Alternative visions for agricultural growth in Africa: what should governments and markets do?

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with inputs from Colin Poulton & Jonathan Kydd

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Issues & Outline

- The role of agricultural development in economic growth and poverty reduction
- Challenges facing agricultural development & small farms in LDCs
- Critical role of services
- Major policy approaches
- The small farm coordination challenge for different products
- Policy implications – states & markets
Role of agriculture in pro-poor growth?

- Direct impacts of increased agricultural productivity & incomes on poor farmers & farm labourers
- Exports & import substitution
- Cheaper food for the urban & rural poor & stable prices
- Stimulus for demand for local goods & services
- Release of surplus capital & labour to other sectors
- Livestock & horticulture growth

Note:

- Stages of development & growth
- Nature of growth (intensification, land productivity & labour demand, small farms, tradables & staples then non-tradables)
- *Needs access to low cost coordinated exchange & services*
Challenges for African Agriculture

- Agro-climatic potential & variability
- Population density
- Infrastructure: roads, telephones
- Governance – capacity, clientelism
- Weak institutions
- Poor business environments
- Small firms

- Small countries
- Conflict
- Commodity prices
- Technology bias
- Urbanisation
- Global markets
- HIV/AIDS
- Weak service delivery / access
Agricultural & market development poverty trap

Small scale farming and labouring
- Long & risky production & sales cycles
- High unit transaction costs for services
- Food insecurity (production & market access)

Input supplies
- Narrow time windows
- Uncertain farm demands
- High inventory costs

Risky & high cost services, thin markets

Output markets
- Uncertain, small surpluses
- Many small traders

Farm finance
- High transaction costs & risks
- High interest rates
- Depressed demand & repayment incentives
## Transaction & transformation costs and risks

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
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<tbody>
<tr>
<td>Opportunism</td>
<td>Opportunism: potential losses &amp; costs of protection from cheating by trading partners.</td>
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<tr>
<td>Commitment</td>
<td>Commitment: potential losses &amp; costs of protection from absence of suitable buyers and sellers (search, trust)</td>
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<tr>
<td>Rents</td>
<td>Rents: potential losses &amp; costs of protection from government, political, criminal or other agents expropriating income or assets.</td>
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<tr>
<td>Transformation / production</td>
<td>Transformation / production: inputs, labour, land, capital, transport, storage, processing, market price variation.</td>
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States, markets & agricultural growth in 20th century

Two phases of development policy in poor rural economies:

- **state-led development**: state interventions to address *market failures*
- **market-led development**: reliance on the private sector and markets to avoid *state failures* in market interventions

State led development:

- Price interventions (input and finance subsidies, output price stabilisation/support?) & Organisational interventions (parastatals, state-sponsored cooperatives, agricultural finance)

Outcomes:

- Some (mainly African) countries: major drain on government budgets with little gain.
- Other (mainly Asian) countries: the greatest processes of agricultural growth and poverty reduction in history.
**State led agricultural development: demise**

By the 1980s government intervention (correctly) seen as
- costly & inefficient,
- anti-competitive,
- serving harmful vested interests,
- large drain on public resources,
- inhibiting macroeconomic stabilisation,
- diverting public expenditure,
- giving bad (or non-existent) services to farmers
Market led agricultural development: policies

- State activities to address public good failures
- Privatisation or dismantling of parastatals, deregulation of markets, elimination of subsidies
- Public expenditure reduction & tariff removals
- “Social action funds” to assist short-term losers
- Development of institutions supporting markets

Outcomes

- Quick fiscal relief & mixed macro-economic benefits from wider Structural Adjustment Programmes

Successes

- poor & lower-middle income countries with dense populations & diversified agriculture & rural economy
- lower consumer prices for staples in southern Africa
- some export crops in poor countries (cotton)

Failed to stimulate agricultural growth in poor rural economies with high dependence on low productivity staple production
Differing views on market led agricultural development

- Partial liberalisation: incomplete, uncertain implementation; high investment risks & low incentives
- Insufficient investment in public goods to support market development
- Weak institutions: weak property rights & institutional environment: high investment risks & low incentives

Institutional critique
- Intervention in food staples inevitable & often legitimate
- Naïve expectations of rapid market development
- Overlook historical experience of widespread non-market coordination in staple (state intervention) and non-staple (non-standard arrangements) successes
Processes & conditions for agricultural transformations

**GOVERNMENT ACTION**

**Phase 1. Establishing the basics**
- Roads / Irrigation Systems / Research / Extension / (Land Reform)
  - Liberalisation: ‘fails’
- Profitable intensive technology. Wider uptake inhibited by lack of input, finance & output markets
  - Liberalisation: ‘fails’

**Phase 2. Kick starting markets**
- Reliable local seasonal finance, input & output markets
  - Liberalisation: ‘fails’
- Effective farmer input demand & surplus prodn.

**Phase 3. Withdrawal (non-agric ?)**
- Effective private sector markets
  - Liberalisation: ‘succeeds’
- Larger volumes of finance & input demand & produce supply. Non-agric. linkages.

**STATUS OF AGRIC**

- Extensive, low productivity agriculture.
- Profitable intensive technology. Wider uptake inhibited by lack of input, finance & output markets
- Effective farmer input demand & surplus prodn.
- Larger volumes of finance & input demand & produce supply. Non-agric. linkages.

**GOVERNMENT ACTION**

- Intervention
  - ‘fails’
  - ‘can succeed’
## Policy success & failure in sustainable intensification in agricultural development

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<th>Market led approaches</th>
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<td>Staple crops</td>
<td>Cash crops</td>
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Differing views on market led agricultural development

- **Partial liberalisation**: incomplete, uncertain implementation; high investment risks & low incentives
- **Insufficient investment** in public goods to support market development
- **Weak institutions**: weak property rights & institutional environment: high investment risks & low incentives

**Institutional critique**
- Intervention in food staples inevitable & often legitimate
- Naïve expectations of rapid market development
- Overlook historical experience of widespread non-market coordination in staple (state intervention) and non-staple (non-standard arrangements) successes
  - Flaws in failing to address coordination failures
  - Must develop organisations & supply chains (markets are not the only coordinated exchange mechanism - hierarchies (within firms) are also very important)
Getting services going for different products?

Key question:

- What are the critical & amenable constraints to escape from the trap (necessary, sufficient & cost effective conditions)
  - Profitability (input & output prices/costs, transport, technology, management)
  - Coordinated service provision & access (inputs, finance, land, labour, skills, information, buyers, processors, transport, …).
  - Non market coordination mechanisms are needed – *What? How? Who?*
What Coordination is needed?

- **Vertical coordination**
  - Specific assets and risks, thin markets
  - Quality & timing
  - Missing credit markets

- **Horizontal coordination**
  - ‘Public goods’ (research, extension)
  - Opportunism problems - credit, grading, staff development
  - Fixed transaction costs & other economies of scale

- **Complementary coordination**
  - Complementary service delivery & access
Traditional export cash crops

Private sector can provide coordination if:
- High potential returns
- High fixed costs in processing
- Land, labour or political disadvantages for large farms
- Concentrated buyer or horizontal coordination among buyers
  - incentives to utilise capacity & vertical coordination
  - incentives for complementary coordination of small farm service delivery

High value products (e.g. horticulture)
- Similar incentives for coordination to ensure supply contracts
- But difficulties with smallholders
  - timing (perishability, market flow)
  - traceability and quality assurance
  - flexible investment

Private investment needs externally supported & well organised farmers, large farms constraints
Staple food crops

- Lower value added, low specific assets & less concentrated markets limit buyers’ incentives to provide services
- Many small buyers, high market costs
- Coordination problems unresolved
  - Asian Green Revolutions: active role for state (coordination, subsidies) but state intervention problems
  - Liberalisation in Africa an experiment: no major intensification breakthrough post-liberalisation
  - What are the alternatives?
What should states & markets do?

- Recognise both state & market failures
- Situation specificity – products, stages of economic / market development, other conditions
- Coordination is a critical issue
- Pragmatism not dogmatism
- Identify & address critical & amenable constraints
- Consistency
  - short & long term goals;
  - food security, poverty reduction & growth goals
- Manage transitions
  - Food deficit to food surplus
  - Staple foods to high value crops
  - Farm to non-farm economy
  - Unskilled to skilled labour economy
  - State to private investment
  - Non-market to market coordination
State support for mixed economy development

- Beyond an ‘enabling environment’
- Governance issues critical
  - Developmental state
  - State demands & capacity paradox
  - Match state capacity to scope of state action
- Establish the basics
  - Technology, infrastructure, education, land
  - Low cost service development & access
  - Transparency, stability, flexibility, limits & exits in state action
- ‘SMART’ institutions to avoid lock in, rent seeking, etc
- Voice & accountability
- Service coordination / facilitation
  - Provision? Delivery? Regulation?
- Role of Ministries of Agriculture? Central/ District
- Regional systems (political restraint, price stabilisation, market size/ stability)
‘Market’ development

- Different opportunities/ constraints with staple, cash crops etc
- Necessary conditions for private sector engagement
  - political, economic, infrastructural?
  - profit, investment, risk relations
- Commodity supply chain approach (supply chain facilitators & champions? Best et al)
- Non standard arrangements – benefits & risks of monopsonistic/ monopolistic systems
- Roles for
  - Larger firms
  - Farmer & trader organisations
  - Interlocking systems
  - Critical commodity chains, cereal banks, warehouse receipts, franchises, stakeholder fora
  - Insurance
  - Subsidies – service development, remote areas
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<th>Medium/ Long Term Achievement Needs (Policy purpose)</th>
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<td><strong>Food security</strong>: Secure &amp; affordable access to food</td>
<td>Increased food self-sufficiency (household &amp; national) with <strong>food delivery</strong> &amp;/or <strong>productivity enhancing</strong> safety nets &amp; humanitarian response</td>
<td>Increased hhold &amp; national food market access (low &amp; stable cost, secure, timely) wider entitlements with (mainly) <strong>market</strong> safety nets &amp; humanitarian response</td>
</tr>
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<td><strong>Poverty reduction</strong>: Incomes of poor increased &amp; secure, by low food costs, higher labour returns &amp; safety nets.</td>
<td>Safety nets to increase/secure real incomes &amp; develop/ protect assets (see above)</td>
<td>Broad based growth with opportunities &amp; wages for unskilled rural labour, low food prices (safety net etc as above)</td>
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<td><strong>Rural economic growth</strong>: Increased local economic activity, stable incomes for poverty reduction &amp; food security</td>
<td>N/A</td>
<td>Macro economic stability &amp; low interest rates; growth in agric. &amp; non agric. sectors tightening labour markets &amp; raising incomes, stable / affordable food prices.</td>
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Market led agricultural development: policies

- State activities to address public good failures (research, extension & market information; market regulation; road & telecommunications infrastructure)
- Privatisation or dismantling of agricultural marketing parastatals (de-linking credit, input and output markets)
- Deregulation of markets
- Elimination of credit, input and output subsidies
- Wider reforms to reduce public expenditure & remove tariffs & controls (reduce over-valuation of exchange rates, improve macro-economic environment)
- “Social action funds” to assist short-term losers
- Development of institutions supporting markets
Market led agricultural development: outcomes

- Often provided some quick fiscal relief
- Mixed macro-economic benefits from wider Structural Adjustment Programmes

Successes

- in poor countries & lower-middle income countries with dense populations & diversified agriculture & rural economy
- lower consumer prices for staples in southern Africa
- some export crops in poor countries (?cotton)

Failures

- to stimulate pro-poor agricultural growth in poor rural economies with weak infrastructure, high dependence on low productivity staple production
Service delivery market failures in poor agriculture

- *Public good failures*: research, extension, communications infrastructure, (health services)
- *Access failures*: exclusion & discrimination
- *Transaction failures*: high transaction costs & risks in agricultural & market poverty trap