

Agricultural Commercialization, Rural Transformation and Poverty Reduction: What have We Learned about How to Achieve This?

POLICY BRIEF

AFRICAN AGRICULTURAL MARKETS PROGRAMME - ACTESA

BACKGROUND: “Smallholder commercialization” for the purposes of this symposium refers to a virtuous cycle in which farmers intensify their use of productivity-enhancing technologies on their farms, achieve greater output per unit of land and labor expended, produce greater farm surpluses (or transition from deficit to surplus producers), expand their participation in markets, and ultimately raise their incomes and living standards. This is the vision of commercialization explored in this paper and conference.

But do we know much about *how to achieve this kind of smallholder commercialization*? Largely, yes we do!

Smallholder-led agricultural development in most of Sub-Saharan Africa is going to involve two basic *Strategies*, both of them state-led:

- (1) State-led programs and investments to support smallholder productivity growth. There are two categories here:
 - a. Public investment in services, technologies, and institutions that are known to promote broad-based inclusive farm productivity growth. These include crop breeding and agronomic research programmes, extension programs to improve farmer husbandry practices and marketing skills, physical infrastructure to improve access to markets, etc. There is general consensus here.
 - b. Very circumscribed state-led efforts to overcome market failures, e.g., targeted input subsidy programmes aimed at overcoming credit constraints of the poorest farmers, and well managed, rules-based marketing board operations to stabilize food prices within tolerable ranges. There is a compelling case to be made for such interventions in theory, and in under certain circumstances they have proven their ability to raise food production, at least temporarily. But the empirical record of state interventions in this area, especially over the longer run after accounting for their macroeconomic effects, is mixed, and there is strong evidence that such interventions may detract from the achievement of Strategy II objectives. Hence the activities under 1.b must be handled carefully or else they will be counterproductive and un-do the entire process.
- (2) State-led creation of an enabling environment to encourage private investment in the various stages of commodity value chains so as to better enable smallholders to commercialize and link into markets. This entails an open borders approach to promoting regional trade between neighbouring states to expand markets for farmers, a stable and predictable policy environment and role of the state therein, and low interest rates to

encourage re-route bank financing from treasury bills to investing in productive agricultural value chains. Again there is general consensus here.

Why focus on “state led”? Of course, achieving broad-based agricultural commercialization will require actions from many different kinds of actors, both in the private and public sectors as well as from international financial and donor organizations. The answer is because the public sector role is decisive. Its actions will be an overriding factor in influencing the private sector’s willingness and ability to respond positively. If public sector actions do not reduce the currently high levels of risk and uncertainty in African food markets, and if governments use their scarce resources in ways that do not provide greater investment incentives for the private sector, then there will be very limited scope for the development of a market-oriented system to provide smallholder farmers with the access to markets that they need. On the other hand, if African governments define their roles clearly, implement their roles transparently and consistently, and use their scarce resources primarily to invest in public goods that provide new profitable opportunities to engage small-scale farmers into commodity value chains, then this approach will drive private sector investment in support of smallholder agriculture, as it has in many parts of the world already.¹ Thinking that Africa is somehow different and cannot benefit from these processes is part of the explanation for the region’s historically poor agricultural performance so far. Hence, private sector investment patterns and the supply of bank financing for private investment, are largely *outcomes* of public sector behavior – its policy choices, integrity of its institutions, and the ways it spends its funds through the treasury. For these reasons, the focus of this report is mainly on what the public sector can do in the first place to generate the incentives for system-wide private investment in staple food markets. Let’s now consider the details of each of the two broad strategies identified above.

PRIORITY PUBLIC INVESTMENTS: Based on the AAMP research to date, the following priority investments have major potential to improve the functioning of food markets, enhance national food security, and reduce poverty in the region.

1. *CROP SCIENCE PROGRAMS TO IMPROVE ON-FARM PRODUCTIVITY:* Research impact assessments from Africa and Asia show broadly consistent findings. Public investment in crop science -- seed research in particular -- has been found to have very high payoffs to smallholder farm productivity and poverty reduction.
2. *PRODUCTION AND MARKETING TRAINING FOR FARMERS:* This evidence points to the great importance of strong public and private extension services to serve smallholder farmers. Research has identified the following factors as being especially important in raising smallholder farmers’ crop productivity: time of planting, weed control, practices to enhance soil fertility and soil organic matter, optimal use of fertilizer (which varies greatly across the micro-conditions found in the region), water management techniques, and pest management. Conservation farming practices

¹ The research evidence in support of this conclusion is presented in the various AAMP research reports to date as well as the synthesis report prepared for the Sixth AAMP Policy Symposium in Kigali, “Agricultural Commercialization, Rural Transformation and Poverty Reduction: What have We Learned about How to Achieve This?”

such as minimum tillage, ripping, and basins also appear to improve crop productivity and yield stability in the face of drought; these practices may hold great upside potential to achieve massive production gains because currently very few farmers use such technologies. Ironically, impact assessments sometimes show that the payoffs to investment in public extension programs are low, but this is normally due to the underfunding of extension programs (e.g., funds are provided for personnel and motorbikes but not for petrol to allow extension agents to move around the district to visit farmers) and to the multiple tasks that are often imposed on extension agents (e.g., allocating input subsidies to recipients or recovering credit from government input programs) which take time away from their primary function. Still, the weight of the research evidence indicates that improving farmer management skills to take advantage of on-shelf knowledge and technologies is crucial for raising smallholder productivity and promoting a more commercialized smallholder sector. Investments to improve farmers' marketing skills are also found to raise farmers' net income from crop sales.

3. *ROAD AND PORT INFRASTRUCTURAL INVESTMENT:* Research evidence from east Africa shows substantial benefits to smallholder farmers from investments in road infrastructure. The highest per kilometre marketing costs are incurred between the farm gate and the nearest motorable road. The marketing costs associated with moving grain or fertilizer 25 km on a dirt path by bicycle trader is about the same as that charged to move the same product 500 km along a tarmac road. Public investment in improved road networks linking district towns to villages will improve smallholders' access to markets and their competitive position in the markets.
4. *PROGRAMMES TO ENCOURAGE THE ADOPTION OF GRADES AND STANDARDS:* Buying of wet maize by assembly traders is a major cause of the high storage losses observed in the region. Programmes to improve the adherence to grades and standards will pay major dividends in the long run to both small-scale farmers and consumers.
5. *COMING TO GRIPS WITH THE PROBLEM OF ACCESS TO LAND IN MANY SMALLHOLDER FARMING AREAS:* About 50% of the smallholder farm population in eastern and southern Africa have less than 1.2 hectares of land. The bottom 20% of rural agricultural households in the region is virtually landless, having access to 0.50 hectares or less. These farmers cannot participate in markets because they cannot produce any significant food surplus or escape from poverty directly through agriculture. It might seem paradoxical that there should be a problem with access to land while vast areas potentially suitable for agriculture remain largely unutilized. There are two explanations for this apparent paradox. First, large amounts of potentially arable land remain underutilized and of low economic value because they have yet to receive the requisite public investment in physical infrastructure and facilities to attract migration and settlement of these areas. This land will remain unexploited until public investments make it economically suitable for settlement and farming. Second, and of major importance in former settler farming colonies has been the continuation of colonial tenure systems separating "customary lands" from "state lands". Many areas under customary tenure are facing emerging land constraints and population pressures. By contrast, most of Africa's remaining unutilized land is under state authority, which is not readily accessible for settlement by smallholder populations under existing land allocation institutions. In many parts of the region, governments may be able to

promote equitable access to land through a coordinated strategy of public goods and services investments to raise the economic value of customary land that is currently remote and unutilized. This would involve investments in infrastructure and service provision designed to link currently isolated areas with existing road and rail infrastructure and through allied investment in schools, health care facilities, electrification and water supply, and other public goods required to induce migration, settlement, and investment in these currently under-utilized areas. Such investments would also help to reduce population pressures in areas of relatively good access and soils, many of which are being degraded due to declining fallows associated with population pressure. Given the existing distribution of landholdings within the small farm sectors of eastern and southern Africa, strategies to improve rural households' access to land will need to be tackled in order to achieve broad-based smallholder-led agricultural development and poverty reduction.

6. *ON-THE-GROUND MONITORING OF PROGRAM/POLICY IMPLEMENTATION AND IMPACT:* Close monitoring in the field would provide the potential for quick feedback to policy makers regarding on-the-ground implementation of reform policies and allow for mid-course corrections if activities are not conforming to expectations. Local research institutes could help policy makers more accurately understand the impacts of particular policies and programs. This will reduce the tendency to misidentify policy effects and thereby provide a more accurate empirical foundation for future discussions of food marketing and trade policy options.

POLICY ACTIONS TO PROMOTE AN ENABLING ENVIRONMENT SUPPORTIVE OF SMALLHOLDER

COMMERCIALIZATION: A complicating factor in supporting the development of food marketing systems to promote small farmer productivity growth is that food markets are politically sensitive. Elections can be won or lost through policy tools that may provide short-term benefits but entail massive foregone productivity in the longer run. This problem is hardly unique to developing countries. Given that governments are likely to continue intervening in food markets, there are several guidelines that might be followed to improve overall market performance:

1. *Follow clearly-defined and transparent rules for triggering government intervention:* Governments and private trading firms strategically interact in staple food markets – they respond to each other's actions and anticipated actions. The transition from *ad hoc* to clearly specified rules governing public sector interventions (regarding when and how governments will alter import tariff rates, issuance of licenses for import and export, marketing board purchase volumes and stock releases, and the prices at which the boards will buy and sell at) will promote market predictability and hence encourage greater international and local capital investment in agricultural value chains. As investment rises in the storage, transport, processing, and related middle-stages of the value chain, this will raise employment and income and will increasingly diversify the economy. As incomes rise over time, the share of food in peoples' disposable incomes will fall, thereby making food price instability less of a problem. In this manner, a market-oriented approach to food systems development is likely to offer the greatest potential over time to buffer rural and urban consumers from the vagaries of international food markets.

2. *Institute regular periodic government-private sector consultations to coordinate decision making:* Effective coordination between the private and public sector will require greater consultation and transparency between the private and public marketing agents, especially with regard to changes in marketing board purchase and sale prices, import and export decisions, and stock release triggers. This will help to nurture trust and cooperation and avoid surprises.
3. *Eliminate export bans and import tariffs on trade among COMESA and SADC Member States:* This will accelerate the development of both regional and domestic marketing systems and promote access to markets for smallholder farmers. Informal traders can play a valuable role in buying grain in surplus areas and making it available in deficit regions across the border (e.g., between Mozambique and Malawi; Zambia and DRC; Zambia to Zimbabwe; Uganda to Kenya, etc.). Regional and local trade can also be more supportive of the needs of low-income urban and rural consumers by marketing boards' stocks accessible not just to large-scale millers but also to local small- and medium-scale millers and other market participants. The existing system of channeling marketing boards' supplies to large millers starves informal markets, makes the structure of the milling and retailing stages of the system less competitive, and imposes major costs on urban consumers and grain-deficit smallholder farmers.

CONCLUDING REMARKS: History suggests the necessity of productivity increases in smallholder agriculture. Except for a handful of city-states, there are virtually no examples of mass poverty reduction since 1700 that did not start with sharp rises in employment and self-employment income due to higher productivity in small family farms. The decisions made by governments primarily and international organizations secondarily will largely determine the future of smallholder agriculture in the region. Without renewed attention to sustained agricultural productivity growth, most small farms in Africa will become increasingly unviable economic and social units. Sustained agricultural productivity growth and poverty reduction will require progress on a number of fronts, most importantly increased public goods investments to agriculture, a policy environment that supports private investment in input, output and financial markets and provision of key support services, a more level global trade policy environment, supportive donor programs, and improved governance. Subsidies, if they are focused, appropriately conceived and implemented, and temporary, can play a complementary role but should not – based on both the Asian and African evidence presented here – be seen as the primary engine. Most of these challenges can be met. Meaningful progress will start when the political will is mobilized to adopt the policies and public investments which substantial evidence shows have the greatest chances of driving sustainable pro-poor agricultural growth.