

Agricultural Liberalisation in sub Saharan Africa

- **Organisation:** Imperial College
- **Contact:** Andrew Dorward
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Background and Objectives of the Commissioned Study

This report presents the findings and conclusions from a desk study on the impacts of agricultural liberalisation in sub Saharan Africa (SSA). The report provides a theoretical examination of the difficulties facing smallholder agricultural development, a review of policy change and outcomes in SSA over the last 50 years or so, an examination of commodity and country case studies, and conclusions from this analysis for the policy approaches that are appropriate for the many challenges facing smallholder agriculture in the region today.

Research Findings

- Smallholder agricultural development plays a critical role in poverty reduction in SSA. However, the performance of SSA's agricultural sector over the last 30 years has been disappointing. Poor rural areas in poor economies are characterised by poorly developed and narrow monetary economy and markets which with poor infrastructure and institutions pose particular problems for supply chain development needed for agricultural intensification, as this requires significant and simultaneous investments by new players entering the market, investments which carry high risks of transaction failure and high transaction costs involved in obtaining protection against such risk. These risks and costs can be considered in terms of rent seeking, coordination and opportunism: together they can lock poor rural areas into a 'low level equilibrium trap' by removing incentives for individual players to invest in different parts of the supply chains needed for sustainable intensification – even though there may be potential profits to be made from coordinated investments.
- Development interventions may overcome the low level equilibrium trap in three broad ways: by 'pump priming' investments' which increase investments, and hence transaction volumes and frequencies, across critical minimum thresholds; by 'threshold shifting' interventions leading to technology or price changes, which improve revenues or reduce costs and risks for private players and thus move them across critical thresholds; and by promoting 'supply chain coordination mechanisms' that encourage investment decisions to transcend the narrow self-interests of different players in the supply chain. These coordination mechanisms may involve a 'local' or 'extensive' scope of coordination and 'exogenous' or 'endogenous' processes of coordination development.
- During the late colonial and post independence periods active state intervention in agricultural and rural development was common in SSA, to coordinate smallholder farm activities and take on investment risks without relying on the private sector. By the 1980s, however, there was increasing awareness of the difficulties faced by parastatals,

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compounded by, and associated with, wider problems in macro-economic management. To address these problems, structural adjustment and liberalisation programmes were advocated.

Assessment of the outcomes of these reforms is difficult. They have achieved mixed success in improving macro-economic conditions, but considerable variation in the extent, permanence, speed, and effects of reform processes. Reforms have been most successful in promoting agricultural exports and there have also been some benefits in reduced food prices for processed staples for poor consumers in southern Africa. However the desired growth in private sector marketing and in agriculture has not fully materialised and liberalisation has not delivered the substantial agricultural growth needed to drive rural poverty reduction and increased food security. There has been a notable lack of success in

developing input, output and financial markets offering attractively priced, timely and reliable services that are critical for more intensive cereal intensification.

- These three explanations of agricultural liberalisation failures share a concern about the weakness of the state and a lack of capacity to perform critical functions, but have different views about the appropriate scope and reach of state responsibilities and activities. The third view suggests that the state needs to play a critical role in promoting coordination in the development of a market economy, but this poses severe political challenges and many countries face a 'double trap' of mutually reinforcing market and state coordination failures.

Main Conclusions

- Rapid and widespread escape from these traps requires radical and sustained political change together with the introduction and implementation of coordination systems that yield credible promise of significant benefits to participants.

- A more likely but slower and still fragile path out of the 'double trap' is likely to involve smaller and less ambitious but also mutually reinforcing steps which build on 'best bet' technical and coordination opportunities to demonstrate both the benefits of success and the strength and credibility of parties committed to change.
- It is also important to strengthen wider mechanisms for controlling rent seeking in state interventions. Three such mechanisms involve (a) increasing the state's external accountability to (and the voice of) the clients it is supposed to serve, (b) competition (either between states or across jurisdictions within a state for the supply of an appropriate development framework) and (c) development of greater internal vision for and accountability in state activities. These may be (simplistically) characterised as voice, choice and targets.

For further information on this research project, please visit:

EC-PREP website: www.ec-prep.org

Imperial College website: www.ic.ac.uk

Or contact us at the address below:

Emerging Markets Group (EMG) Ltd.

180 Strand
London WC2R 1BL
United Kingdom

Tel: +44 (0)20 7303 2206

Fax: +44 (0)20 7303 3125

www.emergingmarketsgroup.com

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