Busy Work or Real Business:

Revaluing the Role of Non-agricultural Activities in African Rural Development

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Contents

Abstract

The importance of rural non-agricultural activities has been growing during the last decades, but it is still not very clear what their role in rural development is. The current discussion among agricultural and rural development researchers about a new paradigm for agricultural and rural development appears to have led to the formulation of not one, but two competing paradigms, one focusing on increased market orientation and the new global order, the other focusing on local development and environmental issues. However, none of them have anything to say about the rural non-agricultural activities. An important reason for the invisibility of the rural non-agricultural activities is that they mostly consist of trade and service activities which development theories traditionally have seen as unimportant or even as a cost for the rural production system; though they have sometimes recognized their redistributive function. The paper argues that in order to understand the role of non-agricultural activities in rural development we must recognize that trade and services play as important a role in the rural economy as they do in the global economy, and call for a service perspective on the non-agricultural activities.

1 What do the rural non-agricultural activities do in rural development?

The importance of rural non-agricultural activities has been growing during the last decades (see e.g. Bryceson and Jamal 1997), but it is still not very clear what their role in rural development is. The current discussion among agricultural and rural development researchers about *a new paradigm* for agricultural and rural development appears to have led to the formulation of not one, but two competing paradigms, one focusing on increased *market orientation and the new global order*, the other focusing on *local development and environmental issues*. However, none of them have anything to say about the rural non-agricultural activities. To understand why this is so the paper starts with a presentation of the two competing paradigms and a discussion of why the non-agricultural activities have been left out and what role they could possibly play. Then we present what we consider to be the two prevailing views of the rural non-agricultural activities, namely the *livelihood perspective*, which sees them as supplementary means of income generation for rural people who cannot survive on their agricultural incomes alone, but is not concerned with their role in the rural production system, and the *multiplier perspective* which focuses on their economic linkages with agricultural production and rural household consumption, but is problematic, because it is based on a theoretical framework which (among other problems) focuses on production, and therefore is unable to account satisfactorily for the trade and services which dominate the non-agricultural activities. The paper therefore ends with a discussion of what we call the *service perspective* on the rural non-agricultural activities.

2 The market paradigm for agricultural and rural development under the new global order

In a contribution to IFPRI's 2020 Vision Initiative, David Bathrick (1998) has described a new paradigm for agricultural and rural development where the market, and primarily the export market, is seen to become a "paramount consideration". Inspired by Mellor's (1966, 1976 and 1986) theory of agriculture-led growth and the many later empirical studies of agricultural multipliers (see e.g. Delgado, Hopkins and Kelly 1998), agricultural and rural development is seen as "essential for generating broad-based economic growth". Therefore "agriculture requires a vision that transcends traditional sector approaches based on production". " Under market orientation agriculture must be systematically linked to a broader range of ministries that includes economy, industry, commerce, trade, labour, environment and health". The "pervasive import-substitution legacy"....."has left a weak response capacity particularly for small and medium-sized producers to diversify". It .... "needs to be overcome to optimize responses to the new economic order". "Considerable opportunities exist to spur growth through non-traditional and traditional agricultural exports and market-led mixed farming operations that include some cereal production, agribusiness and post-harvest employment opportunities and market-driven rural development traditional programmes". But for these opportunities to be realised "new public and private roles are required to facilitate investment and equity needs". "To nurture the "new" agricultural systems the public and private sectors will need to develop institutional capacities and technologies. Developing countries' governments will have to reformulate attitudes, articulate national level comparative advantages and define and develop operational roles and political support for cooperation among producers, agribusiness, investment, NGO, university and international research communities".

"Foreign aid programs must transcend original premises to embrace opportunities for broader mutual growth". "Given that the largest group of trading partners for the developed countries are the world's poorer countries the emerging rational for international programs transcends traditional approaches targeted to assist the poor and instead addresses a broader series of poverty related issues (for example environment and local empowerment), while also contributing directly to the future economic growth of the developed economies. True global partnerships based on mutual economic interests are now possible" (Bathrick 1998).

The market based paradigm attempts to place the developing countries' agriculture in a broader national and global economy and therefore focuses on the links between the agricultural producer and marketing organisations, processing industries, extension and other services. However, by taking a national, rather than a rural area perspective, the major concern becomes the urban large-scale organisations and industries, not the rural non-agricultural activities. This is further exaggerated by the narrow focus on export trade. In this it resembles the IMF approach to structural adjustment (Seppälä 1997). Even in those developing countries which have the most export-oriented agriculture only a minor share of the agricultural produce is exported. Especially in the more peripheral rural areas most of the produce is used for subsistence or sold at the local rural market. Sales to the export and national urban markets for most small farmers is the last option, because large transport and transaction costs make it the least profitable. During most of the colonial and post-colonial period African governments have done their best to reduce local produce trade and processing to a minimum, because it was seen as a threat to taxation and urban supplies. Only with introduction of the structural adjustment policies, these attempts to constrain local trade has stopped or collapsed and this is probably an important reason for growth in the number of non-agricultural activities since the 1980s. The market paradigm also has little to say about the farm itself, and in Bathrick's formulation literally reduces "environment and local empowerment" to a parenthesis.

3 The environmental and local agricultural development paradigm

The second paradigm focuses directly on the farmer and the agricultural production. It has two dimensions: an agro-technical and a social. The agro-technical dimension has developed as a reaction to the experiences with the Green Revolution. Where the farming systems designed during the Green Revolution were based on "increased use of fertilizers, pesticides, herbicides, irrigation, mechanisation and - importantly - new genetically improved varieties", the farming systems under the "new Green Revolution" "will be based on optimizing yields under given environmental conditions, without large inputs of agrochemicals, mechanized implements and irrigation", because "a very large number of food producers in the poor world will not in the foreseeable future realistically have access to"..... these...." inputs that have contributed greatly to the".... first....."Green Revolution" (Bie 1994).

"Proponents..... of the new paradigm...." hold views that are also reflected in many of the approaches to ecological agriculture".... but...." it is important to stress that whilst the latter are solely based on ecological sustainability arguments the former starts from an appreciation of the limited access - economically and physically - poor farmers have to external inputs to their farming systems" (Bie 1994). However, "the technical elements in the new paradigm are largely ecological: Plant breeding which seeks to increase tolerance to pests and diseases, improved techniques for use and conservation of soil and water resources, and integrated techniques for ecological control of pests and weeds" (FAO 1995 and Friis-Hansen 1999).

The second dimension of the paradigm is a reaction to the top-down planning and implementation of agricultural policies, and centralised extension services, which has been the norm in African countries, but which has not functioned satisfactorily and for which there is no resources anymore. The new paradigm sees "the process of technological development in agriculture as participatory, a partnership, based on a dialogue between farmers and researchers", where "natural science is combined with local experience-based knowledge".

The technological solutions emerging from this dialogue aim at "improving the existing local specific agricultural systems adapted to the local environment, rather than replacing them with "modern" science-based agricultural systems". In contrast to conventional agricultural technologies which promote monoculture, the new paradigm accepts and promotes agricultural diversity of both crops and livestock, because this "is a key element in integrated pest management, soil conservation and use of plant genetic resources" (Friis-Hansen 1999). The paradigm is said to have a strong poverty focus because it is based on no or low levels of inputs.

The second dimension of the new paradigm resembles what Seppälä (1996 and 1998) calls "Negotiated development - A new paradigm for social dynamics in rural Africa", where rural development is seen as the outcome of a series of encounters and negotiations between different social groups and state institutions. However, where Seppälä's paradigm of negotiated development focuses on the rural non-agricultural activities, the second agricultural paradigm focuses almost entirely on the farm, and has nothing to say about the straddling into non-agricultural activities, which is part of the strategies of most rural households, and little about agricultural input and output, marketing or financing. One almost gets the impression that the agricultural systems are supposed to produce for subsistence only. Friis-Hansen writes that "widespread diffusion of such technologies are not likely to take place within the existing institutions and structures responsible for production and marketing of agricultural inputs and marketing and processing of agricultural products. New forms of inputs and output market structures will be required to facilitate the successful adoption of technologies developed under the new paradigm among the poor section of the rural societies". But this new marketing structure does not seem to be a part of the new paradigm. However, large-scale, centralised organisations are unlikely to do the job efficiently, whether parastatal or private. The existing marketing organisations were established to collect a few crops produced in large amounts and concentrate them at a few points in the large towns or export harbours (or distribute inputs the other way). There will still be a role (albeit a smaller one) for these organisations under the new paradigm, but there will be an increasing demand for smaller enterprises able and willing to distribute a much larger variety of products in much smaller quantities, within the rural areas, and between the rural areas and both small and large towns. It is these functions, which already today to a large extent are carried out by rural non-agricultural activities, without much recognition in the development literature, which will be increasingly important in the future.

4 Two perspectives on rural non-agricultural activities

The reason for this lack of recognition of the role of non-agricultural activities in the new agricultural paradigms is not that the non-agricultural activities are invisible - in fact their growing number is by now well documented - it is rather that in a large part of the literature they are assumed not to have any economic function, or even worse, to have a doubtful one. In order to understand this we shall in the following sections present two of the prevailing theoretical approaches to the understanding of the non-agricultural activities and their role in the economy, namely the livelihood perspective and the multiplier perspective.

The livelihood perspective on rural non-agricultural activities

The livelihood perspective on rural non-agricultural activities focuses on the survival strategies of rural households, and especially poor rural households who do not have sufficient land to feed themselves, to supplement their agricultural incomes with incomes from other sources, such as non-agricultural activities or wage labour. Donor and NGO strategies for poverty alleviation are to a large extent based on the livelihood perspective (see e.g. Ellis 1999).

Most of the rural non-agricultural activities are home based i.e. located at the rural farmsteads. But especially the larger and more permanent activities (i.e. less seasonal) are increasingly located in the rural centres and small towns which have developed rapidly in most African countries, especially since 1980 (Pedersen 1997a). Here the access both to the rural market and the urban supplies are better, though competition from enterprises with an urban base and branches of urban private and public activities is also stronger.

The large GEMINI surveys of micro and small enterprises, which have been carried out in a number of African countries during the first half of the 1990s, show that two third or more of the micro and small enterprises are rural, and that their number is growing, though their share has been falling. On the other hand, a recent survey carried out in Zimbabwe in 1998 (McPherson 1998) indicates that the number of rural enterprises now is stagnating in Zimbabwe, and that all the growth is taking place in the urban areas and small towns.

Many investigations show that non-agricultural activities are often closely linked to either agricultural activities, urban wage labour or both, in the sense that capital invested in non-agricultural activities are based on savings from agriculture or wage labour, while investments in farms are often based on earnings from non-agricultural activities or wages. One of the reasons for this interaction between different income sources is that the agricultural incomes in African rural areas tend to be very unstable due to seasonal and climatic swings, it is therefore useful to combine agriculture with other activities which are either more stable or swing differently. Another reason is that in African rural areas, where the access to banks is often poor and the banks to which there is access are not geared to serve people with small savings, the most attractive way to place savings and post-harvest incomes is often in a small enterprise. By combining agricultural production and trade it is possible to increase the income by recirculating the same limited capital several times a year (Møller 1998). Therefore most households try to operate with a leg in both the rural and the urban economy.

One of the consequences of these investment patterns is that although poor households are often able to increase their earnings through non-agricultural activities, such as artisan work and small-scale market trade, it is the most wealthy rural households, who are able to invest in the most capital intensive and highest earning activities such as grain trade, who earn most on non-agricultural activities. Therefore although the non-agricultural activities tend to reduce the absolute level of poverty in the rural areas, they also tend to increase the income differences (Møller 1998).

The livelihood perspective on non-agricultural activities tends to focus on the money flows in the form of incomes and investments, but has little to say about the functional linkages between agriculture, rural non-agricultural activities and the urban formal sector. In fact a sectoral break-down is seldom part of the study. This lack of attention to the economic functions of the non-agricultural activities means that in most livelihood studies they are seen not to contribute to economic development, but only to have a redistributive function. This appears to me to be a contradiction in terms, because a precondition for them to play a redistributive role is that they are able to produce goods and services which somebody is willing to buy.

The multiplier or agricultural growth linkage perspective on non-agricultural activities

Such functional linkages are treated by the multiplier or agricultural growth linkage perspective. The multiplier perspective focuses on the ability of agriculture to generate growth in other sectors of the economy (Mellor 1966, 1976, 1986). In its original formulation the theory of agricultural growth linkages took a national perspective on agricultural developing economies. Based on the experiences during import-substitution it postulates that agricultural produce is “tradable”, e.g tradable on an unlimited world market and therefore primarily supply constrained, while services (by definition) and manufacturing (because it is not competitive) are “non-tradables”, i.e. tradable only on the limited home market and therefore demand constrained. Growth in agricultural export production will therefore generate a growth in industry and services, the size of which depends on the size of the multiplier. This multiplier consists partly of a production multiplier, due to increased demand for agricultural inputs and processing of agricultural produce, and partly of a consumption multiplier, due to increased demand for consumer goods. In general the consumption multiplier is much higher than the production multiplier. Based on detailed empirical studies in the early 1980s of the consumption patterns of rural households in different Asian countries the multiplier was estimated to 1.80 implying that one dollar extra agricultural income would generate around 0.80 dollars extra income in industry and services. Unfortunately studies in the late 1980s seem to indicate that the multiplier was smaller in Africa (around 1.50), and that a strategy of agriculture-led growth therefore would be less justifiable there.

However, although the idea of a multiplier on agricultural growth is reasonable, the agricultural growth linkage studies, which attempt to estimate the multiplier, are based on a number of highly debatable assumptions about uniform prices, unambiguous distinction between the tradability of different commodities and absence of competition from imports, which are decisive for the size of the computed multiplier (see e.g. Hart's (1998) critique).

Thus Delgado, Hopkins and Kelly (1998), who tried to relax some of the assumptions, found that when they consider only maize tradable, but see "small grains" as non-tradable (contrary to the original studies where all grains were considered tradable), the African multipliers increase and become larger than those found in Asia, thus making an agriculture-led development strategy more plausible for Africa.

From a rural area point of view it is a major problem that most multiplier studies take a national perspective, because many commodities which are considered non-tradable at the national level would be tradable at the rural or local level. Therefore the multiplier for a rural region will be smaller than for the whole country. This is accentuated because the multiplier model only accounts for the demand side and assumes that the supply of non-tradable goods and services expands automatically as the demand increases. Thus the role of savings and investments and technological change is not explicitly considered. In the real world increased demand in the rural areas often does not lead to increased supply in the rural areas, but rather to import from the urban areas or foreign countries.

A second problem with the multiplier studies (and also Harts critique) in relation to the rural areas is their narrow focus on production and the down-playing of the role of trade and services, which tend to be seen as secondary, derived, unproductive and low-productivity activities of no consequence for development. Trade and services are generally treated as non-tradables (which in the case of export trade is hardly reasonable), but their role is seldom discussed, although they make up a major and growing share of the rural non-agricultural activities. For instance in

Zimbabwe the per cent of manufacturing among the small enterprises (both rural and urban) dropped from 72% in 1991 to 42% in 1998, while the share of trade increased from 21% to 45% (McPherson 1998).

If trade and services are so inconsequential to the rural development (or development in general) as the growth linkage theory seems to assume, why are they growing? To understand that we must accept them as services, and look at the role they play in the economy. The new theories of the role of services developed during the last 20 years in the developed countries may help us understand that role.

5 The role and development of services in the economy

Economists have always had difficulties understanding the role of trade and services in the economy. Both Adam Smith and Karl Marx saw services as unproductive. In correspondence with this viewpoint the development literature has often seen middlemen and bureaucrats as parasites.

Economists of the Keynesian school and regional planners who invented the development multiplier and economic base models during the 1930s (for a review see Isard 1960) saw the role of services as passive or dependent. Economic growth was assumed to depend on an economic base or motor, which had to be a manufacturing industry or some other sector producing a physical output, which could be exported or sold out of the region. The service sector was assumed only to grow in response to the growth of such an economic base. It is very much this viewpoint which is behind the agriculture growth linkage theory, and the distinction between tradables and non-tradables corresponds rather closely to the basic/non-basic distinction in economic base theory.

During the 1960s when the service industries in the developed countries started to grow rapidly, Baumol (1967) described the service sectors as a “cost decease”. Empirical studies of the productivity of services indicated that it grew much slower than the productivity of manufacturing industries. Rapid expansion of low productive services would therefore reduce the productivity of the economy as a whole and gradually bring development to a hold.

However, Baumol’s prognosis did not come true. Despite a growing service sector the economy continued to grow, and during the 1970s and 1980s the view on services started to change in the developed countries. This was partly because the productivity of some services increased rapidly under the impact of the “new technology”, and partly because it was realised that even if services themselves have a low productivity they may contribute to growth in productivity of the sectors they serve and thus of the economy as a whole. (For a presentation of the new service theory see Illeris (1996)).

Finally the increasing international trade in services has opened up the possibility that service sectors may themselves become economic motors. Though there are few examples of this at the national level (such as tourism), it is not unusual at the regional/sub-national level, where state financed services or transfer payments (e.g. pensions) may be a basis for regional development. The rapid growth of many African capital cities is probably also to a large extent based on services financed by government transfers of aid money.

The growth of the service sectors only partly results from a real growth in the economy. It is also a result of a specialisation where service activities, which were earlier performed by manufacturing industries or households, are externalised and restructured into specialised, private or public, service enterprises, similarly to the process in which manufacturing enterprises outsource production functions. Such a specialisation process also takes place within the service sectors and many specialised services are externalised from other services rather than from manufacturing.

The increasing specialisation within both the manufacturing and service sectors requires increasing organisation, coordination, financing and control of the flows of goods and information, and many service activities are concerned with this.

Service users often have the option either to perform the services themselves or buy them from specialised service producers, and they often do both. Thus most manufacturers are also traders although they may prefer to use a specialised trading agent or sell all or a part of their production to wholesalers specialised in reaching the market.

Although our knowledge about this process of service development is mainly based on research on the growth of services in the modern service economy, our claim is that a similar process is taking place in African rural areas, and that the same framework can be used to understand the function of rural traders and other service providers.

6 The function of trade and services in rural development

The growth of trade and services in African rural areas are partly a result of the increased commercialisation and monetisation which lead to increased money flows and therefore increased demand for more specialised “urban” goods. But it also results from the increasing pressures from the industrialised world on rural production and consumption caused by globalization (Pedersen 1998c). Pedersen (1997a) has in detail analysed the development of rural centres in Zimbabwe. In the first phase of this process artisan producers and general traders establish themselves in the rural areas. Although artisan producers, whom traditionally we classify as manufacturers, seem to dominate in reality they sell their produce directly to the final consumer and often spend more time selling their produce than producing it. The GEMINI studies show that more than 95% of all the small enterprises both in rural and urban areas sell their goods and services to the final consumer. In a later phase increasingly specialised traders, transporters and other services often locate in small rural centres. However, the farm household may still have an option to sell its produce directly to the consumer and buy its consumer goods and farm inputs in the large city if it sees that as an advantage, so the development often results in the creation of series of parallel marketing channels.

Many of the problems of the rural economy are caused by the large amounts of capital needed to finance the agricultural production from sowing to harvest. This leads to a strong seasonality of the rural financial market and a high price of money in the period before harvest; dispersed production and poor infrastructure make transportation another major problem; and seasonality and poor access together result in large price variations.

The rural trader typically performs three different, but interlinked functions in an attempt to overcome (and profit from) these problems. He provides

- *market information and organises the link between producer and consumer*, buyer and seller. Prices vary widely in rural Africa depending on time, place and who trades. Exploitation of such price differences is a major source of traders' profit, but it is also by linking surplus and deficit areas for specific commodities that the trader serves his societal purpose. Access to information about price differences is therefore of major concern to the trader. In the rural areas this information may not be easily available. Its access is often based on hierarchical national or international networks to other businessmen and civil servants.

- *capital for financing the transaction.* In rural areas capital is scarce. Very few have access to bank and other formal sector loans. During the 1990s an increasing number of small rural enterprises have been able to secure loans from NGO and donor financed credit schemes, but in most countries it is still less than two per cent of the small enterprises which have been able to obtain loans. Most small enterprises therefore operate on their own savings. Such savings based investments in small enterprises play an important, though seldom recognised, role in the national economy of African countries. Daniels, Mead and Musinga (1995) show for Kenya that the median start-up investment in small enterprises is about

1500 K.sh., which after two years of operation has increased to 5000 K.sh. (measured in 1994 K.sh.). As in 1994 there were between 700,000 and 1 mill. small enterprises in Kenya this corresponds to 3-5 billion K.sh. or about the same magnitude as the total outstanding agricultural credit, which in 1994 was 3.35 billion K.sh. (The total outstanding from commercial banks to private enterprises at the same time was 87.3 billion K.sh. and to households 3.14 billion K.sh.)

- *transport and storage*. Access to transport is also a scarce resource in rural Africa. Access to transport of course is partly a function of the access to capital. However, a large part of the transport in the rural areas (and also in the urban areas) is carried out with less capital intensive means of transport such as scotch carts, bicycles and head carriage, and transport can often be substituted by other forms of capital in the form of local processing and storage. Thus in Zimbabwe a large share of the maize, which before structural adjustment was transported to mills in the large towns and later back into rural food deficit areas, today is milled and consumed in the rural areas. Another share is transported to town by private households with buses and private cars.

Not all traders may provide all these services. Some may be performed by his suppliers or costumers, others he may obtain from other service firms or subcontractors. His activities may also involve other service functions than the three listed here, such as packing or repacking of the goods, consultancies to producers or users, or protection and insurance of the goods he sells. He may also be directly involved in the production or processing of the goods he sells.

Which of these services the traders perform and how they perform them depends to a large extent on the resources, in the form of the market information, capital and transport capacity, to which they have access. It is also on the basis of these resources that they compete on distribution services such as product availability, credit and transport (Pedersen 1996, 1997a and Seppälä 1998). Therefore one often finds a market segmentation between competing marketing channels offering different distribution services. Neoclassical economics would tend to see such a market segmentation as a sign of market failure. However, in the rural areas it leads to improved utilisation of scarce capital, transport and labour resources from diverse sources, which would often not be available to the large enterprises. Also, it is not necessarily a hindrance to competition because enterprises attempt to shift the borders of the market segment rather than compete directly on price.

Small scale traders selling local produce at the market or roadside require the least information and resources, because the costumers come to the trader, pay cash and carry the goods away themselves. In addition, the capital required is often small because the turnover is rapid. On the other hand, small traders may need capital because they often compete with the formal retailers by offering credit.

Long-distance trade in grain or urban goods requires better access to market information and also larger capital and transport resources to be profitable. Due to lack of trust long-distance traders generally travel with their goods. This clearly increases the costs and reduces the amount traded (if that has not already been limited by lack of working capital). To reduce costs and increase circulation of their limited capital long distance traders often attempt to trade both ways, i.e. bring local goods to the foreign market and foreign goods to the local market. In southern Africa many rural shops are run by migrant labourers who earn cash to stock their shop and have an opportunity to bring them back to the rural area when they return from work.

It is often claimed that production requires more capital than trade, but in Sub-Sahara African rural areas this is generally not true. Thus Daniels, Mead and Musinga (1995) show that 43% of the small traders had a start capital of more than 1000 K.sh., while only 27,5% of the small manufacturers had a starting capital of more than 1000 K.sh. The reason is that small scale artisan production often only requires investments in hand tools, because the costumer usually brings the materials or pays for them in advance. On the other hand, trade requires a considerable operating capital to buy stocks in order to be equally profitable as artisan production.

Although rural household savings and investments in rural non-agricultural activities play an important role in financing the rural economy, most individual rural businessmen and women are highly undercapitalised. Clustering of traders is therefore important because the individual small rural traders seldom have capital enough to secure regular supplies for their market. In a survey of a small rural centre in Zimbabwe, Pedersen (1997a) showed that although there was 13 general dealers in the centre, which in principle sold the same variety of goods, in practice the individual dealers would not have been able to stock sufficiently to secure the supplies in the centre. They regularly were out of stocks either because they ran out of capital, because their car broke down, or because goods were not available from the wholesaler.

Entry of a trader with more capital at one time seemed to change this. He was able to stock his shop much better than his competitors, and for a time it looked as if he would take over an increasing share of the local market. However, due to a traffic accident he was unable to work for several months and also lost part of his capital (his file of debtors burnt), so he was not able to operate his shop at the same level as before. He therefore turned it into a bar where the capital requirement is smaller because the turnover of the capital is more rapid. So the situation in the centre went back to "normal", before he arrived. One can of course argue that traffic accidents are not normal and therefore cannot be generalised to explain rural development. However, the reality is that risks, such as traffic accidents, bad harvest, illness, theft and fire are frequent occurrences in rural Africa, which is a major reason for the slow development.

From a livelihood perspective it is often claimed that one of the reasons why small-scale traders and artisans often earn very little is that too many compete for the same limited market. The argument stands in contrast to the literature on clustering of small enterprises, which indicates that small traders cluster in market places to gain market access, because more costumers will attend the market the more traders there are, because that will increase market information and competition.

The argument also is problematic because it often leads to claims for reduced competition and higher prices, presumably on behalf of the small traders, rather than for reduced prices, which even for the small trader, who is also a consumer, appears to be a better option. On the contrary, it is through his or her ability to provide scarce capital and transport capacity and reduce transaction costs that the trader contributes to the agricultural/rural productivity.

However, it is also by controlling scarce market information, capital and transport capacity that the trader is able to exploit rent-seeking opportunities, if he is allowed to develop a monopoly position. And it is a major unsolved issue where the limit between profitable trade and destructive rent-seeking goes.

7 Upgrading rural non-agricultural service activities for a new rural and agricultural development paradigm

During both colonial and post-colonial periods rural-urban linkages in Africa tended to develop into a dual structure consisting of

- top-down, often monopolistic linkages organised by parastatals or state-dependent large-scale private enterprises which provided or collected highly standardised services and goods, with little regard for local conditions and demands, and which often were unable to deliver.

- bottom-up informal linkages or traditional marketing system based on household relations or micro enterprises which tried to complement or fill out the holes in the top-down linkages. This bottom-up system was much more responsive to diversified local demands, but highly under-capitalised and often up against rules and regulations set up by the top-down system, and therefore often not able to deliver either.

In most African countries the top-down system has tended to dominate agricultural marketing, although the role of the bottom-up system has generally been more important for uncontrolled crops. However, even where bottom-up systems have been able to operate Leplaideur's (1992) study of rice and vegetable marketing in six French speaking countries in Africa shows that there are large differences in the ability of the traditional or bottom-up marketing systems to retain their place in the competition with the often politically supported top-down systems. The balance between the top-down and bottom-up systems to a large extent depends on government policies. Trade liberalisation has generally favoured the development of bottom-up systems. For instance in Zimbabwe the large scale grain mills lost about half of their production to small-scale commercial and especially service mills due to the liberation of the grain trade, which meant that they lost their monopoly to supply the grain deficit areas with industrially milled mealy meal. However, the Zimbabwe case also shows that more than simple market liberalisation is needed to change the balance. While market liberalisation led to the development of an (in Zimbabwe) new type of small-scale commercial mills, lack of credit and monopolistic marketing strategies of the hard-pressed large-scale millers made it difficult for them to develop, and so it was the small service mills requiring less working capital which took the lead in the new competition (Jayne and Rubey 1993; Pedersen 1997a).

The major mistake of post-colonial rural development policies was that the bottom-up system was not allowed to develop so that the two systems could compete, interact and complement each other effectively. The two new agricultural paradigms, it appears to me, repeat the mistake. The market paradigm by focusing on the top-down system alone, and the environmental and local development paradigm by not being interested in any of them.

A new paradigm for rural development should focus on the co-existence of the top-down and bottom-up rural-urban linkage, as both are needed. Export crops and the provision of standardised food products for the urban areas do require a top-down marketing system, which can impose product standardisation and quality gradation on the agricultural production. But a top-down organisation is unlikely to be able to manage extension services which go in serious dialogue with small-scale farmers on the efficient use of their specific resources, to supply a diversified set of farm implements adapted to the local conditions, or to handle the distribution of produce to a dispersed rural market or of the diversified production which the environmental paradigm foresee. Therefore the question is how we can upgrade and capitalise some of the small rural non-agricultural activities to complement and compete with the large organisations. On the other hand, enterprise size and growth need not be important for enterprises serving specialised market niches, but upgrading of qualifications and some increase in capitalisation are important even if the enterprises do not grow.

There is a growing, albeit still small number of examples of this happening. For instance, Müller (1997) shows how local blacksmiths in the northwestern Tanzania have survived two decades of official harassment and competition from the Chinese built hoe factory by producing a diversified set of hoes adapted to the local conditions; and also in Tanzania there are now examples of agricultural extension officers retrenched from the state extension services, who are now being hired directly by groups of farmers as their consultants and to argue their case with the state extension services. This appears to me to be the only way a real dialogue between farmers and the centralised extension services can be guaranteed.

Liedholm and Mead (1999) point at an undoubtedly important element in such an upgrading. They show that while more than 95% of all the small enterprises sell to individual consumers only, those few who sell to or buy inputs from other traders tend to grow much more rapidly than others. This points to the importance of establishing wholesale functions which market more efficiently and which can channel market information on demand and product quality back to the rural producers. Pedersen (1997a) reached the same conclusion in his study of small town businesses in Zimbabwe. However, this is likely to require increased product standardisation and quality gradation than typically seen in African rural and agricultural production today. It also will require trading systems with lower transaction and transportation costs, so that the difference between the farm selling prices and the consumption buying prices is reduced.

While from Asia there are many examples of traders channelling market information and product innovations back to the producers (see e.g. Weijland 1994) there are few examples in the African literature. However, Mihanjo (1999) in a recent study shows how pottery traders in Tanzania have channelled proposals for new pottery designs from Dar es Salaam back to the producers in southwestern Tanzania; and Geoffrey Njeru shows in an ongoing PhD study how Kenyan fruit traders channel information on improved production techniques back to the farmers.

8 Conclusion

In the current discussions about the African rural areas in the next century two different paradigms seem to dominate:

- The *market paradigm* which focuses on the development of export crops and their linkages to the large-scale marketing and processing enterprises; and

- The *environmental and local development paradigm* which focuses narrowly on agricultural production and the activities at the farm, and primarily the small farm.

Both are problematic. The market paradigm because it tends to ignore production for subsistence and for the local and national markets. The environmental and local development paradigm because it tends to ignore post-harvest trade and processing activities, which are typically responsible for more than half of the total value added of the final consumer price of marketed crops.

The development of agricultural productivity and diversification will not be possible without an efficient system of suppliers of farm inputs and consumption goods and of post-harvest activities which can guarantee farmers a market for their produce. The many examples of defunct processing industries in Africa, which collapsed because the expected flow of produce never materialised, testify that the opposite is also true. Post-harvest activities cannot develop without linkages to agricultural producers which can guarantee them a supply of agricultural raw materials. Large-scale trading organisations and processing industries clearly should play an important role in organising the large flows of agricultural produce for the export market and the consumer market in the large towns. However, the large organisations are unlikely to be able to handle efficiently the small flows of a diversified production and of produce within the rural areas and between rural areas and small towns. They are also unlikely to be able to utilise local resources in the form of local information, local savings and intermediate modes of transport, which play such a large role in most rural areas. In addition to the focus on export crops and on the farm itself a new paradigm for rural development should therefore recognise the importance of rural non-agricultural activities, and attempt to develop a system of supply services and post-harvest activities which allow for the co-existence of and competition between top-down and bottom-up systems which can secure an efficient use of a diverse set of scarce resources.

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