<u>The International Conference on 'The Agrarian Constraint and Poverty Reduction: Macroeconomic Lessons for Africa'</u>

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<u>Thematic Summary Report</u>

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I. Introduction

The conference organised by the International Development Economics Associates (IDEAs) in collaboration with the Ethiopian Economic Association (EEA) and the Council for the Development of Social Science Research in Africa (CODESRIA) was held in Addis Ababa, Ethiopia on 17-18th December, 2004, with financial support from the United Nations Development Program (UNDP). The objective of the conference was to focus on issues of current concern facing the agrarian sectors of Third World economies with particular reference to Africa. Thus, the agenda centred on understanding the linkages between the ongoing processes of agrarian transformation, the increase in poverty and the underlying macroeconomic processes.

The fundamental logic that drove the agenda was the belief that agrarian development cannot be looked at independently of the macroeconomic context, both at the national and international levels, and therefore, that the widening and deepening crises of livelihood and food security occurring in several parts of the less developed world have to be examined as such. Changes in the agrarian sector have to be understood in the context of the stabilization and structural adjustment policies and the more recent "poverty reduction strategies" adopted or followed by countries facing external debt problems. Exploring the linkages between the macroeconomic processes and specific changes observed in the agrarian sector, and their implications for poverty reduction were thus the major areas of discussion. The nature of the role of state in addressing the various constraints to agrarian transformation and in adopting progressive development alternatives also featured dominantly during the two days of deliberations.

The first day of the conference had sessions centred on the global context of the current agrarian transition, and the underdevelopment and poverty linkages of the agrarian question. The second day of the conference focused specifically on issues of trade in agriculture, and the implications of financial liberalisation for agriculture. Each of these sessions had three paper presentations, each of which was followed by a discussion by an allotted person, following which the floor was opened to other participants for questions, comments and debate. The paper presenter was then given the opportunity to respond to the issues raised from the floor. The conference ended with a panel discussion on 'Macroeconomic Policies, Agriculture and Poverty'.

The majority of the conference participants were from within Africa, and most of the papers and discussions focused on African countries' experiences in dealing with agrarian transformation in the current international conjuncture. Overall, the conference brought together over seventy economists and researchers from across the continents.

While the presentations, discussions and debates have been written up in the Report on the Proceedings of the Conference, and the papers and presentations, as available, are also downloadable from the links provided in the conference programme, this summary report attempts to draw together the diverse strands of participants' ideas that emerged during the two days of discussion and debates, under cohesive themes.

II. Agriculture, Economic Restructuring and Underdevelopment

II.A. Agrarian Transition and Development Strategies

The conference opened with a presentation raising the classical agrarian question in the African context. Clearly, the resolution of the agrarian question hinges upon the progressive decline in the importance of agricultural sector in an economy and increasing urbanization of its society, supported by industrialisation processes. Central to the conference theme and central to the very development discourse of sustainable economic restructuring, the theme underlay the discussions during the entire conference.

On the relevance of agriculture-based development strategies for Africa, it was agreed that the resolution of the agrarian question very much depended on a successful structural transformation of the agricultural sector. Indeed, successful industrialisation processes relied upon a successful agricultural development strategy that allowed countries to move between phases of Ricardian development based on primary commodities exports by progressively increasing the value added, and moving towards Kaldorian strategies that require infant industry protection for import-substitution industrialisation which links up with the domestic primary sector in a significant way.

It is an orthodox neo-liberal view that considers the option that an economy could afford to focus only on developing its agricultural sector and forget about everything else. Agrarian transformation can be brought about only by positing the agrarian question linked to an industrial strategy and this requires the government to map out a specific policy agenda as the mechanism towards reaching that development path. This requires appropriate government intervention and support to tackle the low levels of technology and vulnerability to weather risks, enough flexibility to respond to international market conditions and price volatility, and a long-term vision of what to do with export earnings in terms of switching to a different type of strategy at each stage of development.

It was recognised that the evidence on the Prebisch-Singer hypothesis on declining prices for several primary commodities cannot be allowed to undermine the viability of a development strategy centred on the agricultural sector. Given the centrality of agricultural transformation for economic development, the solution lies in ensuring the reversal of such secular price declines and undertaking measures that would protect farmers against price volatility. Moreover, not all primary commodities suffer from the same gloomy fate. Also, particular medium to high value-added niche sub-sectors can be developed within agricultural commodity chains in the medium-term, with appropriate government intervention and support. Development of particular agro-based industries, for example, would involve strategic interventions in trade policy such as export taxes on the export of particular raw materials and higher tariffs for related nascent processing industries being developed, to make it worthwhile to invest in such processing production capacities. State intervention may also have a role in helping to find new markets for products facing demand saturation or market access problems. Thus, it was widely agreed that under the prevailing market conditions, we cannot assume away the restructuring role of the state and the policy stance which will bring about this transformation. The heterodox perspective on addressing the development strategy has thus been quite different in terms of following import-substitution along with a different set of macroeconomic policies, while addressing the agrarian question in a serious manner.

It was also emphasised that policy concerns related to agrarian sector transformation will remain significant not only because of its crucial significance in the development strategy discourse, but also because of the fact that dependence on agriculture will continue to be important for sizeable proportions of population particularly from the point of view of livelihoods. This is because while we have had declining share of agriculture in GDP, the proportion of population dependent on agriculture continues to be huge in most countries across Africa, Asia, and Latin America. Thus, even simply from the point of view of livelihoods, the significance of agriculture cannot be neglected at all, even if one does not look at it from the growth and linkages perspective which is also equally important. The very fact that a very large proportion of people lives in rural areas and relies on the agricultural sector (as producers or workers) is important in itself to warrant a focus on agriculture.

Thus, one has to look at the implications of the neoliberal policies being implemented across the developing world and also what prospects they hold for addressing these key agrarian issues. Even though the mainstream neo-liberal policy prescriptions for LDCs including for Africa do focus on diversification out of the primary sector, the problem is that they support market forces, which do not allow accumulation by petty-commodity producers “from below”. The “merchant path” comprising a variety of (petty) bourgeois elements with access to land is followed, which has specific implications for production structure, unemployment and inequality in these economies.

II.B. Agricultural Reforms and Trends in Employment and Poverty

The unemployment and poverty implications of the neoliberal agricultural and macroeconomic policies and indeed the adverse impact on intellectual integrity due to the ideological hegemony of these policies were brought out starkly by the Indian experience since implementing the early 1990s' economic reforms. It was shown how, based on logically spurious methods of calculating poverty, the Indian Planning Commission and also by some academics claim that India's rural poverty which showed fairly low levels of poverty of around 37% in 1993, has declined further to between 25%-27% by 1999-2000. However, if we use logically correct methods for measuring poverty, there is in fact a substantial increase in the depth of poverty at the all-India level and particularly in certain states. The only way in which these economists have come to the very low estimates of poverty in rural India for 1999-2000 is by reducing the calorie norm to absurdly low levels. The pro-reform economists and policymakers and the government had vested interests in showing low and declining poverty. They were looking at reducing poverty so that less number of people will need to be supported through the public support system and this will 'improve' the fiscal deficit.

It was clearly shown how the trends emerging from the overall macroeconomy also do not corroborate the official claims of reduction in poverty in the rural areas based on indirect estimation methods. The decade of the 1990s has seen a complete collapse of output growth in rural India and a very substantial rise in rural unemployment, related to the cut back in public investment in agriculture, and also in public development expenditures in general. Further, since tariff protection to the farm sector was removed as part of trade liberalisation precisely at the same time as global primary products prices were falling, the Indian farmers were exposed to falling global prices, while at the same time, they had to face the large inflows of low priced primary product imports arising from the lower tariff rates. The impact of all these on income loss were compounded by the lack of easy credit to farmers and to small scale industries, that was taken away in pursuit of market-led allocation of credit as part of financial liberalisation. The combined effect of this package of mainstream economic reforms therefore has led to an enormous rise in farm indebtedness as prices collapsed, kidney sales to repay debt and large number of farmers' suicides in different parts of India.

Critically, all these are linked to the issue of employment in rural areas. The assumption that we cannot have open unemployment in our societies because there is no social security in place and the poor cannot afford to be unemployed etc. was challenged. It was highlighted that apart from the fact that the miniscule employment growth that was registered in rural India in the 1990s include all kinds of employment- part-time, casual, subsidiary, etc., there is also a substantial increase in open unemployment in rural India, as we have other parts in Asia, Latin America and Africa.

It is inevitable then that all these changes impacting the agricultural sector have also had adverse consequences in the availability and pattern of food consumption. The massive deflation of purchasing power in rural areas has led to a very steep fall in per capita absorption of foodgrains in India, leading to massive hunger, and massive increase in calorie deprivation. The standard neoliberal response is that they are not consuming enough foodgrains because their incomes have gone up and so their consumption pattern has shifted towards non-foodgrains. But, in the case of India, the total calorie consumption has declined, and not just foodgrains consumption. The mainstream argument that there is non-voluntary reduction of foodgrains intake and the idea that non-foodgrains compensate for foodgrains was seen to be a falsehood also in the case of many African countries, on the basis of the FAO food balance sheets.

Indeed, it was highlighted by many African speakers that the factors that underpin the increase in the depth of poverty in India as a result of economic liberalisation and outward orientation are crucially relevant for Africa, where many countries have been undertaking similar policies as part of either the structural adjustment policies (SAPs) or the ongoing PRSP processes. Despite all the diversity in the sequencing and/or the timing, across the board in Africa, most of the policy package of neoliberal reforms has been put in place by the Bretton Woods Institutions one way or another during the 1980s and 1990s. All of them had the usual focus on price policies with a basic one-size-fits-all approach denying the reality that different kinds of state interventions had existed in these countries. The basic components were: 1) the deregulation of agricultural markets; and 2) the withdrawal of state support from farmers.

Empirically, there were three key factors that triggered the introduction of structural reforms in Sub-Saharan Africa in the early and mid-1980s. Firstly, the Berg Report and the country analyses that formed the background for that report did not look at the agricultural performance of those countries from the 1960s onwards, but concentrated on the last few years of the short-term agricultural crisis from the mid-1970s onwards, when some of these countries had to approach the World Bank and the IMF for assistance. In many countries, while these crises were due to idiosyncratic factors and some of them were structural, some of them only related to harvest shocks and price declines in the world markets after the price boom of the mid-1970s. The second factor was the growing fiscal deficit in the mid- to late-1970s that pushed these countries towards accepting the conditions in order to obtain funds from the Bank and the Fund. As agriculture was considered a heavy drain on public resources, the need to address fiscal deficits, rather than the objectives mentioned in the policy package of agricultural reforms, was the key factor behind undertaking agricultural reforms.

The theoretical rationale of structural adjustment as applied to the agricultural sector and as put forth by those advocating the neo-liberal position through the supranational institutions, in particular, the World Bank, were also critiqued by the papers in the various sessions. It was pointed out how most of the empirical work has been driven by spurious theories of comparative advantage and have relied constantly on different types of tautological reasoning, static and partial analysis, the typical state-market dichotomy, etc. However, the Ricardian theory of comparative advantage was shown to be fallacious since the transformation frontier for many goods that are traded between the advanced countries and the developing countries cannot be defined. It is a very specific assumption that both countries produce both the goods that are traded and thus both benefit from trading with each other; this has been illogically generalised in the Ricardian theory. Since many products that the developing countries produce and export cannot be produced by the advanced countries, neither the cost of production nor the transformation frontier are definable, so no comparative advantage can be defined. And yet, this false theory has been put forth again and again to say that countries in Africa and others should go in for a primary products-based export drive with disastrous consequences.

What anecdotal and scattered evidence from micro-level research shows is that there is actually a process of faster growing social differentiation in the African countryside since the introduction of the neo-liberal reforms. Some typical changes can be observed in the food and export markets at the local level. On the one hand, for some crops, the dismantling of the public marketing boards has led to the creation of monopsonistic power of a few traders. It is almost tautological to say that competition has increased; because there are more private traders in the local markets. However, the point is that at a particular level within the villages, there are only one or two traders, which creates a situation of monopoly power. Another development is the contract farming systems, which is similar to the agribusiness developments in Latin America, with some differences. In general, it was observed that the winners are a few viable farmers who are close to infrastructure networks, have political and economic connections that enable them to take advantage of the changes. It was pointed out that the poorer peasant farmers and agricultural workers were severely hit by the reforms especially in the 1990s. Thus, there is growing structural dualism in African agriculture, like it is occurring in other developing countries across other continents as well.

But, the notion that we need not worry about commercial agriculture as it feeds the country’s population and earns the foreign exchange and therefore any policies of agrarian change that may need to be implemented should not touch them, was questioned. Based on government reported data, the highest rates of malnutrition and under nutrition among children nationally seen in the commercial agricultural districts of South Africa were highlighted. Thus, there is an evident need to examine the emerging links between changes in agricultural production patterns because of the way commercial agriculture is organised and operate in some countries, and the availability and pattern of food consumption in these countries.

Essentially, the overwhelming majority of small peasant agriculture is getting transformed in a creeping manner, and this brings the problem of livelihoods into the forefront. It was suggested that the peasantry remains in a state of flux under a capitalist agrarian regime. Under structural adjustment programmes (SAPs), African peasants have continued to be “multi-occupational”, which seems to have been a coping strategy. Attention was drawn to the changes occurring in the way people in the different regions survive, switching from some crops to others crops and the need to understand the consequences of this for certain types of producers and also for people who are dependent on various types of agricultural employment. It was pointed out that these changes are typically not captured in the employment statistics we generally use. We need to distinguish between increase in unemployment and increase in informalisation of employment.

It was clear that the state has a significant stake in directing the labour force through different incentive mechanisms, to the sectors and regions where greater opportunities exist from a long-term equitable development perspective. There were frequent references to the flexible forms of intervention by the developmental states in the East Asian countries of Japan, South Korea and Taiwan. It was stressed that without the selective interventions both in agricultural expansion and in agricultural processing, the growth dynamism in these countries would simply not have happened. However, what is crucially significant in explaining their highly equitable development was the fact that they had preceded their development paths with massive agrarian reforms which redistributed land to the users.

II.C. Land Reforms

The mainstream perspective on land reforms is that globalisation has led to the irrelevance of country-specific initiatives such as agrarian reforms. According to them, the agrarian question in the “North” has been resolved, and this signifies the end of the “classic” land and agrarian question in the South also. In particular, African peasantries have been destroyed and have limited capacity to struggle for land redistribution. This perspective was countered at the conference.

It was argued on the other hand that uneven development, structural adjustment (SAPs) and other constraints have depressed agricultural production and prices in the South, and have lead to an intensification of the land and agrarian questions. It was also shown how the extensive land reforms in Zimbabwe have exposed the myth that land reform can only be resolved through a liberal democratic path of negotiated settlement. It was pointed out how the struggle for land redistribution in Zimbabwe though land occupations needs to be seen as a legitimate instrument for redressing past wrongs caused by the British colonial policy of land alienation. Agrarian reforms which redistribute land to the users is necessary for agrarian development and long-term national development, even though they necessarily violate the property rights of the landed.

South Africa was negotiating market-oriented land reforms premised on the “willing seller, willing buyer” principle. But, the South African state (ANC) now faces the key question of an incomplete struggle for national liberation. One of the South African speakers argued that land reform is not central to the completion of the national democratic revolution in the country, largely because the ANC is a predominantly urban-based (workers) struggle with little ties to the rural areas. However, there were cautioning voices that while the land question in South Africa might appear to be a non-issue at the moment, over the next 10-20 years, land conflicts there might acquire Zimbabwean characteristics if they are not resolved soon.

The problem in almost the whole of Africa was pointed out to be that many countries have had a kind of grafted capitalism that is exogenously given, and which created different varieties of ‘enclave capitalisms’, some based on minerals, some on export agriculture, others based on a combination of peasant agriculture and exports etc., which has had the tendency of marginalising and excluding the majority. That is a lot of underemployed people who have not been utilised in a process of productive transformation and accumulation. The role of the developmental state comes to the forefront in obtaining this and to reverse these exogenously-driven growth processes and reassert an endogenously-driven accumulation and growth path. It was argued that towards this, land reforms accompanied by complementary policies for enhancing rural credit facilities, education and infrastructural investment, strategic trade policies, etc., in order to ensure the multiplier developmental effects of land redistribution for bringing about wider economic and social improvement will become crucial in resolving the agrarian question in Africa.

III. Macroeconomic Constraints in African Agrarian Transition

III.A. Trade Policies and the International Conjuncture

Policies of trade liberalisation imposed from above were collectively viewed as one of the most critical constraints facing African agriculture by the conference participants. It was pointed out how the mainstream analysis of the post-reform experiences in Africa tends to give a mixed picture of successes and failures as the key variable in their analysis is price incentives. The mainstream analysis of the impact of reforms is presented either in terms of what is happening to export prices, which may have increased in some countries, or in terms of food crop prices, which have actually gone down and is considered bad by the mainstream because they assume that most rural poor are food producers while they are not. While the proportion of export prices paid to agricultural exporters may have increased in some countries, these assessments do not look at what happened to the real producer prices in a context of falling world commodity prices.

There is in fact a tremendous decline of agricultural prices from the second half of the 1990s. Through the 20th century, there has been a terms of trade decline against several primary commodities. There is also evidence that the terms of trade decline against tropical primary commodities is especially severe than temperate commodities. This of course has got a great deal to do with how we understand the price effects of increased agricultural output in a situation of Lewisian labour supply curve. In fact, the possibility of immiserising growth, which happens when price declines outweigh of output productivity increases, was raised.

More crucially, the important thing is that food or export prices in average terms do not tell us anything about their volatility. What is of even more concern than the secular declines in some primary commodity prices are the fluctuations or the volatility of prices to which countries are exposed in a free market context. This is in addition to the widely acknowledged fact that the removal of pan-territorial and pan-seasonal pricing typical of state marketing boards has led to significant increases in territorial and seasonal price volatility. The stability of earnings is something that was addressed under the old policies and it has had significant political economy consequences as have become evident from the rural crisis in the post-reform years. It is clear that Third World agricultural producers who already face the problem of output instability simply cannot face the price volatility in international markets when protection is taken away. Then, without protection, Africa will start facing the same problems of rising indebtedness, farmers' suicides, etc. which we are facing in India currently.

In addition to the consequences of facing declining international prices amidst increased price volatility, it was evident to all how Africa faces three other major concerns when it comes to agricultural trade. One is the market access in terms of the level of tariffs applied by developed countries on the exports of agricultural products. Then, there is the domestic support given to farmers, which is about 20% of the GDP of the developed world. Thirdly, there are the export subsidies by the EU and the US. In addition to the fact that subsidies extended to agriculture go predominantly to agribusiness and not necessarily to farmers, that they have distorted world prices and do not reflect international costs and so on at all, they were identified to have operated against developing country agriculture everywhere. So, many speakers argued that to have better access to the developed world and the elimination of distorting subsidies are the major challenges for African countries on the trade front.

But, the discussions quickly gathered a consensus around the fact that having failed to see any significant change in the WTO negotiations framework, developing countries' appeal to the developed markets to reduce their subsidies and increase market access for the formers' agricultural products has currently been reduced to a moral question. But, it is foolhardy to appeal to the morality of the multinational corporations in the agribusiness, who wants to weaken the indigenous agriculture in other countries so that they can dominate and have a freehand in the interventions. That is exactly what they have been doing in South America; they destroyed the agricultural sectors in that continent. The food produced in North America is being dished out to the poor in Latin America today. The latter's own agricultural sectors are lost for ever.

Therefore, the issue of the amount of subsidies being given by the developed world should be looked at in terms of how much our farmers need to be subsidised, rather than asking them not to do that much, which they will not do in any case. We should not ask the developed countries to not subsidise their farmers; but we should subsidise our own. Also, it is important to recognise that the real politics behind OECD agricultural policies is that even if there is some reduction in tariffs, they will be more than compensated for by an increase in some other kind of protection or implicit subsidies. Further, even a complete elimination of these subsidies will not lead to a perfect situation for agricultural exporters, in particular in Africa and will actually become a major issue for the food importing countries of Sub-Saharan Africa.

The most remarkable conclusion which therefore emerged was that continuing to believe that our access to their markets is more important than their access to our markets is completely illusory. Indeed, if they let us access their markets, what are we going to sell in any case given the scenario of declining prices?

In fact, the fact that there has been a secular decline in the prices of many primary commodities is one of the reasons why the assumptions underlying the GTAP model predicting gains from trade liberalisation are suspect. But, it was also pointed out that even the conventional CGE modelling on the gains from agricultural trade liberalisation suggests that the main beneficiaries from trade liberalisation are not the developing countries but North America and the settler colonies of Australia, New Zealand, etc. While some of the Cairns Group agricultural exporting countries may benefit, by and large, no developing country in Africa is going to benefit.

Thus, it was suggested that given the unfair agreement which we face, developing countries should make their own markets inaccessible to them, rather than begging the developed partners to open up their markets or reduce their subsidies. It is crucial to have some protection so as to have better policy flexibility for ensuring food security and sustainable development. African countries' position now is to consider that there is a need to have more policy space and more open international conditions to make sure that they will be able to formulate their own agricultural policies and be able to improve the level of investment and productivity in Africa. But, given the nature of the smaller economies in the developing world, including in Africa, there was some consensus around the suggestion that we have to increasingly consider protecting our regional markets rather than our national markets, because economies of scale are going to be crucial in determining the viability of investments. While we have to very mindful of the real possibilities of sub-imperialism as discussed by some speakers, it is also important for us not avoid any kind of regional option by raising the spectre of sub-imperialism.

In this context, it was argued that the way that productive capabilities have evolved in the developing world in the last two decades opens up huge amounts of scope for intra-regional trade or what used to be called South-South trade. Certain kinds of productive potential can be emphasised and developed in specific countries through small changes in fiscal strategies such as differential taxation and selective trade policy interventions in a regionally coordinated. This will ensure product differentiation regionally and sufficient economies of scale in the production process that will help to develop a regional market for particular local products including basic agro-processing industries. It was also opined that developing countries should improve the transport links between them and formulate their own systems of quality control in order to develop the trade links amongst themselves. However, within all these, the primary focus has to be domestic food security.

Further, in the medium-term, developing countries and in particular, African economies should constantly bear in mind the following three things when they are dealing with trade negotiations. These are to make use of: Special and Differential Treatment (S&DT); Sensitive Products, under which you can have a whole range of protective measures for declared sensitive products; and to use variable tariffs and temporary quantitative restrictions whenever required. However, questions were raised about the feasibility of even such interventions in the multilateral and bilateral trade arrangements in situations where domestic political and bureaucratic elites have been captured by the US-led economic imperialism.

It was also highlighted that the shift in trade negotiations from multilateral arrangements to bilateral agreements is driven by the power politics of the bigger players and the international political economy. For instance, it was pointed out that AGOA - the African Growth and Opportunity Act – is actively being used by the US to further its own political interests. Further, it does seem that the AGOA does not work for the furtherance of the interests of weak African economies like Uganda. It was pointed out that because of the liberalisation of market access in manufactured goods, such agreements do not allow space for the promotion of sufficient linkages between manufacturing and the local agricultural sector. Similar problems were also highlighted in the context of NEPAD. It was pointed out that the concrete realities in most African countries suggest that we need an economic and political agenda which is substantially different from

NEPAD's direction. Further, while South Africa might need some opening up because of its higher stage of development as an industrial and information society, its capital now needs to go out of the country aggressively, the same direction is not suited for the other less developed countries of Africa like Uganda, Rwanda, etc. So, an appropriate NEPAD would need to take stock of the different levels of development of the African countries.

There has to be scope for different trade partners to apply different sorts of policies which Malaysia did so successfully in the palm oil case. But, again, if you look at the case of SADC (Southern African Development Community), what is happening in the case of Zambia which relates to the source of inconsistencies between agricultural policy reforms and trade liberalisation is that although there is a potential for competitiveness in the medium-term if some measures are implemented in certain agro-processing industries, the country does not have enough policy space to decide for example, on a particular tariff or non-tariff barrier against South African imports so that the question remains as to how we are going to ensure the shift in a particular development stage from Ricardian to Kaldorian strategies. So, when we look at regional integration and intra-regional trade, we should also look at the uneven bargaining power of the different players even within regions.

III.B. The Financial Constraint

Another central macroeconomic constraint addressed was the shortage of financial resources as one of the major constraints facing farmers, particularly the small farmers. The rural financial markets are usually not perfect; they are characterised by inadequate availability of credit to both farm and non-farm enterprises as commercial banks associate lending to rural areas and small farmers with high transaction costs given that rural credit markets have been very fragmented. Moreover, farmers also lack the generally defined collaterals and management skills which are often required by financial institutions. This was particularly the case in some other African countries, where many communal farmers do not have title to land and therefore no collateral. All these together have the consequence that the supply of formal sector credit to the countryside has been inadequate and farmers, particularly small farmers lack the capital or financial resources. The major source of credit for rural households, particularly income-poor working households, has thus been the informal sector credit, where the latter is advanced at very high rates of interest.

Given that the problem of rural credit has been well recognised in official evaluations under the earlier developmental paradigm, the declared objectives of public policy with regard to rural credit until the decade of the 1980s was to ensure that sufficient and timely credit, at reasonable rates of interest, is made available to as large a segment of the rural population as possible in order to raise agricultural productivity and break the cycle of rural poverty. Thus, subsidized credit was directed through the institutional network of the formal sector lending institutions. However, the neo-liberal policy package brought about financial liberalisation with the assumption that financial deepening, increase in savings, and improvement in the quality of investment that will occur under liberalised financial markets will increase credit flow to the agricultural sector; particularly to a reformed agricultural sector. However, financial liberalisation was seen to have had quite severely undermined the formal system of institutional credit that has been established in the rural areas in the countries studied and to have led to further anti-developmental and in-egalitarian consequences.

The general conclusion from all the papers in the session was that while previous financial regimes failed to address all the credit needs of the small farmers, financial liberalization has not improved the situation and has made small farmers worse off with respect to access to formal credit. The underlying assumption driving financial liberalisation was that agriculture would become sufficiently profitable to compete in the open market to compete for credit with the other sectors. That could not happen because first of all, agriculture was not profitable in general, and secondly, interest rates to the farmers were too high and thirdly, these structural adjustment policies did not address some critical constraints to borrowing.

Thus, there was both a deterioration and greater inequity in access to credit with increased financial liberalization. One of the major problems is that even in a situation of financial deepening in some of the urban areas, there is less access to credit in the rural areas, because commercial banks tend to retrench from the rural areas. The second problem is the lack of access to long-term developmental finance that used to be provided by development banks, because commercial banks are more reluctant to provide that kind of long-term funds under conditions of certain kinds of risks. This has adverse implications for long-term growth.

Financial liberalisation measures also were meant to create a stronger financial sector which is prudentially supervised to address the so-called key problems in the financial sector- imprudent lending, near bankruptcy of several financial institutions, very high NPAs, etc. However, these prudential measures have led banks to become even more risk-averse. And since agriculture inherently is more risky than other sectors (due to price fluctuations, weather problems, pests and diseases, etc.), the stronger financial sector is even less willing to lend to agriculture. The credit that is going to agriculture currently is largely crop finance, which is only a small proportion of their credit needs.

So, policymakers started advocating microfinance based on the argument that it will have an advantage over commercial banks it will spread out to rural areas at much lower costs than commercial banks as you could adapt it better to service scattered areas, use the group method to sort out the creditworthy borrowers and also to monitor the loans. However, the results of a study on cross-country comparison of rural banks across countries in the world were highlighted to show both of these arguments to be bogus. At 8%, the lowest transaction costs for banks in the world were in fact for the Indian commercial regional rural banks. Secondly, the non-performing assets of the major micro-finance institutions have been higher than even the priority sector loans of the major Indian nationalised banks. The cost of MFI loans to agriculture was expensive; with key constraints such as the very low profitability of agriculture which made it incapable of servicing the loans at such high rates just as in the case of commercial bank loans. Further, the importance of examining the reasons behind the few exceptional micro-credit experiments that succeeded was raised. Also, there was a need to investigate the gender argument that micro-credit has often reached women more effectively than other kinds of credit on whether there has simply been a shifting of the debt burden from men to women. In any case, the credit extended by micro-credit institutions is miniscule compared to the quantum of finance that is being withdrawn by the state. In general, as formal sector credit withdrew, the informal sector rushed in to occupy the space that it had vacated.

In this context, there were a number of important issues raised. While small farmers seem to have lost in most country experiences with financial liberalisation, who may have benefited, or are benefiting, from such policy shifts toward more liberalised financial markets? What is the actual dynamics of resource mobilization and allocation? Can small farmers grow as independent commodity producers so as to justify credit for working capital and investment specifically directed at them individually? Or does the solution for massive poverty amongst small farmers lie in the interaction between agriculture, industry and other services that take small farmers out of poverty by giving them the opportunity to stop being small farmers and become workers, cooperativists, etc.? Could the focus on rural labour relations be more important than rural credit, to address poverty amongst small farmers? What are our policy options post-liberalization, post-micro-finance policy agenda? What role can be played by contract farming say in terms of cooperatives or private investors, in solving the problem of access to credit? Will they be in a position to bargain for longer-term credit from the lenders at better terms as well? Are we going back to development banking or are we in favour of social policy lending?

At the same time, during the discussions from the floor, the original analytical case for financial liberalisation was also pointed out to have been made on a bogus empirical basis. The original argument was made by McKinnon and Shaw based on South Korea in the 1960s. However, it was revealed that if we look at the financial history of Korea in the 1960s, contrary to the claim that because of government intervention there was financial repression, while they indeed had relatively low interest rates, the savings rates showed an increasing trend. Further, savings was following the growth rate and the investment rates that were required, rather than the other way around as is generally argued. The developmental and egalitarian consequences of government interventions in the financial sector were also highlighted to have been particularly important in bringing about the relatively egalitarian distributional outcomes, especially in Taiwan, one of the most successful late industrialising countries to date.

III.C. Role of the State and the Fiscal Constraint

In the midst of the Millennium Development Goals (MDG) Campaign with its emphasis on injecting more development assistance, concern was raised about how we will mobilise more resources, especially under falling taxation revenues. One of the crucial concerns raised in this context is the fact that trade liberalisation has forced governments to abandon tariffs as their major source of revenue. It was repeatedly highlighted that this leaves developing countries even more fragile than before, with more needs for public investment because we end up recommending alternative policies, for which we do not have the resources. So, clearly, it was essential to resist the onslaught of these policies.

Meanwhile, in the context of financing of rural infrastructure, the World Bank's new method of promoting outsourcing of extension services to NGOs or to the private sector on the basis of some kind of demand that has to come from the farmers themselves was highlighted. However, such a demand-led extension system in undercapitalised agricultural sectors of mostly smallholder farmers with very low resource capability was pointed out to be a non-starter.

There were several references made to the successful agrarian transitions in the past. Other countries which followed similar policies in the late 19th and early 20th century also faced similar failures and crisis; but they could adjust because the external conditions facing them were very different; there were no supranational authorities that monopolised the resources to address these failures. Countries like Argentina, New Zealand, Australia, Brazil, etc. had access to different channels of foreign capital in the late 19th century that had not been available to the African countries in the 1970s or 1990s. The policy space was wider than it was in the 1990s.

Thus, historically, successful Ricardian restructuring experiences were based on two principles. Firstly, they ere based on state interventions at different levels, with different timings, different sequencing and targeted to particular type of farmers, specific sub-sectors and crops. The second strategy was flexibility in the way these strategies were implemented, that is the capacity for moving from one type of Ricardian development strategy to another, as discussed in the beginning. Clearly, this is not something that has been available to many countries in the 1980s and the 1990s.

Thus, the debate kept coming back to the question of whether African governments can actually implement the strategically important interventionary policies or not, given the resources they have. One level of argument was that everything will depend on the policy framework that is applied by those controlling the resources needed by African governments. Thus, the pessimistic conclusion was that in the very short- and medium-term, we are actually stuck with the mainstream developmental policy agenda, not only because of the World Bank and the IMF, but because most bilateral donors are also buying into that agenda.

It was pointed out that the problem with PRSPs in Africa as elsewhere is that they focus on two things: macroeconomic stabilisation; and safety nets and social services; there is no talk about national ownership. It is a hoax since there is no real policy option when you get down to these PRSPs. That is why a forum like this is invariable, to open up the discussion and getting the debate going. The other entry point is the Millennium Development Goals, which has upsides and downsides. The upside is that at least it puts on the table the idea that we need much more ambitious growth-oriented, development-oriented strategies in Africa. The downside is that it is driven by ODA - Overseas Development Assistance.

There are two major points to be grappled with in this context. If we are taking that direction, then we are talking about large-scale public investment programmes in the context of a public sector-led development strategy and not private sector-led which in any case is not development. This also means that we need to invest in a lot of state capacity. But, there was a lot of cynicism about this from the donors all of whom decided that we need to downsize the state, because we have these corrupt regimes in Africa or huge bureaucracies elsewhere. So, we have had 20 years of downsizing of state capacities and now we are talking about a huge influx of ODA into Africa. The first excuse not to do this is to refer to the lack of absorptive capacity. So, we are in this strange paradoxical situation that we went about weakening state capacities over the last several years which could have been used for the disbursement of the funds. So, it is important to put these issues on the table that would allow you to change the development agenda and draw some macroeconomic issues. We are not actually giving the capacity to our states to provide the minimal public services and then we say they are corrupt and inadequate in providing services, etc. So, the other level of argument was that we have to have much more confidence in the need to revive the capacity of our states.

One of the issues in this context was about how to deal with some of these vicious corrupt regimes- democratic or otherwise, which we are stuck with. It was suggested that nation states being arenas of contestation, there is a minimum need for legitimisation that is sought by every regime, even the most undemocratic ones, which requires some susceptibility to local pressure. We have to try and open up these spaces. So, the optimistic conclusion was therefore that while it is true that we face different degrees of repression, control, authoritarianism, etc. from our governments, there are still possibilities for changing policies through sufficient social and political mobilisation. It is important to address the possibility of changing the policies of the nation state rather than denouncing all of our states, especially because they remain the absolute critical element in our struggle against imperialism. Thus, it is important to understand analytically under what conditions populist regimes, which are essentially cross-class alliances, are willing to undertake policies which have developmental consequences and/or egalitarian redistributive consequences.

One of the successes of capitalism today is that it keeps repeating these points over and over again that we begin to believe that these are true. May be we need to pick up that strategy and start repeating what we know to be true so that these regimes will start listening to us. There are so many things that we can learn from the last 20 years of experience both from the market-oriented approach and from the state-led approach, and we have to learn to think in a much more flexible and strategic way. We have to build on this and move away from simplistic analyses of both neo-liberalism and of what is politically trendy as defined by the funders of some NGOs. The worst disaster not to have a strategy or vision at all- in fact, the directionless nature of many of its governments was pointed out to be one of Africa's biggest tragedies.

IV. Immediate Challenges and Agenda for Research

Coming to macroeconomic lessons in solving the agrarian constraint, it was concluded that for economies for which the agriculture sector or the rural population is important, the constraints which seem to be radically more crucial than the so-called agrarian constraint under the present conjuncture are the financial constraints, the fiscal constraints and the external constraint. But the most binding constraints were acknowledged as the ideological and political constraints. Given the fact that the Washington Consensus has very little to do with 19th century economic liberalism and that it has more to do with contemporary corporate interests and the means of asserting hegemony in the contemporary age, it was widely agreed that part of the solution in opposing the hegemony of Washington Consensus is about sharing and expanding a common understanding of the problem and mobilising people. It was agreed that conferences of this nature are extremely important to ensure that the hegemony of ideas of progressive development are re-established.

But, one size does not fit all whether it is the Washington Consensus or the Alternative. We have to work very carefully in developing alternatives, mindful of the different circumstances and different challenges which feed into the contemporary context and the distributional and developmental consequences of particular types of interventions. In this regard, economists have an important political and public role in that economists must not allow themselves to be consigned to so-called areas of technical expertise where we are not allowed to directly address the tremendous implications of different public policy choices.

It was also recognised that there is a need to explicitly link the various issues under discussion related to trade, poverty, credit, etc. to the underlying developmental problem we are trying to address and to think of what directions are to be taken. The role of the agricultural sector has to be situated within a broader developmental problem and in the context of the structure of the economy. So, for Africa, there is need to extend a developmental paradigm or developmental stance within which the discourses of rural economy, agriculture, industrialization, credit, unemployment, poverty, etc., need to be located and analysed. We have to explicitly address the problems of underdevelopment and development in totality, both in its generality as well as within the specificity of each country. And it was suggested that Africa is lagging far behind in clarifying its developmental problem when compared to countries in Latin America and Asia.

In fact, during the conference itself, while there was recognition of the fact that the peasantry is undergoing transformation with the changes in production relations driven by agribusiness corporations under liberalisation, and there was agreement on the fact that the neoliberal macroeconomic policy package is undermining developing country agriculture, one of the fundamental unanswered questions remained the nature of this transformation. It was pointed out that there are differences in the way different segments of the economy have developed over the last two decades, with some social groups and companies benefiting more and the majority not. Thus, it is important to understand the dynamics in the production sectors in our economies in terms of how production is organised and who dominates what. For instance, Mozambique is receiving large amounts of FDI, not because of the country’s investment policy, but because of the specific corporate strategies of large international corporations. Again, if we look at tobacco, coffee, sugar, etc. in Africa, it is the big corporations who organise the production, trade, technology of these dominant sectors.

Thus, changes in production relations in agriculture and allied sectors in different regions, the nature of involvement of agri enterprises, both domestic and foreign, the macroeconomic factors of fiscal, financial and trade policies underpinning the dynamics of agribusiness operations and their linkages with farmers, the implications of these both for livelihood patterns in the rural areas at different levels and for food security overall, the sustainability of corporate-driven agricultural models, etc. emerged as important issues for further in depth analysis and research.

So, while it is surely clear that liberalisation has not helped our economies and has in fact worsened the situation and we must indeed protect, in order to systematically formulate developmental policies, it is important to clearly understand the dynamics within our economies, in terms of the structure of our capitalisms. In this context, it was mentioned that CODESRIA is thinking about a program on rethinking development economics in Africa, on the questions of development and underdevelopment in Africa that would go beyond the critiques of the BWIs.