

**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

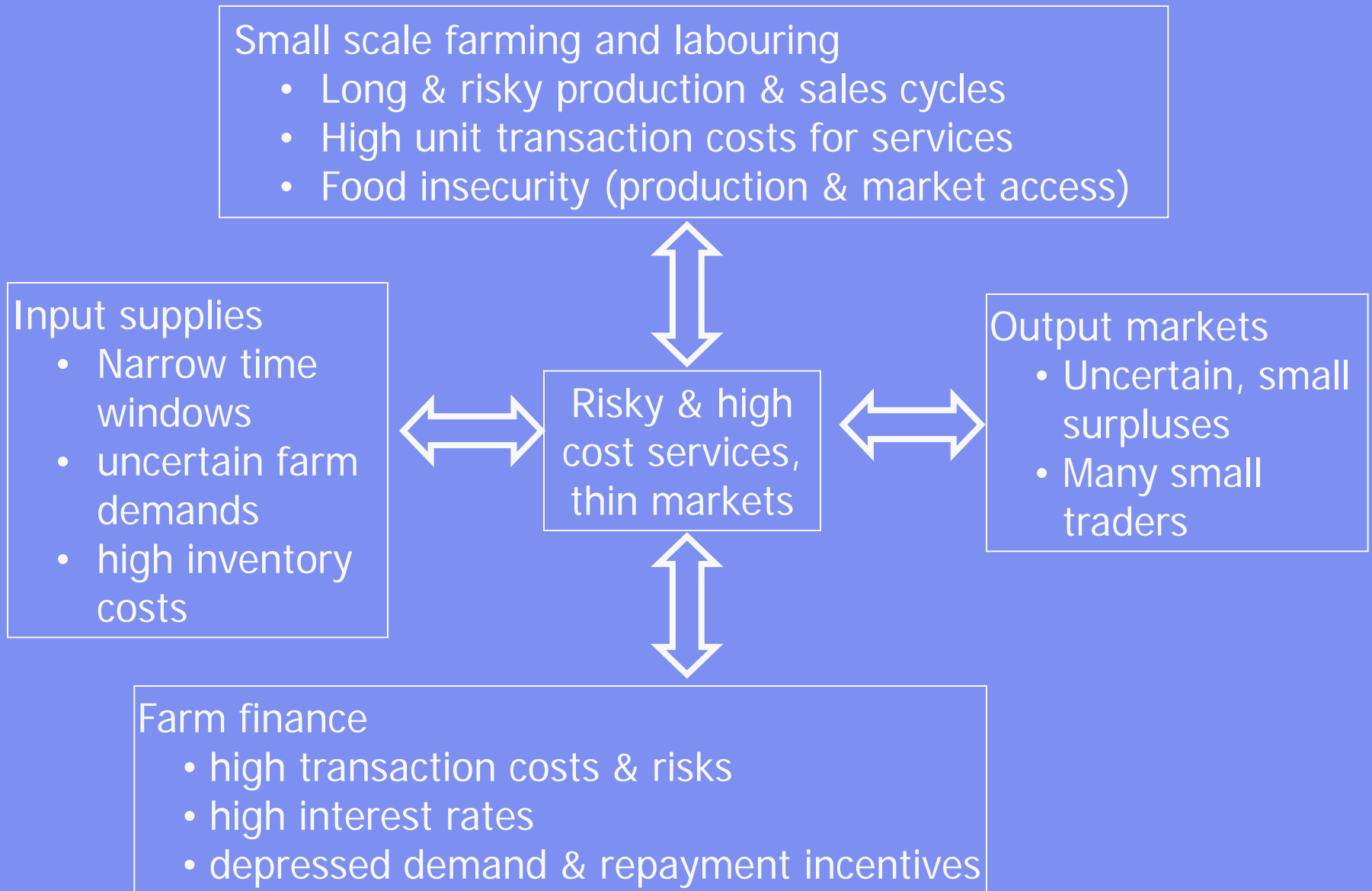
### *Note:*

- ❑ 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



# Transaction & transformation costs and risks

Opportunism	Opportunism: potential losses & costs of protection from cheating by trading partners.
Commitment	Commitment: potential losses & costs of protection from absence of suitable buyers and sellers (search, trust)
Rents	Rents: potential losses & costs of protection from government, political, criminal or other agents expropriating income or assets.
Transformation / production	Transformation/ production: inputs, labour, land, capital, transport, storage, processing, market price variation.

# 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

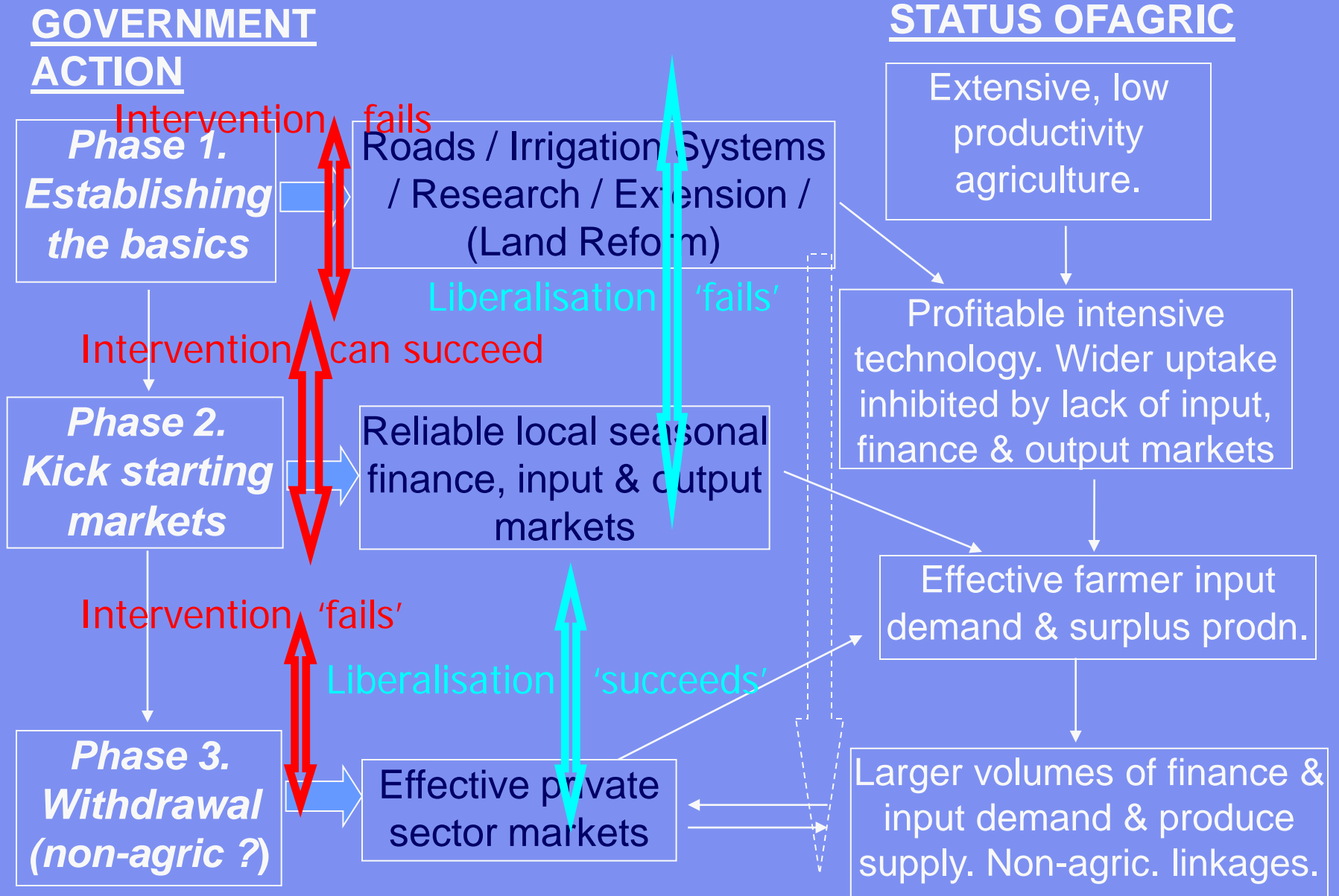
## Outcomes

- 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
  - Naive 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



# Policy success & failure in sustainable intensification in agricultural development

	State led approaches		Market led approaches	
	Staple crops	Cash crops	Staple crops	Cash crops
Success in stimulating sustainable intensification	Asian GR Some African successes not generally sustained	Some African state marketing boards/ systems (eg Francophone cotton)	????	S & E African cotton, Malawi tobacco ( <i>but widespread non-market coordination</i> )
Failure in stimulating sustainable intensification	Many African food crop marketing boards	Many African state marketing boards/ systems	Africa from 1980s	Some African cotton systems

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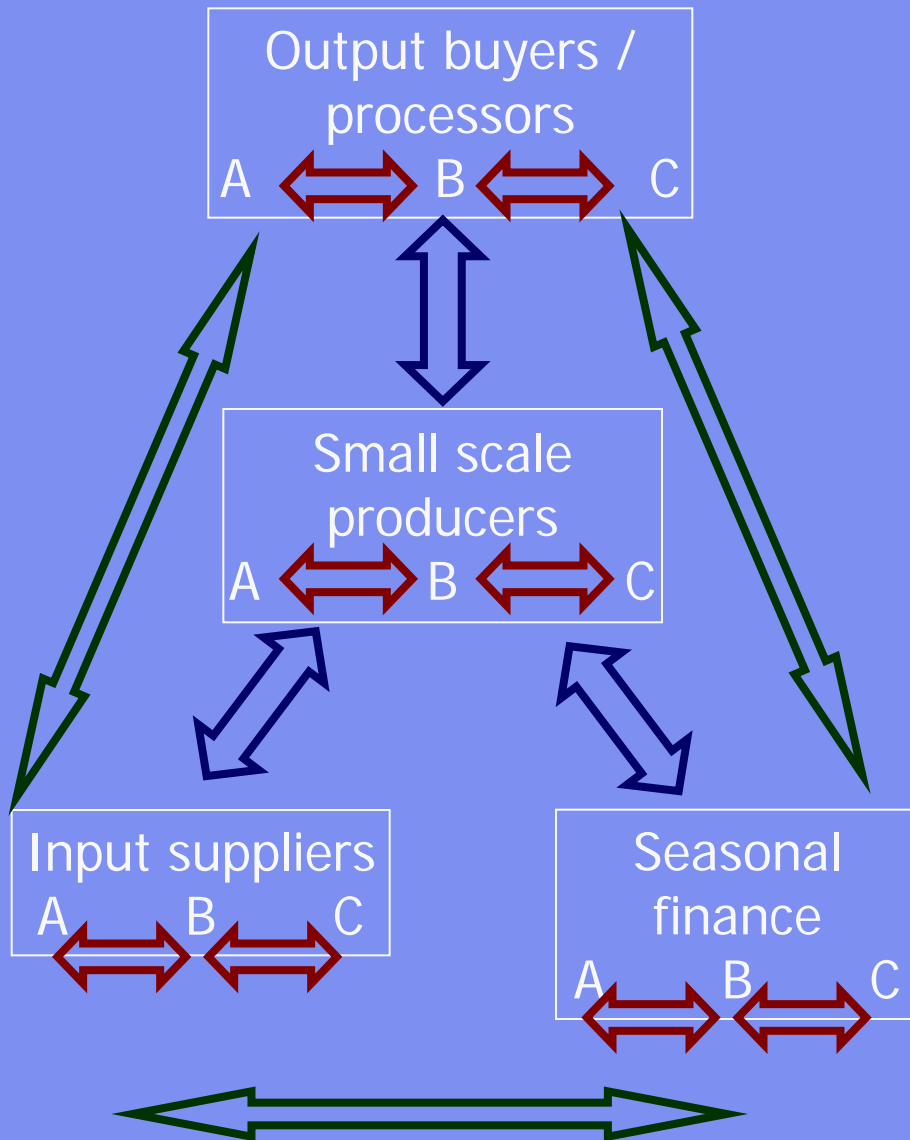
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  - Naive expectations of rapid market development
  - Overlook historical experience of widespread non-market coordination in staple (state intervention) and non-staple (non-standard arrangements) successes
  - Flaws in failing to address coordination 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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Policy Goals	Short/Medium Term Achievement Needs (Policy purpose)	Medium/Long Term Achievement Needs (Policy purpose)
<i>Food security</i> : Secure & affordable access to food	Increased food self-sufficiency (household & national) with <b>food delivery</b> &/or <b>productivity enhancing</b> safety nets & humanitarian response	Increased hhold & national food market access (low & stable cost, secure, timely) wider entitlements with (mainly) <b>market</b> safety nets & humanitarian response
<i>Poverty reduction</i> : Incomes of poor increased & secure, by low food costs, higher labour returns & safety nets.	Safety nets to increase/ secure real incomes & develop/ protect assets (see above)	Broad based growth with opportunities & wages for unskilled rural labour, low food prices (safety net etc as above)
<i>Rural economic growth</i> : Increased local economic activity, stable incomes for poverty reduction & food security	N/A	Macro economic stability & low interest rates; growth in agric. & non agric. sectors tightening labour markets & raising incomes, stable / affordable food prices.

## 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