



PROVISION OF SERVICES TO THE LIVESTOCK SECTOR: THE CASE OF ANIMAL HEALTH

Pressures for market liberalisation and privatisation have affected the provision of services to livestock keepers in most developing countries. Some services previously provided by governments have been reduced or totally withdrawn, while attempts have been made to encourage private sector provision in place of the government services. The rationale underpinning choices about which services to privatise was introduced by the World Bank in the early 1990s and is founded in traditional welfare economics, which focuses on 'outcome' efficiency.

Results of privatisation have been disappointing and there is increasing recognition that governments must still participate in the provision of services to the livestock sector. Questions remain regarding the type or degree of state intervention that is needed and in what circumstances this need arises.

Services that are important for livestock producers include the general infrastructure of public services, such as roads and other transport routes, water and electricity supplies, telecommunications, education and public health. This last overlaps with animal health services, which are of more specific relevance to livestock producers. Animal health services are conveniently subdivided into curative or clinical services, preventive services, supply of drugs and vaccines, veterinary public health aspects, education/extension and research and development. These last two areas of extension and research are also relevant for other non-health aspects of animal production.

● Market Failure

The provision of livestock services and particularly animal health services is affected by a number of forms of market failure. These are (i) failure of competition, (ii) existence of public goods,

(iii) presence of externalities, (iv) presence of incomplete markets, (v) information asymmetries or failures and (vi) macroeconomic distortions. Any, or all, of these causes may limit the private provision of a particular service to livestock producers and create a need for government intervention. However, the appropriate level of public sector provision of a particular service also depends on its contribution to national goals of economic growth and poverty relief.

Given the prominence of market failure and the politicised environment surrounding the agricultural sector, a move from the traditional analysis of the animal healthcare market based on welfare economics towards one based on the 'public choice' school of thought, which acknowledges that governments are not free in their choices but depend on powerful interest groups, might provide a more suitable approach to the pressing need of improving service delivery, particularly to poor livestock keepers. Given that policy-makers' choices and behaviours cannot be separated from the interests affected by the decisions taken, the public choice school has a strong focus on 'process' efficiency, i.e. issues concerning co-ordination and governance.

● Taxonomy of Goods and Services

Drawing from the economic literature, three ways exist in which goods and services have been classified. These 'taxonomies' can also be applied to the animal health sector and their examination through the lens of public choice economics may provide indications as to their relative merit for improving process efficiency.

The first, 'classical', approach to animal health service classification, taken by the World Bank and other authors, hinges on



the principles of rivalry and excludability. Following the public choice approach, this viewpoint fails to take into consideration transaction costs that are likely to hinder market efficiency.

The second taxonomic proposal, based on the level of externalities, has been labelled as the mixed goods/quasi-public goods approach. This taxonomic method provides a powerful tool for guiding decisions on resource allocation at the national level when economic values can be attached to the externalities. However, major difficulties exist in measuring the extent of some externalities.

Finally, the third approach relates to the degree of consumption sharing. This approach focuses on the degree of service sharing among a defined population. It specifically looks into the relationship existing between the degree of divisibility of a good or service and the number of people consuming the latter. The utility of this perspective lies in the potential for optimising resource allocation for a determined quantity of a good or service in relation to the size of the group or population consuming the good. The last two taxonomic patterns are innovative in that they include decision making processes in the analysis and focus on implementation issues.

• Conclusions and Recommendations

Economic Analysis

The economic analysis of animal health services is moving from an outcome-oriented towards a more process-oriented point of view. It is increasingly recognised that the animal healthcare market needs to be viewed in a broader context where political interference, self-interested behaviour and other transaction costs are considered. The public choice school's perspective gives a new approach to the sector's analysis and sheds light on how to avoid some of the past errors in ongoing and future privatisation processes.

Privatisation of animal health services cannot be carried out in a homogeneous way across countries

based on one type of service classification. Influencing factors such as the physical, political and institutional contexts need to be taken into account and there is no standard model applicable.

Governance and the Role of Government

Governments are a key element in governance, harmonising and facilitating not only the market economy, hence reducing existing transaction costs, but also in defining overall goals for the animal healthcare system.

- The role of government should be viewed at a broader level as coordinator of activities in the animal healthcare sector, increasing cross-sector collaboration, the aim being not only to reduce transaction costs, but also, and especially, to guide current initiatives towards a common goal for animal health services.
- In countries where animal health services have not undergone privatisation, cost-containment measures should be applied where possible in order to smooth the transition process to a privatised animal health market.
- In countries where privatisation of animal health services has been undertaken, efforts should focus on governance of the animal health system, i.e. integrating and increasing the accountability and client-orientation of the different actors involved.

Policy Brief based on:

A Public Choice Approach to the Economic Analysis of Animal Healthcare Systems, PPLPI Working Paper 11, Ana Riviere-Cinnamond

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