The Washington Consensus on Agriculture

(Extract from Jonathan Kydd and Andrew Doward ' New Washington Consensus on Poor Country Agriculture: Analysis, Prescription and Gaps: with particular attention to globalisation and finance for seasonal inputs', mimeo, Jan 2001)

The WCA: Analysis
In recent World Bank policy documents the following themes recur as explanations of those cases where the agricultural sector has failed to fully realise its potential in bringing about rural development and poverty reduction:

- Agriculture of poor regions is “undercapitalised” and insufficiently competitive in the world market.
- Adverse resource endowments (including high vulnerability to plant and animal diseases) and skewed distribution of resources have been major background factors, nevertheless the key problem is “policy and institutional” failures.
- “Institutional” failures: these are often not very well defined, but World Bank policy documents tend to focus on: (a) the effectiveness of political institutions and the organisational capability of governments, including issues such as freedom of association, transparency, accountability and the extent of devolution of decision making; (b) the strength and effectiveness of civil society organisations, such as farmers’ organisations and NGOs.
- Policy failures are conceptualised as suppression of agricultural incentives through: (a) “economy wide” policies (i.e. macro, trade and industrial policies) which discriminate against agriculture; (b) excessive explicit taxation of agriculture (mainly via commodity levies); (c) support for agriculture has been quantitatively inadequate while also inefficient. At the root of this inefficiency is excessively state dominated and centralised service provision, delivered through structures that are prone to rent-seeking while also discouraging emergence of private services; (d) urban bias, which is a policy failure consequent on the weaknesses of political institutions.
- Stylised “political economy of low density rural areas” (e.g. Binswanger and Deininger, 1997) which has three key “development retarding features”: (a) these rural economies are relatively unspecialised, so taxation has to be based on incentive-depressing interventions in agricultural markets; (b) transactions costs are very high, due to poor transport and telecoms infrastructure; (c) low population density also raises “political transaction costs”, making it easier for the urban elite to resist pressure to address urban bias.
- Africa has inadequate irrigation, and in almost all developing countries traditional large scale state managed irrigation schemes require continuing subsidy (especially maintenance costs).
- Soils are deteriorating: (a) in pre-green revolution areas due principally to continued mono-cropping without adequate fertiliser application and/or soil conservation; (b) in green-revolution areas due to contamination of soils from inadequate drainage, water-table depletion, and salt-water infiltration.
- There are very high returns to expenditure of agricultural research and extension (e.g. Evenson’s recent median figures for Africa – cited approvingly by the World Bank - of IRRs of 37% for research and 27% for extension), yet research expenditures are modest and falling. Low research outlays are explained mainly as a failure of political institutions in poor countries, and secondarily as a failure of international donors.
The critique of marketing policies in more detail: parastatals provided services to farmers in output and input markets and seasonal finance, often on the basis of monopoly. This resulted in: (a) high operational inefficiency which was paid for mainly by low output prices and/or a fiscal burden on central government; (b) failure to develop competitive supply at all levels within supply chains; (c) weak and undynamic links with the international market, causing loss of market share in traditional exports and inhibiting diversification into crops and processed products with more promising price prospects.

Agricultural finance: the under-capitalisation of agriculture is due to: (a) the general policy failures which have suppressed incentives for farmers and inhibited private and public agricultural-related investment; (b) weaknesses of rural financial systems, which have failed to stimulate and capture agricultural savings and to channel these to agricultural investment. (Also it is unlikely that inter-sectoral and/or international financial flows can play the predominant role in capitalising small scale agriculture.)

Smallholder (family) farming is a fundamentally efficient mode of economic organisation in poorer countries, the potential of which has been seriously inhibited where there have been economy-wide policy biases against agriculture, often reinforced by biases within the sector towards larger farms. The proposition that smallholder farming is fundamentally efficient rests on the view that it is the most effective form of organisation for engaging and motivating labour in agriculture (because the operating family is the claimant of the residual surplus) and because it encourages farm operators to acquire and apply locally-specific agro-ecological knowledge (see Appendix 2).

Insecure property rights, principally in land, are significant factors in some areas in inhibiting investments in land improvements and in holding back rural financial development through the use of land and buildings as loan collateral.

Land reform is important where land ownership is highly skewed, and is justified on grounds of poverty reduction and economic efficiency. Land reform should take place in a market-based framework, but with government as a facilitator and source of background pressure. This should allow reform to be achieved while maintaining a framework of respect for property rights within society as a whole, and the confidence of existing and prospective investors in the agricultural sector.

Developing country government capacity issues in more detail: (a) accountability and transparency is influenced by the extent of freedom of association and open rule-based political competition and also by the extent of decentralisation; (b) decentralisation gives government decision makers better information about local circumstances and allows electors greater access to them; (c) in decentralised systems, electors have better information about the behaviour of decision makers and this enhances accountability; (d) often state service delivery is over-extended relative to budgetary resources, and thus partnerships must be developed with the private and voluntary sectors to enhance services. These partnerships can be most effectively forged at the local level.

Finally, OECD country agricultural and trade policies are seriously unhelpful by: (a) limiting market access for exports; (b) depressing world market prices for key commodities; (c) causing greater price volatility on world markets; (d) maintaining tariff escalation, which inhibits the development of value-added processing within poorer countries.
The WCA: Prescription

- A key requirement is “agricultural systems intensification”, meaning increased farm productivity based on the development and application of new and improved technology. This is a long-standing objective which, in the past, has been pursued by government programmes focused on technical issues and specific crops. From hereon, much greater emphasis should be given to private sector incentives; sustainable resource management; commodity diversification; decentralisation; and participation of farmers in setting objectives, conducting research and evaluating results.

- Another key objective should be the expansion of non-traditional crops, because diversification mitigates the effects of price volatility for individual crops, and because, generally, world market prices of non-traditional crops have fallen less than for traditional crops.

- Much can be achieved by continued improvements in economy-wide (i.e. macro, trade and industrial policies) and agricultural policies, especially the reduction of tariff and non-tariff barriers to imported agricultural inputs.

- The state of input supply remains highly unsatisfactory and uncompetitive (there is less concern about the performance of output markets). “Private players have been slow to replace parastatals because of barriers to entry in the business climate more generally”: this requires a review of existing formal and informal barriers to entry and also a credible commitment by the government to keep out of the market.

- More reforms are needed in taxation policy, based on a move to on-discriminatory forms of taxes (e.g. VAT, broad-based consumption taxes) which will reduce the reliance of central and local governments on commodity levies.

- Small and medium sized countries should reduce trade intra-regional barriers and put more emphasis on regional cooperation in agricultural research and plant and animal disease control.

- Much better services are required in the delivery of agricultural public goods and services to poor rural people. New approaches could be based on public-private partnerships. These could involve, as appropriate, central, regional and local government and could be based on: formal partnerships; contracting-out and delegation of execution; privatisation of services.

- Decentralisation has, generally, become a government and donor objective, but there has been little progress in some countries (espec. Africa) in the de-concentration of service delivery. Specific measures which are now needed include:

  - transfer of more elastic tax bases to local jurisdiction;
  - revenue sharing funds for poorer and richer districts;
  - central co-financing of investments favouring the very poor (to impose an additional poverty-reduction priority from the centre);
  - but, last point excepted, central government resource flows to local government should not be pre-assigned, so as to allow resources to be allocated in line with local priorities;

- Aid donors should consolidate the present emphasis on programme or budget support (e.g. via SIPs), avoiding balkanised projects.

- Finally, OECD countries should reform their agricultural and industrial policies to substantially reduce distortion of world markets and tariff escalation; prevent sanitary requirements being abused as non-tariff barriers to poor agricultural exports; provide more assistance to countries to allow them to use their
membership of the WTO to fight unfair trade practices; encourage foreign direct investment in agriculture and related activities.