RURAL LIVELIHOODS, AGRICULTURE AND MAKING MARKETS WORK FOR THE POOR

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Turin 20th September 2005
Outline

- **Objective**
  - To better understand the constraints, opportunities & modalities for MMWP in agriculture

- **Starting points**
  - Rural livelihood characteristics
  - Markets, market failures & alternatives
  - Agriculture’s role in pro-poor growth & rural livelihoods
  - Constraints to pro-poor agricultural & market development

- **Policy history: States, markets & agricultural growth**
  - State led agricultural development policies
  - Market led agricultural development policies

- **Getting markets going for different products**

- **MMWP implications**

- **Including markets in livelihood approaches**
  - Entry points
  - Steps & questions
Rural livelihood characteristics

- The majority of the poor live in rural areas
- Poverty incidence and severity greater in rural areas
- Great livelihood diversity
  - Between rural areas
  - Between people within rural areas
  - Within livelihoods
- The dynamics of livelihood change
  - Economic change needs *drivers & supporters*
  - Livelihood strategies
    - Stepping up
    - Stepping out
    - Hanging in
  - Markets are critical
Growth Drivers

- Competitive advantages in tradables
- Growth in productivity for high \textit{average} budget share non-tradables

Growth Supporters - Linkages

- Capital/ import intensive production
- Consumption, production & investment linkages
- Increased employment
- Inequitable assets & incomes
- Demand for local non-tradable goods & services (high \textit{marginal} budget shares)
- Inelastic supply of non-tradables
- Demand for tradables
- Leakage response

Leakages
Pro-poor growth drivers & supporters

- **Drivers**
  - Exports or imports (‘tradables’)
  - High average expenditure share local goods & services (non-tradables, eg staple foods)

- **Supporters**
  - High marginal expenditure share local goods & services (non-tradables, eg horticulture, snacks)

- **Rich linkages**
- **Labour intensive**
- **Low entry barriers**

Relative importance of drivers & supporters & of agriculture & types of agriculture change with stages of economic growth

Markets are important
### Livelihood strategies & asset/ market/ activity functions

<table>
<thead>
<tr>
<th>Livelihood strategy</th>
<th>Asset/ market / activity functions</th>
</tr>
</thead>
</table>
| ‘Maintenance’ or ‘Hanging in’ | Consumption  
Production / income:  
Seasonal buffering  
Insurance |
| ‘Stepping up’ | Accumulation  
Production / income |
| ‘Stepping out’ | Accumulation |

Changing aspirations, strategies & opportunities  
Importance of markets
Importance of markets for poverty reduction

- Markets: mechanisms for exchange, coordination & allocation of many resources, goods and services by & between people in an economy
- Poor people’s livelihoods depend on markets (labour, food, financial services, ….)
  - Asset access, returns & functions
- Major poverty reduction processes depend (among other things) on equitable, market facilitated growth
- Poor people are concerned about markets

but ...

they often fail
threats as well as opportunities
not the only exchange / access mechanism
Market failures

- Public good failures: research, extension, communications infrastructure, (health services)
- Access failures: Economic (resource & transaction size) & social exclusion / discrimination
- Transaction failures: high transaction costs & risks

Rent costs or losses from powerful government, political, criminal or other agents expropriating or threatening to expropriate income or assets.

Opportunism costs & losses from risks of cheating.

Coordination costs & losses in matching suitable buyers and sellers along supply chains.
Market threats

- Market & access capture by elites
- Competition: a two edged sword
  - Efficiency & lower consumer prices – *but livelihood loss for existing producers*
  - Producer access to better outside markets  
    *but higher prices for local consumers*
  - Supermarkets – opportunity or threat? 
    *large farm or import competition?*
    *product standards & monitoring?*
    *capital requirements?*
    *labour intensive?*
    *supply flexibility, reliability, regularity?
Market alternatives & complements

- **Gift exchange**
  - shared values of mutual but imprecise social obligation
  - declining relative importance *but* social capital & personal relations in business

- **Hierarchies or Organisations**
  - command & control to allocate resources.
  - dominant mechanism in developed economies

- **Markets**
  - voluntary transactions for mutual gain
  - precise terms of exchange
  - should facilitate competition, quality & production efficiency where they work
  - high ‘fixed’ system costs but high volumes yield low unit costs

- **Mixed market economy with multiple & hybrid types**
## Market / non-market roles in livelihoods -
*changing aspirations, strategies & opportunities*

<table>
<thead>
<tr>
<th>Livelihood strategy</th>
<th>Asset/ market / activity functions</th>
<th>Relevant assets/ markets &amp; asset/market based activities</th>
<th>Possible non-market alternatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘Maintenance’ or ‘Hanging in’</td>
<td>Consumption</td>
<td>Food &amp; other purchases (including household services)</td>
<td>Subsistence production, domestic labour; social relations</td>
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<td>Production / income:</td>
<td>Wage employment; sales from petty trading, services, farming or NR based activities; input purchases.</td>
<td>Subsistence; transfers/ remittances</td>
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<td>Seasonal buffering</td>
<td>Financial savings/ lending, borrowing; asset sales; labour sales</td>
<td>Asset stores; social relations</td>
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<td>Insurance</td>
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<td>‘Stepping up’</td>
<td>Accumulation</td>
<td>Asset sales &amp; purchases</td>
<td>Skills, livestock, tree or household growth; social relations; power</td>
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Agriculture’s special roles in pro-poor growth

- Direct impacts of increased agricultural productivity & incomes on poor farmers & farm labourers
- Exports & import substitution
- Cheaper food for the urban and rural poor
- Stimulus for demand for local goods and services
- Release of surplus capital and labour to other sectors
- Livestock & horticulture growth

Note:
- Stages of development & growth
- Nature of growth (land productivity & labour demand, in tradables & staples)
- Both driving & supporting pro-poor growth
- Needs non-agricultural linkages
Constraints to agricultural & market development in poor rural areas

- Generic and often mutually reinforcing problems:
  - poor roads & telecommunications;
  - limited monetary economy;
  - thin markets for agricultural inputs, outputs & finance
- Business environment (especially in agriculture) with
  - weak information;
  - difficult contract enforcement;
  - high risks (in production, prices, access to inputs and markets, enforcing contracts);
  - high transactions costs
Constraints to agricultural and market development in poor rural areas (2)

Specific issues for small scale farming and labouring:

- long production & sales cycles (exacerbating risks) with seasonality in labour use, cash flow, food availability, etc;
- technical progress (& land pressure) need inputs, but small individual input purchases, with high transaction costs;
- discontinuous switches between technologies and crops, with threshold prices and levels of performance above (below) which certain activities are (are not) viable;
- input purchases need seasonal finance (very difficult)
- significant shares of output for subsistence: output sales may not fully cover purchased input and labour costs;
- tenure arrangements affect farmers’ ability to borrow, to expand, or to exit with a lump-sum
Constraints to agricultural and market development in poor rural areas (3)

Risky and high cost small farm service provision

- Input supplies: narrow time windows, uncertain farm profitability & demands / financing, inventory costs
- Farm finance: high transaction costs & risks in small scale lending to dispersed farmers with uncertain credit demand and engagement in risky enterprises leads to high interest rates & depressed demand & repayment incentives
- Output markets: uncertain & small scale surpluses
Coordination Failure: Low Level Equilibrium Trap

Inhibited economic & technological development

Low economic activity, thin markets, small volumes, high transaction costs & risks, & high unit costs

High cost information access & property rights

Weak institutional & infrastructural environment

Inhibited market access & development.
Getting agriculture moving

- **External investments** (specific & general)
- **Profitability** (prices, technology, natural & price risks, infrastructure, transaction costs and risks)
- ‘Non-market’ coordination systems?
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- **Getting markets going for different products?**

- **MMWP implications**

- **Including markets in livelihood approaches**
  - Entry points
  - Steps & questions
Two broad phases of dominant 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* when intervening in markets
State led agricultural development: policies & outcomes

- Price interventions: input and finance subsidies, output price stabilisation (support?)
- Organisational interventions (parastatals, state-sponsored cooperatives, agricultural finance)

Outcomes:
- Some (mainly African) countries large government expenditures with little gain: major drain on government budgets.
- Other (mainly Asian) countries the greatest processes of agricultural growth and poverty reduction in history.
Processes & conditions for agricultural transformations

**GOVERNMENT ACTION**

*Phase 1. Establishing the basics*
- Roads / Irrigation Systems / Research / Extension / (Land Reform)

*Phase 2. Kick starting markets*
- Reliable local seasonal finance, input & output markets

*Phase 3. Withdrawal (non-agric ?)*
- Effective private sector markets

**STATUS OF AGRIC**

- Extensive, low productivity agriculture.
- Profitable intensive technology. Wider uptake inhibited by lack of input, finance & output markets
- Effective farmer input demand & surplus prodn.
- Larger volumes of finance & input demand & produce supply. Non-agric. linkages.
State led agricultural development: demise

In both failed & successful state led systems, government intervention then (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 public good failures (research, extension & market information; market regulation; road & telecommunications infrastructure)
- Privatisation or dismantling of agricultural marketing parastatals (de-linking credit, input and output markets)
- Deregulation of markets
- Elimination of credit, input and output subsidies
- Wider reforms to reduce public expenditure & remove tariffs & controls (reduce over-valuation of exchange rates, improve macro-economic environment)
- “Social action funds” to assist short-term losers
- Development of institutions supporting markets
Market led agricultural development: outcomes

- Often provided some quick fiscal relief
- Mixed macro-economic benefits from wider Structural Adjustment Programmes

Successes
- in poor countries & lower-middle income countries with dense populations & diversified agriculture & rural economy
- lower consumer prices for staples in southern Africa
- some export crops in poor countries (?cotton)

Failures
- to stimulate pro-poor agricultural growth in poor rural economies with weak infrastructure, high dependence on low productivity staple production, etc
Processes & conditions for agricultural transformations

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GOVERNMENT ACTION

Phase 1. Establishing the basics

Phase 2. Kick starting markets

Phase 3. Withdrawal (non-agric ?)
Differing views on market led agricultural development

- *Partial liberalisation*: high investment risks & low incentives: incomplete, uncertain implementation
- *Weak institutions*: high investment risks & low incentives: weak property rights & institutional environment?

**Institutional critique**

- Intervention in food staples inevitable & often legitimate
- Naïve expectations of rapid market development
  - Flaws in failing to address coordination failures
  - Need to develop organisations & supply chains
  - Need to promote and (temporarily) protect investments
Getting markets going for different products?

- Key questions:
  - Profitability (input & output prices/costs, technology, management)
  - Coordinated service provision & access (inputs, finance, land, labour, skills, information, buyers, processors, transport, …).

- How is coordination achieved?
  - Neo-classical economics: market equilibria ‘coordinate’
  - Needs existing players and institutions
  - What if these do not exist and/or there are barriers to establishment?
  - Non market coordination mechanisms are needed – What? How? Who?
What Coordination?

- 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
## Mechanisms & Types of coordination

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<thead>
<tr>
<th></th>
<th>Private</th>
<th>NGO</th>
<th>State</th>
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<tbody>
<tr>
<td><strong>Local coordination</strong></td>
<td>??</td>
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<tr>
<td>- Endogenous</td>
<td>??</td>
<td>?</td>
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<tr>
<td>- ‘Soft’ external support</td>
<td>?</td>
<td>??</td>
<td>?</td>
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<tr>
<td>- ‘Hard’ external system</td>
<td>?</td>
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<tr>
<td><strong>Extensive coordination</strong></td>
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- Vertical integration (commercial / state farms)
- Vertical relations (interlocking, parastatals)
- Horizontal relations (farmer or trader associations, parastatals)
- Regulation (state, voluntary) – horizontal & complementary
Traditional export cash crops

- High fixed costs in processing
  - incentives to utilise capacity & vertical coordination
  - incentives for complementary coordination of small farm service delivery if
    - Land, labour or political disadvantages for large farms
    - Concentrated buyer or horizontal coordination among buyers

- Ghana cotton: 1985-2000 strained horizontal coordination then state intervention (local monopoly system)
- Zimbabwe cotton (2001-): New entry → informal coordination collapsed → look to state regulation
- Tanzania cotton: Private coordination not feasible → look to state for input supply, quality monitoring
- Tanzania tobacco: Horizontal integration (private)
High value products (e.g. horticulture)

- Similar incentives for vertical integration to ensure supply contracts
- **But** further difficulties with smallholders
  - timing (perishability, market flow)
  - traceability and quality assurance
  - flexible investment
- Investment in service provision (full package) possible with
  - well organised farmers,
  - generally with external support
  - constraints to large farm involvement (e.g. land tenure, political)
Staple food crops

- Lower value added, low specific assets & less concentrated markets limit buyers’ incentives to provide services
- Many small buyers, high market costs
- Complementary coordination problem 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?
  - Decentralised planning processes for complementary coordination under market liberalisation?
  - Farmer organisation, private sector, civil society, NGO structures, relations & roles?
  - Smart subsidies, price stabilisation, price support?
  - Transparent & defined roles, flexibility, transitions
MMWP implications: Principles

- Making market *systems* work for direct agriculture growth & for linkages: improved market performance & reach *with other mechanisms* – e.g. development of organisations an explicit goal, with ‘business models’, farmer organisations, etc

- Context specific:
  - “Stages” view of agricultural development & policy with change over time
    - as markets, hierarchies & economies develop,
    - as importance & role of agriculture change
  - Commodity/ product/ player etc specific

- Learn & adapt lessons from state & market led experiences – roles and weaknesses of the state, private sector and civil society organisations

- Critical questions about the capacity of the state (for regulation? for intervention?) and governance

- Good macro-economic management
MMWP implications: practice

- Establish the basics (roads, technology, irrigation?)
- Improve information systems, reduce transaction costs
- Promote coordinated supply chains for food & cash crop intensification (financial services, input supply, output buying & processing, transport, research & extension)
- Facilitate smallholder access to those supply chains (‘facilitators’ & ‘champions’?)
- Manage structural transitions & evolution, avoid ‘lock in’
  - non-market to market based coordination,
  - old to new activities,
  - limited range of diverse livelihoods to diversity of more specialised livelihoods
- Land, labour & financial markets to facilitate economic movement
  - International markets, policy & trade; food aid & other safety net support; exclusion of disadvantaged groups.
References / further reading


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Including markets in livelihoods approaches

- Expand SL Framework elements: checklist & relations
  - Demand opportunities & constraints
  - Between household livelihood diversification and interaction (demand, supply, trade)
  - Technology
  - Institutions for market development & access
  - Dynamic livelihood changes
- Identifying ‘entry points’ in SL approaches
Modified SL Framework

LIVELIHOOD ASSETS

Physical, Social, Natural, Human, Financial

DYNAMIC & DIVERSE LIVELIHOOD STRATEGIES

ACTIVITIES

OUTPUTS

LIVELIHOOD OUTCOMES

EFFECTIVE DEMAND
LOCAL WIDER
market/ non-market

VULNERABILITY CONTEXT
SHOCKS, TRENDS SEASONALITY

POLICIES & INSTITUTIONS
Markets
Power Access Rights
Services
Identifying entry points

- Intervention Entry Points
  - Technical innovation
  - Targeted asset building
  - Enabling environment
  - Institutional arrangements

- Livelihood changes
  - Asset attributes
    - functional achievements
  - Asset portfolio
  - Asset access

- Livelihood impacts
  - Improved & sustainable well being

- Feedbacks
Steps in marketing & livelihood analysis

- Identify priority poor people
- Identify important markets with most potential
- For these identify critical opportunities & constraints.
- Assess how to address these, & stakeholders involved
- Relate to stakeholders’ resources, objectives & current activities
- Prioritise issues for potential actions, identify actions, identify further information and stakeholder consultation needed.

Take account of
- Issues in different sectors
- Varying interests, responsibilities & types of action and roles of external parties
- Importance of partnership & participation by different stakeholders
- Direct & indirect markets, dynamic livelihood & structural change
Questions

• Who are the poor? (assets, activities, aspirations)
• What markets are important for the poor?
• How well do they serve the poor (access, prices)?
• Supply and value chains – constraints, returns?
• Stakeholders?
• SWOT?
• Barriers, transaction costs and risks?
• Institutional environment: enabling, disabling, options?
• Institutional arrangements: causes, effects, options?
• Wider processes of change?
<table>
<thead>
<tr>
<th>Livelihood Strategies</th>
<th>Markets with direct impacts</th>
<th>Markets with indirect impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor agricultural producers</td>
<td>Staple food sales</td>
<td>(1)  Wider national and international markets for crops, inputs, transport and finance, and their interaction at different points in market chains. Local competitors’ access to these other markets.</td>
</tr>
<tr>
<td></td>
<td>Staple food purchases</td>
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<td>Agricultural inputs</td>
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<td><em>Seasonal finance and savings</em></td>
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<td>Land</td>
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<tr>
<td>Poor agricultural processors</td>
<td>Staple food sales</td>
<td>(2)  Wider markets (see (1) above).</td>
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<td><em>Processing inputs &amp; equipment</em></td>
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<td></td>
<td><em>Financial services</em></td>
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<tr>
<td>Agricultural labourers</td>
<td>Labour</td>
<td>(3)  Wider financial markets.</td>
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</table>

(4)  Commercial farms’ access to markets for labour demanding cash & food crops, inputs, finance & land. Wider markets (see 1 above).