YEMEN : Agricultural Policy Review

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Agriculture and Fisheries Production Promotion Fund

(AFPPF)

by

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Agriculture and Fisheries Production Promotion Fund (AFPPF)[1]

Working Paper and a Proposal for a Review of the AFPPF

Statute and History

When, in 1993, Government raised the diesel price from three Rials per litre to six Rials per litre, the effect on agricultural incomes was expected to be considerable. In view of this, Government decided to create AFPPF in order that part of the increase could be reinjected into agriculture and the rural sector in compensation, and in order to ease the transition to a more sustainable agriculture, less dependent on pumped groundwater.

AFPPF was established in 1993, under Law # 6 of that year, which specifies the function and objectives of the Fund. It is created as an "autonomous fund" reporting to a board chaired by the minister of MAI.

AFPPF commenced operations in November 1995 (before that, cash was simply accumulating). Under its Director General, Issam Luqman, it is a lean unit, with a total staff of 30, of whom nine are "technical" (six agricultural specialists, and three fisheries specialists). All employees are seconded from MAI, MFW and CACB. The expenditures for salaries and wages account for less than one percent of the total expenditures of the AFPPF budget (see attached table for the 1997 budget).

Financial Resources

From inception, AFPPF's resources have comprised a direct "cess" of one rial on each litre of diesel sold at the pump. The amounts are paid over to the AFPPF directly by the oil company.

Initially, transfers were slow; up to January 1996, AFPPF received only advances of about 20% from the oil company. Subsequently, the amounts due have been paid by regular transfers, with two months in arrears.

The "own" resources of the AFPPF are the transfers from the oil company, together with reflows from loans repaid. These resources are considerable; transfers to AFPPF in 1997 totaled Rials 1.2 billion (US$10.4 million) (see attached table for the 1997 budget).

In addition to these "own" resources, AFPPF has been made agent for a further "special fund". This special fund was set up in November 1997, when the diesel price was increased a second time, from six Rials per litre to ten Rials per litre. At that time, the Prime Minister created the special fund to be fed by an extra Rials 1.5 per litre. The special fund is supervised by a committee (separate from AFPPF's board) that is headed by the MAI, and including MOFW, SFD, MOF, CACB and the Farmers Union.

[1] This working paper is largely based on discussions with Issam Luqman, DG of the AFPPF and on the reports of the AFPPF.

Budget and Program Approval

The AFPPF annual budget appears in the general government budget each year as a "special fund" within the Ministry of Finance. AFPPF's budget is first adopted by its board and then discussed with the MOF. The budget is subsequently approved by the Parliament as part of the budget law each year.

Subsequent to parliamentary approval and the issue of the budget law, a detailed annual program is approved by the AFPPF Board. AFPPF management can approve individual projects within the agreed annual program.

AFPPF prepares monthly reports to the Board. There are three Board meetings a year. AFPPF reports through the Board to the Council of Ministers.

Work of the AFPPF

The mandate of the AFPPF is to finance viable and sustainable investments in agriculture and fisheries. For 1998, activities of the AFPPF cover crop and livestock production, water resource development and irrigation, fish production, productive infrastructure, marketing, and technical and economic studies. These activities are supported under four different "programs" which comprise different terms and conditions of AFPPF financing. The programs are: (1) facilities; (2) partial grants; (3) grants; and (4) credits;

1. <u>Facilities Program</u>

The "Facilities" program provides a zero interest loan facility for organizations that execute activities on behalf of the AFPPF. The facilities program is used to improve the access to important inputs like fertilizer, seeds or greenhouses, for farmers. The inputs are commonly purchased by the AFPPF or through specialized government agencies, e.g. Public Agricultural Service Corporation (PASC, a public enterprise under MAI), which sell the inputs to the farmers. Two recent examples for this activity are: a facility of 70 million to PASC for input supply in 1997; and facilities extended to cotton growers in Lahej and Abyan - Rls 117 million in two consecutive years. The latter facility was managed through PASC.

AFPPF's Support to Cotton Production
In the aftermath of the Civil War, the production of cotton experienced a sharp decline in the Governorates of Lahej and Abyan. Production amounted to only 5,000 lb during the agricultural season of 1994 and 1995. The AFPPF decided to revitalize the cotton production which is an important source of income for the agricultural sector through an zero interest loan facility which was given to the PASC and the Tiban and Abyan Delta Development Authorities. The fund contributed also to the repair of a cotton ginning plant which was destroyed during the Civil War. Cotton production increased sharply and reached more than 29 million lb in 1997. Up to September 1997, AFPPF's total contributions exceeded YRls 250 million.

Major facilities have also been extended to the Amran cooperative and to the Agricultural Union for the purchase of 150 Friesian cows. CACB is administering this facility.

2. Partial Grant Program

The partial grant program is available in several governorates (among others, Shabwa, Tehama, Taiz, and Ibb) and for a variety of activities.

There is an activity **water harvesting structures**, which includes small dams in the range 50,000m^3 to 500,000m^3, with a mean of 80,000m^3. The activity also covers weirs, spate improvement with gabions, etc. There are two approaches here. Under one, MAI prepares the project, AFPPF appraises, a contract is signed with MAI which executes the project. Under the second approach, community groups work in partnership with the local Agriculture Office; projects come fully prepared to the AFPPF, which then appraises. Then AFPPF contracts with MAI, which contracts with the community.

The contract for water harvesting structures is made between the community and MAI on the basis of 50:50 contribution. The contribution of the communities is not specified but is usually in the form of local materials as well as labor. The LWCP Technical Assistant in the Department of Irrigation, (Mr. Katarya) is providing technical assistance on the engineering side. So far, the Al-Mahwit Agriculture Office has performed best on the water harvesting structures activity; SURDU is also active. The total number of projects up to 1997 reached 152, at a total cost of YRls 652 million, of which the AFPPF contributed YRls 326 million.

The water harvesting activity got off to a slow start because MAI didn't understand about community participation. But in practice this approach has proved much cheaper than using contractors - AFPPF estimates that structures cost only one third if done by communities. Another positive result of this activity is that communities in the most remote areas could participate and benefit from the water harvesting activity. In communities in remote areas it is impossible to carry out similar work through contractors.

AFPPF's Poverty Alleviation Activity

Small-scale livestock production is an important source of income for the rural population, especially for the rural poor, the landless people, and the poorest of the poor. It generates income, provides food, and stabilizes the livelihood of poor families. The AFPPF carried out a trial program in four Governorates under which the participating families obtained either 10 sheep or two cows. 40 percent of the cost was provided as a grant, based on the condition that the livestock is used to develop a sustainable source of income for the families. The families made a commitment neither to sell nor to slaughter their livestock. This commitment addresses the widespread custom of early slaughtering of females and young livestock. The remaining 60 percent of the cost was provided as a soft loan without interest, which had to be repaid in two years from the proceeds of the livestock provided to them. The activity is extended through Agriculture Offices, projects, or any other viable institution. YRls 16 million was committed to this program in 1997; YRls 100 million is budgeted for 1998.

Other partial grant activities include (a) an activity in Shabwa, Hadramuth and Tihama, to give 500 Rials per tree to expand date palm; up to now, 25,000 date palms have been planted under this activity. Based on these positive results, AFPPF decided to expand this activity to the cultivation of coconut and mango trees; and (b) seed multiplication.

3. <u>Grants Program</u>

Grants have been made to MOFW to buy boats and engines, one set per four families, for those who lost in the war. This covered 240 boats and 240 engines already provided in 1996, and a further 560 boats and 560 engines in 1997. In addition grants have been made for smoking and drying fish units in very poor communities.

Criteria for eligibility for grants include: technological introduction; poverty; and promoting exports.

4. <u>Credits Program</u>

Projects with feasibility studies are entitled to apply for the Credits Program. CACB administers this and AFPPF pays 50% of the interest.

Recent projects include three dairy projects, plus one potato seed project. Regular interest is at 12%, and this is reduced by half through the AFPPF subsidy.

New Activities

The basket of activities which are supported by the AFPPF are constantly under review. New activities are added, activities which have been proved to be successful are extended and activities which are failures are removed. The activities and budget which are planned for 1998 are a good example for the wide range of fields which the AFPPF is supporting. The following new activities are part of the 1998 plan (for details see table ! with the 1998 AFPPF program and budget):

1. a series of exchange visits to take Abyan/Lahej farmers to Tehama to see techniques of millet production on sand dunes;
2. transfer of high milk-yielding Pakistani goats from Aden to Taiz;
3. external and internal marketing of agricultural products; and
4. infrastructure for agriculture and fisheries.

Table 1: AFPPF Program and Budget 1998

Activity	Assistance Program	Amount	% of total
1 Plant Production		183,000,000	8%
1.1 Input Supply	Facilities	100,000,000	
1.2 Production Systems			
1.2.1 Cash Crops, Fruits and Grains	Soft Loan	50,000,000	
1.2.2 Date Palm, Coconut, Mango Cultivation			
1.2.2.1 Date Palm	Partial Grant	20,000,000	
1.2.2.2 Coconut and Mango	Grant	2,000,000	
1.2.3 Small Plant Nurseries	Soft Loan	10,000,000	
1.2.4 Cultivation of Sand Dunes	Grant	1,000,000	
2 Livestock Production		224,000,000	9%
2.1 Input Supply (Vaccines, Cleaning Agents)	Facilities Program	25,000,000	
2.2 Establishment of Livestock Products			
2.2.1 Improvement of Breeding and Fattening of Cattle, Sheep and Dairy Prod.	Soft Loan	80,000,000	
2.2.2 Improvement of Domestic Sheep and Cattle Husbandry	Partial Grant/Soft Loan	100,000,000	
2.2.3 Local Breed Production - Sheep	Grant	5,000,000	
2.2.4 Small Rural Ranches	Grant	12,000,000	
2.2.5 Wool Spinning and Leather Tanning Equipment for Rural Families	Grant	2,000,000	
3 Water Resource Development		700,000,000	30%
3.1 Partial Financing Water Installation Projects with Community Participation	50% of total Cost/Grant	250,000,000	
3.2 Full Financing of the Water Installation		450,000,000	
4 Fisheries		280,000,000	12%
4.1 Small Coastal Fishing Boats	Soft Loan, Facilities	100,000,000	
4.2 Provision of Small Marine Engines	Soft Loan, Facilities	80,000,000	
4.3 Provision of Fishing Equipment and Tools		100,000,000	
4.3.1 Direct Sale to Beneficiary Fishermen	Facilities		
4.3.2 Soft Term Loans	Soft Loan		
5 Infrastructure		285,000,000	12%
5.1 Agriculture			
5.1.1 Collection, Storage, and Marketing Centers for Agricultural Products	Soft Loan	120,000,000	
5.1.2 Centers for the Preparation of Exports	Soft Loan	20,000,000	
5.1.3 Grain Silos	Soft Loan, 20% as a Grant	10,000,000	
5.2 Fisheries			
5.2.1 Construction of Ice Factories	Soft Loan	100,000,000	
5.2.2 Small Coastal Collection Centers	Grant	20,000,000	
5.2.3 Small Unit for Drying and Grinding Fish	Soft Loan, 20% as a Grant	10,000,000	
5.2.4 Small Enterprises for Smoking and Drying Fish	Grant	5,000,000	
6 Internal and External Marketing of Agricultural and Fish Products		80,000,000	3%
6.1 Refrigerated Transport Vehicles	Soft Loan	60,000,000	
6.2 Participating in Raising Exports	Facilities, Grant	20,000,000	

Activity	Assistance Program	Amount	% of total
7 Economic and Technical Studies	Grant	15,000,000	1%
8 Contribution to the Financing of Donor Financed Projects		50,000,000	2%
9 Other Supporting Participation		100,000,000	4%
10 Outstanding Commitments for Financing Current Projects		450,000,000	19%
Total		2,367,000,000	100%

Source: AFPPF, Draft Explanatory Note for the Annual Plan for 1998

The budget for 1998 amounts to YRls 2.4 billion, of which water resource development accounts for 30 percent, followed by the outstanding commitments of 19 percent and 10 percent for each plant production, livestock production, fisheries and infrastructure. The experience of the last few years is, however, that only a part of the AFPPF budget proposal is actually spent.

Future Directions

AREA has requested support for research, and this could be considered for production-related research " once they have a credible program".

Possible subsidy for irrigation equipment (up to 30%) is being considered. This could include conveyance, distribution, drip. *Qat* could be included, as "drip can reduce water consumption of *Qat* by 80%".

The Special Fund

The objective is "to give quick assistance to areas affected by the diesel price rise". Early activities include: (1) subsidy of the price of improved wheat seeds (reduced from Rials 65/kg to Rials 45/kg); and (2) extending several "facilities" to help irrigated agriculture. The latter activity includes:

(i) cold store and marketing centers, to allow spacing of marketed produce, improve quality etc. Projects have been approved with cooperatives in Hodeidah, Marib and Dhamar

(ii) transportation for fresh produce (no projects yet)

(iii) irrigation technology (no projects yet, AFPPF is "waiting for ideas" and pilot projects would be considered).

Cooperation with SFD and Other Donors

Cooperation between AFPPF and SFD is beginning, with four cofinanced dams (three in Sana'a Governorate, one in Al-Mahweet). The cost sharing ratio is 40:40:20. AFPPF aims to convince other donors to contribute to its activities. Areas which are suitable for donor support are those related to projects with popular participation.

Procedures

Work is conducted on a contract basis. For example, for small dams, AFPPF signs a contract with MAI, which in turn will contract with the community. Payments are made against certificate or invoice.

AFPPF does not execute any activities itself, but always works through partner agencies. Where AFPPF contracts with a partner agency, a 2% fee is paid. Normally, a 20% advance on contracts is made to the partner institution's account.

The appraisal criteria and appraisal process for the small demand driven projects and soft loans is not transparent. It is likely that the small number of staff of AFPPF has not the capacity to approve each single loan or grant application.

Evaluation (made by Dr. Luqman in discussion)

AFPPF counts the poverty alleviation activity as very successful.

Different partner agencies do better than others. For example, amongst the Agriculture Offices, Al-Mahweet is doing well. SURDU is also active. By contrast, no work has been done with the Agriculture Offices in Lahej or Abyan because of their weak capacity and poor understanding of the program. In these areas, AFPPF is working with cooperatives directly.

The D.G. is frank about the fact that " a lot of things did not start or did not work well". For example, AFPPF wanted to promote mobile veterinary clinics that would visit markets. However, no one ever applied for this activity.

Efficiency is said to be good, with only one month for projects to be approved.

Rainwater harvesting "has been successful. In Bani Hoshaish the water table, that had plummeted to 700m, is now on the rise. In one basin in Al-Mahweet, the table has returned from 140m to 12m. Better water control allows vegetable production through supplementary irrigation, bridging between rains. New terraces are being constructed, and in Haima people are returning to their villages"

Issues (initial comments by the World Bank team)

Most of AFPPF's activities fit very well to the agricultural strategy for Yemen. The activities cover several areas which have been identified as priority areas for action under the agricultural policy review. AFPPF's activities support the sectoral objective to increase productivity of crop and livestock production, to increase livestock production, to improve marketing of agricultural products, to ease the access to inputs, and to protect the environment. The support of local breed production and the development of improved breeding and fattening production techniques are likely to yield benefits not only in the short-term but also in the long to medium-term.

The activities related to water resources need further consideration in order to prove whether they are consistent with the Water Strategy for Yemen.

Most of AFPPF's activities are based on private sector investment. The beneficiaries are usually the owners of the new facilities or assets, hence they have to pay the recurrent costs. For the community owned water harvesting structures and infrastructure facilities, however, it is important that the communities or beneficiaries make a clear commitment to pay for the recurrent costs. Due to this, AFPPF's activities will not create additional costs for MAI's recurrent budget.

The AFPPF appears to incorporate many promising features:

- demand drive
- willingness to work with any competent partner, private or public
- emphasis on results on the ground and on productive, income generating activities
- priority given to working with farmer groups
- poverty focus
- low overhead and light structure
- efficiency, rapid turnaround
- willingness to innovate - to stop what does not work well
- emphasis on projects related to the key stresses of adjustment - the rising cost and increasing scarcity of water; slow productivity growth in agriculture at a time of rising population; and failure of classic public services to deliver.
- being a visible response to the problems of adjustment for farmers.
- being an indigenous response, created by Yemen to solve its own problems.

On the other hand, the potential risks could be considerable:

- the fund is big in any terms, and bigger than the regular investment budget in agriculture. First rate management and accountability is essential.
- the fund, although not "extra budgetary", is in a possibly prejudicial position regarding classic rules of public finance: (1) generally public revenues (e.g. from diesel sales) are not dedicated to particular purposes but lumped into the general exchequer; and (2) generally, public investments are managed by a single programming, budgeting, control and reporting system, and "special funds" are avoided.

- the number of activities being undertaken is large, and monitoring and evaluation is difficult.

- not all projects are consistent with AFPPF's approved targets, plans and policies since they have been requested by senior authorities

- the appraisal criteria for project proposals are not clear. AFPPF's capacity to prove projects and appraise project proposals, e.g. to conduct technical and economic feasibility studies, needs to be strengthened.

Proposal for a Joint Review of AFPPF

In the light of the above, it is clear that AFPPF has enormous potential, and that it parallels in some ways SFD but in productive activities. It is not possible on the basis of brief acquaintance to make any judgments. However, the DG of the Fund Dr. Luqman suggested a joint review of the AFPPF. This joint review could be carried out in partnership by MAI, MOPD, MOF, AFPPF, and the World Bank, with support from SFD and CACB. The purpose of the review would be to assess success and cost effectiveness in reaching objectives and to help revise objectives, programs and activities to meet policy goals most effectively. In addition, the review would consider the position of AFPPF within the Government's overall investment effort.

Although separate funds are not usually seen as best practice, they are used - and can be justified - in certain circumstances. They are frequently set up when the government budget is not over-transparent, or is poorly organized, or is politically dominated. The objective is to secure money for a particular objective when regular funding is too low. Typically funds are set up as "arms length agencies" with greater flexibility of management than in regular budget and implementation systems. Such agencies can mimic the discipline and accountability of the private sector and so ensure efficient delivery of public services.

Government set up the AFPPF in order to ensure a predictable and sure stream of financing for small scale, community-initiated investments in the rural sector. The justifications were that: (1) that rural development was a priority but it was never adequately financed; (2) rural development requires a sustained stream of financing year on year that the regular budget could never assure; (3) Government was concerned about the effect of diesel price rises on agricultural incomes and wanted to channel back a share of those rises in a way that would stimulate sustainable development; and (4) conventional agencies and financing sources did not have the flexibility or procedures for dealing with communities and community contracting.

Although these justifications may be laudable, good budget practice requires that AFPPF demonstrate that there really is an advantage over regular budget process that outweighs the potential disadvantages. The review should therefore examine AFPPF's performance against typical criteria for fund performance:

1) ***is the fund managed in a transparent way?*** In particular are objectives clear and agreed, is there a transparent system for performance measurement and is compliance with that system good? Is there a transparent budgeting and accounting system, and is there an external audit?

2) ***is the fund fully accountable?*** In particular, is there a management board? Is there regular supervision to avoid abuse? What procedures are there to ensure that money is not diverted from agreed programs?

3) ***is the fund able to demonstrate efficiency advantages?*** In particular, is management competent and paid market salaries? Is management selected competitively? Are operations demonstrably more cost-effective than the alternative?

4***) does the fund satisfy good governance conditions?*** In particular, does it have a clear and agreed mission statement? Has it set technical and economic criteria that make selection of projects objectively justified? Is it able to avoid political pressure? Does the board represent stakeholders, including beneficiaries?

The answers to the above questions would demonstrate whether AFPPF's advantages outweigh the potential disadvantages associated with funds, which are:

(i) funds may be inconsistent with macroeconomic control, especially expenditure control. i.e. setting an affordable public expenditure total and ensuring expenditure control. To avoid this problem would require, at least, that AFPPF be included in the budget.

(ii) funds that earmark resources reduce Government's ability to channel resources at the margin to the best possible use. AFPPF would have to show that it had an efficiency advantage over regular public spending to avoid this criticism.

(iii) earmarked funds may be incompatible with the requirements of efficient cash and financial management. The question is - are surplus cash balances available overnight to government?

(iv) special funds may create pockets of light, but they risk creating, through the "politics of envy", pressures for more and more such special arrangements. Shouldn't we just concentrate on reforming the budget?

The review would focus on:

- review of mandate and objectives and need for any changes, including changes to the law
- financial procedures, accountability and financial sustainability of AFPPF.
- relevance, cost-effectiveness and sustainability of activities financed.
- programming, budgeting and management procedures, including reporting to and oversight by the Board.
- outreach : how good is AFPPF at informing people about its programs?
- appraisal and supervision process
- relations with partner institutions
- objectives and future activities
- status of AFPPF in relation to the general investment budgeting procedures.

The Review Team would comprise

a team leader, economics expert in development funds/ subsidies
an irrigation/dams engineer
a financial analyst/economist

The methodology would comprise:

- review of all relevant documentation
- discussions with the Board, partner institutions, SFD, donors and AFPPF staff
- discussion with MOF on budgetary aspects.
- visit to a large sample of field activities
- a workshop to present findings
- a draft and, subsequently, a final report.

The Team would report to H.E. the Minister of Agriculture, Chairman of the AFPPF, and to H.E. the Minister of Finance..

Timing. The Evaluation would take place within the calendar month of September 1998, with the draft report due no later than October 15, 1998.

Financing. Financing could be provided by the ASMSP Credit (Dr. AbdulRahman Sallam, Director General).