective evaluations of their institutional capacity and long-term financial viability. Lines of credit will include development of performance and implementation standards, and identification of areas needing special assistance. Time-bound goals will be mutually agreed upon with client banks. The Bank will support technical assistance to implement necessary changes, including development of appropriate impact monitoring systems for sub-projects. In the absence of achievement of these institutional capacity-building goals, lines of credit will not be renewed.

5.3 Action Plan

5.3.1 Effective operationalization of this Agricultural and Rural Development Sector Policy requires the elaboration of a Bank Action Plan, which will create and reinforce linkages both within the Bank and with the Bank’s partners, including RMC governments, multilateral lending institutions, bilateral donor agencies, and implementing organizations, such as NGOs. The Action Plan is developed taking into account the diversity in regional specificity of the agricultural and rural economies of the continent. Given that the Action Plan is an implementation tool, it would be revised and updated every two to three years to reflect the changing needs of the Bank’s clients, and also to guide the Lending Program of the Bank.

5.3.2 For each of the Operational regions/departments of the Bank, specific actions are defined with respect to clearly identified constraints to achieving explicit development goals in a global vision. These regional Action Plans serve as the basis for the overall Bank Action Plan. In carrying out activities resulting from the Action Plan, projects and programs will proceed from a demand-driven approach and emanate from the felt needs of the concerned populations in RMCs. Systematic Economic and Sector Work (ESW) will be carried out in order to identify precise constraints, the needs and the potential of the agricultural sector and the overall rural economy of each RMC, and to ensure that identified projects and programs fit within the strategic framework of such sector studies.

5.4 Recommendation

The Boards of Directors are invited to consider the Agriculture and Rural Development Sector Policy for approval.
## ANNEX 1: Agricultural Loans and Grants Approved by the Bank Group

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Source: Data from the African Development Bank Research and Statistics Divisions
Note: (a) Supplements to existing projects are considered as separate loans.
BIBLIOGRAPHY


