Commercialization of smallholder in AAMP countries: policies and public spending

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Talking points

- Conceptual framework
  - What determines smallholder commercialization?
- Empirics on returns to public investments
  - Estimates from IFPRI and EIU
- Reconciling the returns to public spending estimates
  - Trades restrictiveness and ease of doing business
- Summary
Conceptual framework (1)

- Why do we have smallholders?
  - Answer: due to population & demographic change

- What would commercialization of smallholders require?
  - Answer: change in their resource allocation decisions

- What brings about changes in smallholders resource allocation decisions?
  - Answer: incentives (prices, wages, risks)

- What determines the incentive structure?
  - Answer: A host of factors, especially infrastructure, institutional capacity, macro polices, etc.
Determinants of commercialization

- Technological Capacity
- Infrastructure
- Institutional capacity
  - Macro-economic & Trade Policy / Reform
- Population and Demographic change

Prices, Wages, & Risks

Smallholders’ Commercialization

Resource Allocation and production Decision

Smallholder Households

Conceptual framework (2):
Smallholders’ Commercialization Determinants of commercialization

- Technological Capacity
- Infrastructure
- Institutional capacity
- Macro-economic and Trade Policy
- Population and Demographic change

Prices, Wages, & Risks

Resource Allocation and production Decision

Smallholder Households

Public Investments

Conceptual framework (3)
So, public spending is critical because private sector will not invest to change the key determinants of commercialization.

So, the question is *which determinants of commercialization* should a country focus? Clearly answer will depend on the geo-political context of the country.

However, one way to answer this question would be to look at returns to public investments.
Empirics on returns to public investments

Estimates from Asia

<table>
<thead>
<tr>
<th>Factors</th>
<th>EIU</th>
<th>IFPRI</th>
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<tbody>
<tr>
<td>Policy institutional reforms</td>
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<tr>
<td>Rural Roads</td>
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<td>Irrigation</td>
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<td>Ag extension</td>
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<td>Ag research</td>
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<td>Input delivery</td>
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<td>Electricity/ health/ education/ telecom</td>
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<td>3</td>
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### Empirics on returns to public investments

 Estimates from Asia

<table>
<thead>
<tr>
<th>Factors</th>
<th>Ranking (growth)</th>
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<tbody>
<tr>
<td></td>
<td>EIU</td>
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Reconciling the empirics for AAMP countries (1)

Key points
- Tariffs on agriculture have been historically high in developing country agriculture
- Even though there has been a decline in recent years, developing countries continue to have higher applied tariff rates than the MIC and HIC

Applied tariffs rates in Ag

Note: Tariffs shown are simple averages across countries and goods. Source: UNCTAD Trains database.
Reconciling the empirics for AAMP countries (2)

Key Points:
- TRI is a measure of restrictions that a country imposes on the bundle of goods it imports.
- On the average, AAMP has less restrictions on imports than the BRIC countries.
- The exceptions are Tanzania and Malawi.
- Among all countries, India has the highest restrictions on imports of agricultural goods to its domestic markets.
Reconciling the empirics for AAMP countries (3)

- MATC Index measures the restrictions other countries impose on a country’s export.
- There are wide variations between the two groups of countries.
- On the average, AAMP faces slightly more restrictions than the BRIC countries, although restrictions on Russia and China’s agriculture are comparable to AAMP countries.
Key Facts:
- Trade Restrictiveness Index for Non Tariff Barrier (NTB) measures how NTB affect a country’s bundle of import.
- On the average, Non Tariff Barrier (NTB) to trade in AAMP countries are lower than the BRIC countries.
- Exceptions are Tanzania and Malawi.

Trade Restrictiveness Index due to NTB
Key Facts:

- NTB-MATRI measures the restrictions other countries impose on country’s export through NTB.
- On the average, NTB-MATRI for NTB is higher on the AAMP countries than the BRIC countries.
- Exceptions are Malawi and Zambia, where NTB-MATRI for agriculture are lower than any other countries.
Key messages

- Policy and Institutional reforms in AAMP countries are not likely to have as large of a return as they did Asia.
- Trade policy environments in BRIC countries are more restrictive than in the AAMP countries.
- Yet BRIC, countries are growing. This means, there something beyond trade & macro policies that contributing to growth in those countries.
Determinants of commercialization

- Technological Capacity
- Infrastructure
- Institutional capacity
- Macro-economic & Trade Policy / Reform
- Population and Demographic change

Smallholders’ Commercialization

Prices, Wages, & Risks

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Smallholder Households
How about technology?

Two challenges

- Effective adoption and dissemination of available (on the shelf) technology
- Attracting Foreign Direct Investments (FDI) to AAMP countries

Institutional capacity is also a constraining factor
FDI to Africa for technology and innovation

In any resource constrained countries, FDI can contribute towards:
- Promoting technology and institutional innovation
- Building human capital
- Creating jobs and increasing HH incomes
- Promoting overall development

Many emerging countries have benefited from increased flow of FDI (India, China, Brazil, South Africa)
- Latin American countries had particularly benefited from FDI in promoting agricultural commercialization

Developing countries are receiving an increasing share of FDI
## Trends in FDI: sub-Saharan Africa (1)

<table>
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<tr>
<th>Decades</th>
<th>FDI to SSA</th>
<th>SSA Share in Word FDI</th>
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<tbody>
<tr>
<td>1970s</td>
<td>US$907 Million</td>
<td>5 Percent</td>
</tr>
<tr>
<td>1980s</td>
<td>US$ 1.3 Billion</td>
<td>2 Percent</td>
</tr>
<tr>
<td>1990s</td>
<td>US$ 4.3 Billion</td>
<td>3 Percent</td>
</tr>
<tr>
<td>Early 2000</td>
<td>US$10 Billion</td>
<td>4 percent</td>
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</table>
Trend in FDI: AAMP countries (2)
FDI to Africa has increased in absolute terms, but has declined relative to growth in overall flow of FDI to developing countries.

Understanding this puzzling trend is subject of large body of research.

Within AAMP some countries have done better (why?)

The Challenge: How to attract more FDI to SSA?
What will attract FDI to Africa?

The simplest answer to the question is “possibility of making profits”

What determine the FDI profitability? Consider the following:

- Economic openness
- Size of the economy
- Political stability
- Infrastructural development
- Institutional capacity
- Regulatory environment
One way to analyze why FDI vary by country is to compare a common indicator. World Bank produces such an indicator, called “the ease of doing business”. It ranks countries based on the following indicators:

- Starting a Business
- Dealing with Construction Permits
- Registering a property
- Getting credit
- Protecting Investors
- Paying taxes
- Trading across borders
- Enforcing contracts
- Closing business
World Bank ranking on the ease of doing business suggests:

- AAMP countries rank better than the BRIC countries
- None of the AAMP countries ranks worse than BRIC countries
- Rwanda and Zambia rank better than any of the four BRIC countries
Summary

- Policy and Institutional reforms in AAMP countries are not likely to have as large of a return as they did in Asia.
- Trade policy environments in BRIC countries are more restrictive than in the AAMP countries.
- Yet BRIC countries attract more FDI and growing faster. This means, there is something beyond trade & macro policies that are contributing to growth in those countries.
Summary (2)

Two broad facts

- FACT 1: FDI to Africa has increased in absolute terms, but has declined relative to growth in overall flow of FDI to developing countries.
- FACT 2: Why is it that some AAMP countries are doing better than the rest in terms of attracting FDIC? What can learn from these experiences

These two broad facts implies that there should be active policy actions reverse this trends—learning from the cross country experiences within Africa can help!