

**Imperial College
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**An institutional economics
perspective on the challenges of
smallholder development in Sub-
Saharan Africa**

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Issues & Outline

- ❑ Challenges facing agricultural development & small farms
- ❑ Critical role of services (in support of agric)
- ❑ Major policy approaches
- ❑ The small farm coordination challenge for different products
- ❑ Policy implications – states & markets

Reminder: SSA focussed discussion, where coordination challenges greatest

“Agro pessimism”

- ❑ *Early stage smallholder development requires access to low cost coordinated exchange & services (but can this be provided)*
- ❑ *Global supply chains squeezing small farmers?*
- ❑ *Liberalisation exposing African agriculture to greater (destructive/) competition than say India at a similar stage of development*

- ❑ *low cost coordinated exchange & services which delivered Green Revolutions in Asia*
- ❑ *Ideologically unfashionable*
- ❑ *Perhaps constitute unrealistic agenda given “politics and state capacity”)*

But can we realistically envisage a successful development path which bypasses agricultural development?

Challenges for African Agriculture

- ❑ Agro-climatic potential & variability
- ❑ Less irrigation potential than Asia
- ❑ Population density
- ❑ Roads
- ❑ Governance – capacity, clientelism
- ❑ Weak institutions
- ❑ Poor business environments
- ❑ Weak service delivery / access
- ❑ Small firms
- ❑ Small countries
- ❑ Threshold effects (be a large player)
- ❑ Commodity prices
- ❑ Technology bias
- ❑ Urbanisation
- ❑ Global markets
- ❑ HIV/AIDS

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

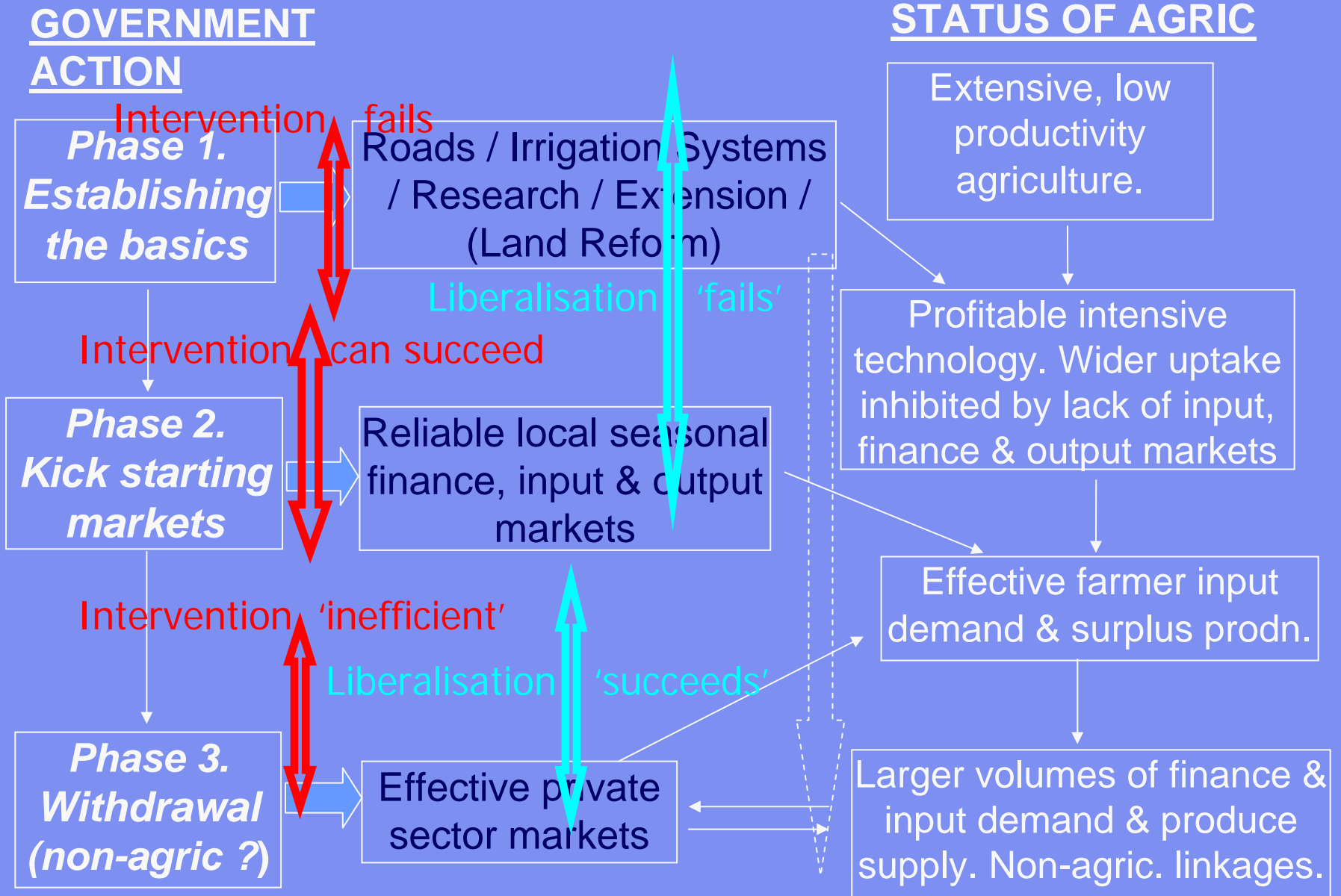
Farm finance

- high transaction costs & risks
- high interest rates
- depressed demand & weak repayment incentives

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.

Processes & conditions for agricultural transformations



States, markets & agricultural growth in 20th century

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 certain public good failures (R&D)
- ❑ 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 (e.g. market information; competition - big debates as to what these are)

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 Africa
 - some export crops in poor countries (cocoa, 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

- ❑ *“Institutionalist 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)

Policy success & failure in sustainable intensification in agricultural development

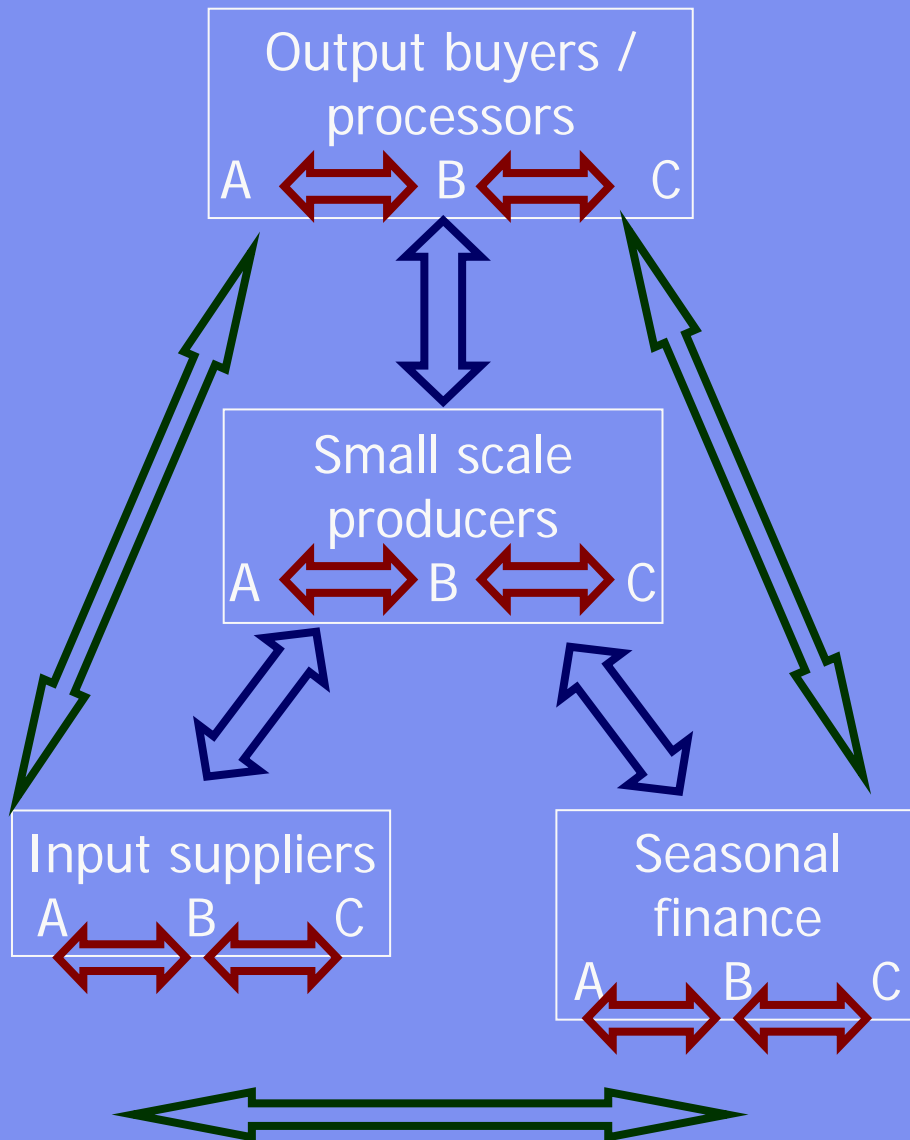
	State led approaches		Market led approaches	
	Staple crops	Cash crops	Staple crops	Cash crops
Success in stimulating sustainable intensification	Asian GR Some African successes not generally sustained	Some African state marketing boards/ systems (eg Francophone cotton)	????	S & E African cotton, Ghanaian cocoa (<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

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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Agriculture in pro-poor growth (1)

- ❑ Direct impacts of increased agricultural productivity & incomes on poor farmers & farm labourers
- ❑ Economic geography – natural resource exploitation the main activity in remoter rural areas, where economies of agglomeration weak
- ❑ Labour intensity
- ❑ Efficiency at small scale (fit to social & settlement pattern)

Agriculture in pro-poor growth (2)

- ❑ Exports & import substitution (tradables)
- ❑ Cheaper food for the urban & rural poor & stable prices
- ❑ Critical human development role of nutrition
- ❑ Stimulus for demand for local goods & services
- ❑ Forwards linkages – agro-industry
- ❑ Release of surplus capital & labour to other sectors
- ❑ Livestock (assets for poor and local industry with high income elasticity of demand)

Important issues in agric development

- ❑ “Stages of development & growth” view is critical
- ❑ Nature of growth (intensification, land productivity & labour demand, small farms, tradables & staples then non-tradables)
- ❑ Pro-poor benefits often come through labour and consumer markets (unskilled jobs and cheaper food)
- ❑ Political will to fund agricultural public goods?

and what are these ?

- *Needs access to low cost coordinated exchange & services*
- *Pro-poor R&D*
- *Infrastructure etc*

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