Report on the Proceedings of the International Conference on

'The Agrarian Constraint and Poverty Reduction: Macroeconomic Lessons for Africa'

17-18 December, 2004, Addis Ababa, Ethiopia**.**

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). Against the backdrop of increasingly widespread crises of livelihood and food security across the developing world, the objective of the conference was to focus on issues of current concern facing the agrarian sectors of Third World economies. The agenda centred on understanding the current processes of agrarian transformation and their linkages with increase in poverty, and the underlying macroeconomic processes of fiscal constriction, financial liberalization, and trade liberalisation, brought in predominantly through structural adjustment policies (SAPs) and the more recent poverty reduction strategy papers (PRSPs) attached to external aid flows. 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 discussions.

With the focus having been on Africa, 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.

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 detailed report on the proceedings of the conference follows.

Session I: The Global Context and Agrarian Transition Today

10:00 am - 01:00 pm, Friday, 17 December, 2004.

Chair: Assefa Admassie

I:1 Summary of the Presentation on '*How Viable is an Agriculture-centred Development Strategy in Africa? Lessons from Ethiopia*' by:

Berhanu Nega (Professor, Addis Ababa University)

The paper looked at the viability of an agrarian-centred development strategy for Africa, based on the experience from Ethiopia. Historical experience in other countries clearly shows that the resolution of the agrarian question hinged upon the declining importance of the agricultural sector and increasing urbanization of society, supported by rapid industrialisation processes. However, such a transition has failed to occur in Ethiopia despite the government's proclaimed policy of an agriculture-centred development strategy.

The main arguments are supported with an aggregative assessment of agricultural performance in Ethiopia in the recent past. The argument is that given the poor performance of the sector so far, a stern defence of agricultural-centred development is neither justified nor adequate in the Ethiopian context. The nature of agriculture in Africa and particularly in Ethiopia does not make it conducive to long-term development and sustained growth, due to low levels of technology and great vulnerability to risk in terms of vulnerability to weather shocks and to unfavourable international market conditions. The risk faced by agriculture is manifested in the volatility in agricultural growth rates, which also translate into significant overall volatility in GDP growth rates. In this regard, the evidence on the Prebisch-Singer hypothesis on declining primary commodity prices was also used to question the viability of a development strategy centred on the agricultural sector. The country has also failed in introducing Green Revolution packages more successfully.

Therefore, an agriculture-centred development strategy is neither viable nor desirable for Ethiopia. Instead, current development strategies should put more emphasis on urban development, including rural towns, and population migration to towns.

I:2. Discussion by Carlos Oya (Dept. of Development Studies, SOAS, University of London)

Essentially, Nega's presentation addressed the 'classic' agrarian question without calling it the agrarian question. What Nega assumes away is the critical role that the agriculture sector played in the resolution of the agrarian question in many countries. It ignores the fact that successful industrialisation processes relied upon a successful agricultural development strategy that allowed countries to move between phases of Ricardian development (based on exports of primary commodities) by progressively increasing the value added and moving towards Kaldorian strategies that require insulation from competition in the early industrialisation phases.

There are a couple of important points made by Nega. First, there is a demand constraint due to the large proportion of population living in rural areas and producing food for a market that is mainly concentrated in urban areas, where markets are rather thin. Second, he shows evidence of increasing land/farm fragmentation arising from population growth in rural areas and the splitting of small-scale farms into ever smaller and increasingly unviable units. But, is this over-pessimistic account sufficient to question the need for focus on agriculture?

First, this kind of aggregative description tends to obscure important differences in performance across crops, types of farms, regions, etc., which could serve as useful guides for where to invest more successfully. Second, the argument does not provide very useful guidance with respect to what to do with the mass of rural people and rural poverty. Clearly, 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 themselves to warrant a focus on agriculture. The question is also about sequencing. Even if a long-term development strategy will not be systematically dependent on the agricultural sector, a rigorous analysis in terms of policy phases and strategic options is necessary before dismissing any particular focus.

Third, the domestic market question is indeed important, which is why an agricultural export-led strategy has often been proposed and surely followed by many of the successful Ricardian developers in previous times such as Australia, Canada, Argentina, Brazil, etc. Nega seems to suggest that worsening international market conditions for primary commodities prevent any agricultural export-led strategy from success. This leaves little as a way of strategic planning for the agricultural sector. Indeed, international price volatility is important, but policies could be implemented to attenuate such volatility. Moreover, not all primary commodities suffer from the same gloomy fate. Even within a single commodity chain (e.g. groundnuts) there are particular niches, often very dependent on the quality of the product, where prospects are not necessarily bleak, at least in the medium-term. In this sense, sub-sectors within agriculture can indeed be developed in the medium-term with appropriate government intervention and support, enough flexibility to respond to international market conditions and a long-term vision of what to do with export earnings in terms of switching, for instance, to a different Kaldorian-type development strategy. Nega appears to think that the mainstream does not support a programme of economic diversification. This is doubtful, as much of the mainstream work, translated into policy advice from the World Bank, for example, has indeed consistently stressed the importance of economic and trade diversification. The problem, Nega may argue, lies in the type of economic diversification suggested and the mechanisms to attain it, that is, whether through market forces or through stronger state intervention and direct support.

Fourth, the emphasis on the importance of labour mobility and reducing the barriers to it is well placed. Naturally, in a context of labour mobility, the labour force will move to areas and sectors that provide employment and earning opportunities. This can be in urban areas but 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 perspective. Obviously, the state should have such perspective in the first place. It boils down to the issue of resolving Gerschenkronian collective action problems in the strategic mobilisation of capital and labour.

Fifth, in the presentation of alternatives to the 'agriculture-centred strategy', one should be clear about the trends in urban poverty, the increasing informalisation of urban economies and the validity of Nega's assertion that the 'poor can cope with poverty more easily in urban areas'.

Perhaps, the main problem in Nega's presentation is that he focuses on the agricultural sector in rather abstract and general terms. However, one should dwell on the specific features of the strategy proposed for Ethiopia, i.e. what the Government precisely means by "Agriculture-centred strategy". In fact, there are many such possible strategies. Saying that agriculture should be at the centre of Ethiopia's development strategy is simply a general principle that does not directly and uniquely map into a specific policy agenda, i.e. into a particular form of agricultural development. Surely this is a point where Nega's presentation could have shed more light. Does the problem lie in the *type* of agricultural development envisaged, one reliant upon the development of tiny resource-poor farm units? Or does it lie in the simple fact of putting agriculture first as a principle? The most interesting discussion would probably emerge from an evaluation of what type of agricultural strategy the Government of Ethiopia is proposing to make agriculture the key engine for growth. Depending on the particular form of agricultural development envisaged, one can debate whether this is a viable, sustainable path, and one conducive to structural change in the long-term. The expected structural change, obviously, will include a progressive reduction of dependence on agriculture and its offshoots and an increasing urbanisation, which is already proceeding at a fast pace.

Nega's presentation forces us to think about the drivers of growth in contemporary Africa, and whether it is necessary to focus on one sector or to develop a coherent multi-sector strategy that is sensitive to sequencing considerations and the circumstances and challenges in the short-, medium- and long-term.

II:1. Presentation on *'The Land and Agrarian Question in Zimbabwe'* by:

Sam Moyo (Executive Director, African Institute for Agrarian Studies, Harare, Zimbabwe)

The paper dealt with issues related to land and agrarian reforms in a historical perspective in Settler Africa, in the context of Zimbabwe's experience. It was pointed out that recent scholarship questions the relevance of land reform in Zimbabwe for a number of reasons: Globalisation has allegedly led to the irrelevance of country-specific initiatives such as agrarian reforms. The agrarian question in the "North" has been resolved, and this signifies the end of the "classic" land and agrarian question in the South. African peasantries have been destroyed and have limited capacity to struggle for land redistribution. The paper counters this perspective and argues 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. 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.

Extensive land appropriation in colonial Africa resulted in widespread landlessness, semi-proletarianisation and peasantisation. The current neo-liberal land reforms tend to protect the land rights of propertied landlords and pay lip service to the need for extensive redistribution. Under a capitalist agrarian regime, the peasantry remains in a state of flux. Under SAPs, African peasants have continued to be “multi-occupational”, which seems to have been a coping strategy. Accumulation by petty-commodity producers has not occurred “from below”. A “merchant path” comprising a variety of (petty) bourgeois elements with access to land, has been followed.

The paper discussed how after obtaining independence in 1980, formal power was ceded to a black petty bourgeoisie, who together with aspiring black bourgeoisie shared power with the established white settler capital. Economic, industrial and mining interests remained wholly-owned by local white and foreign monopoly capital. The white farmers (about 6000 at independence) retained 39% of the land, while one million black households were consigned to 41.4% of the land, or 16.4 million hectares of marginal land. Thus, the white minority (about 3%) commanded two-thirds of national income. This minority organised the labour process in a way that promoted rural ‘unfreedoms’. White capital exercised both direct and indirect power over the native black population. These key aspects of settler-dominated capitalism have given shape to class and racial relations, plus, rural versus urban dynamics in Zimbabwe.

Till 2000, the dominant debate in Zimbabwe (& South Africa) has tended to “wish away” the land question or at best address it superficially in a neo-liberal framework. Land reform in post-colonial Zimbabwe took two major forms, namely, illegal land occupations and official land resettlement program. The first phase of land occupations – or squatting- started as a low profile but high intensity activity in the first years of independence (1980-85). During 1985-1996, land occupations became widespread in many parts of Zimbabwe. Under the land occupations movement, groups of households led the identification of land for redistribution by “squatting” on it. Government then purchased the land for resettlement. Most of this land consisted of: underutilized or abandoned land mainly in the liberation war zone; public land; and communal land.

The official land reform program started in early 1980s along side the “illegal” land occupations, and continued till the 1990s. The official land resettlement program was based on the ideology of “willing seller, willing buyer”. Under this market-based approach, landowners led the identification of land for resettlement. During 1980-86, about 430,000 hectares were acquired each year. This reduced the white commercial farming sector to 29% of agricultural land (as opposed to the 50% in 1980). While this was a step in the right direction, only about 70,000 families (less than 50% of the targeted) were resettled. Thus, during the 1990s, “illegal” land occupation expanded in content and form- from access to land to widespread poaching of national resources, targeting not only private lands, but, state, communal and urban lands as well. The state increasingly evicted the illegal occupants of commercial farms, communal lands, national parks and urban lands.

Government's legitimacy in doing this was questioned due to the slow process of redistribution. Meanwhile, demand for redistribution grew due to deepening poverty associated with SAPs and the retrenchment of workers under Enhanced Structural Adjustment Facility (ESAF). Further, the severe drought of 1991-92 led to extensive commercial farm retrenchments, worsening the above situation. These layoffs increased pressure on communal lands and natural resources. The grounds for several land conflicts were thus laid by the mid-1990s.

The land occupation movement was mobilised nationally by war veterans from 1998 onwards in alliance with rural peasants, traditional leaders, spirit mediums, urban workers and elites (many of whom were Zanu-PF and government officials). Zanu-PF conceded to the demands in the late 1990s in the face of increased isolation of the Mugabe government, deepening economic crisis, worsening food shortages and increasing political party competition.

It is the radical land redistribution agenda led by militant war veterans and Zanu PF elements that prompted the radicalisation of the Mugabe state. Government militancy grew as the material conditions of the urban electorate and the rural poor worsened and were being mobilised by the opposition MDC.

II:2. Discussion by Ben Turok (ANC Parliamentarian, South Africa)

The paper has done a good job on a very topical issue and established a link between land reform, the agrarian question and the quest for national development. These can also be discussed in the South African context. South Africa, too, had negotiated 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. The question is whether land reform is central to the completion of the national democratic revolution. The answer by most South Africans would be 'no', largely because the ANC was a predominantly urban-based (workers) struggle with little ties to the rural areas.

Coming back to Zimbabwe, while the veterans had a point, the struggle was mishandled. The land occupants violated the rule of law and raised legitimate questions. No liberation struggle can afford to ignore the rule of law and respect for human rights.

Surely, land question is an important component of the national question, but it is not the only issue. The question of the developmental state needs to be addressed if land reform is to trigger wider economic and social improvement (i.e. the multiplier developmental effects of land reform).

II:3. Summary of the discussion from the floor

The arguments that have been used to isolate Zimbabwe have taken the land question out of context. A clearer understanding of the historical, social, political and economic context of the land question in Zimbabwe is needed. The struggle for land redistribution in Zimbabwe needs to be seen as a legitimate or even useful instrument for redressing past wrongs caused by the British colonial policy of land alienation. Nationalisation of the economy was therefore necessary even if painful for some stakeholders. Straightjacket pursuit of the rule of law does not make sense when society is redressing past wrong.

The North East Asian tigers- Japan, Korea and Taiwan- attained highly equitable development largely because they preceded their development paths with massive agrarian reforms which redistributed land to the users. These reforms necessarily violated the rule of law and trampled on the property rights of the landed aristocracy, but they were necessary for agrarian development and long-term national development. Further, land redistribution should be followed by complementary reforms (initiatives) such as rural credit facilities, education and infrastructural investment if development is to be attained.

Also, the exception of the South African land question needs to be handled with care. The land question in South Africa might appear to be a non-issue at the moment. However, over the next 10-20 years, land conflicts there might acquire Zimbabwean characteristics if they are not resolved soon.

III:1. Summary of the Presentation on *'Agricultural Growth in South Africa and Tanzania: The Solution to the Challenge of Unemployment and Poverty in Africa?'* by:

Francis Wilson (Professor, University of Cape Town, South Africa)

Agricultural growth is crucially important in the African region to protect the mass of the population from starvation, since agriculture constitutes a significant share in the overall GNP of the African economies. A comparison of the economies of South Africa and Tanzania using various indicators including economically active population, value added in agriculture, major agricultural exports, major food products, etc. clearly established how South Africa is much more industrialised and urbanised that Tanzania.

But, despite the increases observed in the output of commercial agriculture, employment has decreased in South Africa. Since the 1990s, gold mines have declined in terms of employment. There has been huge job loss especially in unskilled men, while malnutrition and under nutrition in the agricultural sector has increased. On the other hand, in Tanzania too, poverty, ignorance and disease are prevalent with the unemployment rate standing at 30%.

Thus, urbanisation and industrialisation is not an immediate solution to South Africa. But, tourism seems to be an option for Tanzania and South Africa. Even so, strong agricultural sector and investments in infrastructure and industry were pointed out to be very crucial.

III:2. Discussion by Praveen Jha (Associate Professor, Jawaharlal Nehru University, New Delhi)**.**

South Africa essentially differs from Tanzania and is doing much better, which is fundamentally related to the fact that South Africa is close to other Settler colonies of white settlement, which makes it easier for it to have closer integration with particularly the European economies. The same historical fact also helps to explain the pattern of urbanisation in South Africa, where in black populations were physically uprooted and relocated, which lead to some kind of more widespread urbanisation effect than in Tanzania. So, these historical facts, because of which South Africa has got more incorporated into the European economy is important in understanding the higher economic development of the former compared to Tanzania.

It is an orthodox neoliberal view that considers the option presented that an economy could afford to focus only on developing its agricultural sector and forget about everything else. The heterodox perspective on addressing the development strategy has 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. So, unless that happens, since there is high dependence on agriculture for livelihood purposes, we cannot achieve development.

Is there a chance in the foreseeable future for the resolution of the agrarian question in the classical sense? The latter essentially meant that over a foreseeable future, we see a substantial number of population moving out of the agricultural sector, with the share of agriculture in total GDP falling substantially and so on. Going by the experiences of about 130 developing and underdeveloped countries, there is much optimism in this regard. Apart from a handful of developing countries with exceptional history such as the East Asian countries which had radical land reforms, the story is similar in most of the other countries. This is that, even if we have had declining share of agriculture in GDP, if we take the proportion of population dependent on agriculture, it continues to be huge. Therefore, dependence on agriculture will continue to be important for sizeable proportions of population, particularly from the point of view of livelihoods and the significance of that in terms of policy concerns. 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. In this context, there are also doubts about the robustness of the 'depeasantisation' thesis being advanced by some scholars like Deborah Bryceson, Vali Jamal etc. in Africa.

But, of course, this is not to say that the non-agricultural sectors are unimportant. Quite the contrary, all reasonably successful examples from the developing word, for example India, did not focus on agriculture to begin with, but went into import-substitution industrialisation which linked up with the domestic primary sector in a major way. However, the point is that while one does all that, agriculture has to be looked after simultaneously in order to take care of the livelihood issue for the masses.

Then, one has to look at the implications of the neoliberal policies and also what prospects it holds for addressing this key agrarian issue. It seems that there is growing structural dualism in African agriculture, like in other developing countries across the other continents as well. 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 once again.

III.3. Discussion from the floor

Guy Mhone (Professor, University of Witwatersrand, South Africa)

The legacies both in South Africa and in Tanzania are the legacies of particular regimes of oppression, exclusion and marginalisation. While it is imperialism on the one side in Tanzania, the whole history of South Africa is one of deliberate and systematic exclusion of the majority. That reflects the distortions internally and also the particular way in which it relates to the global economy. Those issues need to be problematised and within that context the issue of unemployment and underemployment need to be located. So, it's not enough to look at one sector or parts of the economy in isolation, rather the structural issues of the entire economy needs to be looked at within the context of the distortions underpinning unemployment and underemployment. For South Africa, for instance, major distributive interventions that are linked to growth are needed both in the rural and industrial areas. For Tanzania, linked to the transformative strategies used in many of the fast growing countries which Jomo K.S. mentioned, transformation can be brought about only by positing the agrarian question linked to an industrial strategy. However, we cannot assume away the policy stance which will bring about this transformative strategy as being automatically given. We have to decide whether we do this in a neoliberal approach or through a particular developmental approach and what that approach will be.

Carlos Oya

There are some methodological issues related to the title of the paper. One is related to unemployment issue in South Africa. Are we looking at an increase in unemployment or an increase in informalisation of employment? Do we really know that unemployment has clearly shown an increase, because unemployment is not an option for poor people either in the rural or in the urban areas and this has to be addressed seriously.

This also relates to the issue of poverty and agricultural growth especially in the context of Sub-Saharan Africa with the widespread application of the living standard measurement surveys and the appalling application of the labour modules, which are based upon the most useless question you can ask in the Sub-Saharan context- what was your main occupation in the last seven days. The response to the latter automatically translates into a result that most of the rural poor people are subsistence farmers.

But, even people like Deborah Bryceson talking about 'depeasantisation' might be falling into the trap of arguably spurious employment statistics, because we really do not know what exactly various segments of the rural poor did for survival during different periods of time in the 1970s and 1980s and what is the actual contribution of various agricultural and non-agricultural activities in the total source of income for the farmers. There are changes occurring in Tanzania in the way people in the different regions survive, switching from some crops to others crops and we need to understand what the consequences of this are for certain types of producers and also for people who are dependent on some type of agricultural employment, which typically does not get captured in the employment statistics we use.

Peter Jacobs (Senior Lecturer, University of Western Cape, Cape Town)**.**

The paper had quite an interesting comparison between South Africa and Tanzania. I don't have a great deal of knowledge of the Tanzanian agrarian situation, so I would confine myself to the South African case. The paper makes an interesting comparison in South Africa itself between what is happening in the commercial agriculture and the so-called communal areas. It leaves out the plans of the existing government for communal areas. In fact, the paper seems to be very subtly supportive of the government view that there should be just a reform or agrarian restructuring within rural areas, which has been challenged by others. It is also in contradiction with an argument by the presenter earlier that there has been a decline in employment in the communal areas. Why is that the case? One of the central reasons has been the decline in land productivity because of the pressure on land from overpopulation. So, the productive potential of the communal areas is extremely low and that is why there is growing pressure in the communal areas for land reforms.

The other concern is that of what is happening within commercial agriculture and here the presenter has argued along a line which is very similar to the current line of thinking in South Africa. This is that we need not worry about the 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. But, according to the discussant, commercial agriculture in South Africa is in a mess and there is an urgent need to restructure this segment itself. For example, if you look at government reported data in early 2004, you will find the highest rates of malnutrition and under nutrition among children nationally in the commercial agricultural districts. And this has been because of the way commercial agriculture has been organised and operate in South Africa. First of all, there is high concentration and the government is encouraging the already dominant agribusiness sector. This is part of agrarian restructuring and needs to be understood in the South African case in terms of the emerging links between changes in agricultural production patterns and the availability and pattern of food consumption.

III:4. Response from Francis Wilson

The resolution of the agrarian question centres on how to obtain an economy to grow in such a way that the urban areas absorb at full employment all those being pushed out of the agrarian sector. In 19th century Europe- Italy, Ireland, Norway, Scotland etc. etc., they immigrated to the United States, that's how they resolved the agrarian question, the urban centres could not absorb everyone. In 20th century South Africa, before 1994, the national party in government did it in two ways. First of all, there was the use of national boundaries. South Africa as is known has employed migrant labour from all over Southern Africa for gold mining. In 1895, 60% of the mining labour came from Mozambique. Even in the 1970s, SA produced only 20% of the mining labour, the rest came from outside. What has happened since then is the systematic raising of the national boundaries so that countries do not have access to the mines. We have solved the agrarian question by finally saying no to migrant labour from outside.

The second way in which it was solved was the development of "boundary stones". You create some political boundaries and you keep the people coming off capitalist agriculture as reserves. In the 21st century, is there a way through for China and Africa in dealing with the massive unemployment that is coming?

On the question of unemployment data, while there could be problems with the surveys being used in SA in the last 15 years or so and it needs to be improved, the 41% of population who are unemployed are people who really need jobs. It is not that they are not doing everything they can to survive. Unemployment is truly not an option for the poor. But, remember we have the paradox in Africa of hundreds of thousands of poor surviving below the subsistence level. And of course, we are talking about the informal sector; we are talking of how they survive until they get jobs.

In response to what could be the lead sector if one economy (agriculture) is not performing well? The presenter pointed out the huge increase in the share of tourism in GDP in Tanzania since the early 1990s and its huge growth over the last three years suggests that there could be much potential in this economic activity. But, of course, the huge side-effects of tourism would need to be tackled systematically.

Session II - 'Agriculture, Unemployment and Poverty'

02:00 pm - 05:30 pm, Friday, 17 December, 2004

Chair: Terry McKinley (Advisor on Macroeconomics and Poverty, UNDP, New York)

The Chair appreciated the fact that the conference was opening up the space for alternative thinking on development economics, which has got too narrow and monopolised by neoliberalism in the recent period.

IV.1. Presentation on '*Alternative Ways of Estimating Poverty and Implications for Policy: A Critical Appraisal from the Indian Experience*' by:

Utsa Patnaik (Professor, Jawaharlal Nehru University, New Delhi)

The paper makes the following stark proposition: The claims by the Indian Planning Commission and also by some academics 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, are not true, as these estimates are based on logically spurious methods of calculating poverty. As a matter of fact, the impact of neoliberal policies on Indian agriculture has been extremely adverse. If we use logically correct methods for measuring poverty, we find a substantial increase in the depth of poverty at the all-India level and particularly in certain states.

Poverty studies in India since the early 1970s have been based on the use of a poverty line expenditure level that is defined at that per capita expenditure per month for all goods and services, which provided a person with an energy intake of 2400 calories in rural areas and 2100 calories in urban areas. These nutrition norms were on the basis of the recommendation of the Indian Council for Medical Research and were accepted by the Planning Commission. This is already a very minimalist definition of poverty, since no norms are specified for essential non-food items of spending such as for fuel for cooking and lighting, clothing and shelter, transport, medical care, or education. So, we are looking at only the nutritional norms.

The database for calculating poverty has been the National Sample Survey Rounds (NSS) for consumer expenditure, which takes the households as the sampling units. These surveys present the distribution of persons by monthly per capita expenditure groups, and since the quantities of foods consumed and their calorie equivalents are available, they also present the calorie intake per capita per diem by the same expenditure groups. She summarized the data from the large sample survey, the 55th Round relating to 1999-2000.

It is clear from the key table that you can have an idea of the magnitude of head count poverty that 69.7% of the rural population of India spends less than Rs. 525 per month per person was below the average calorie level of 2403. If we plot the data on a graph, we get the more exact figure of rural poverty in India is 74.5% or three quarters of the population. Yet, the official Planning Commission figure of rural head-count poverty from the same data is only 27 percent! The difference is enormous. Again, if we look at the data on urban poverty using the calorie norm of 2100, you get 44% of urban population in poverty, while the Planning Commission figure is only 23.5%.

What explains this difference? The majority of economists in India believe that the Planning Commission continues to use the calorie norm of 2400 for rural areas. The reality however, is that the actual procedure followed by the Planning Commission and by individual economists has involved giving up the nutrition norm completely and therefore following a different concept and definition of poverty compared to that was originally stated and still adhered to theoretically. The actual procedure has been to calculate the poverty line following the calorie norm only for the 20th Round of the NSS, which relate to the year 1973-74. For that year in current prices the rural poverty line was Rs.49.09 per capita per month and the urban poverty line was Rs.56.64. It was found that 56.4 percent of the rural and 49 percent of the urban population fell below these poverty lines. After that, the initial poverty lines of Rs. 48 and Rs. 56.6 for rural and urban areas were simply adjusted upwards to reflect current prices by using a price-index, while assuming an invariant consumption basket. The adjusted poverty line was then applied to the cumulative distribution of persons by expenditure groups, of current NSS data to obtain the poverty percentage.

Thus the price adjusted poverty line for 1999-2000 was Rs.328 (about six times the poverty line for 1973-74) and this has been applied to the first and last columns of Table 1 to read off the population below this line which came to 27%. No attention was paid to the fact that at this expenditure the person could access at most only 1890 calories, and nor is this fact ever mentioned to the public when poverty estimates are quoted by the Planning Commission. So, the presenter makes the grave charge that there has been suppression of information which is germane to the credibility of estimates. The only way in which these economists have come to the very low estimates of poverty in rural India for 1999-2000 is by quietly and clandestinely reducing the calorie norm to absurdly low levels. The nutritional implications of these estimates are not made explicit by them. The Planning Commission has actually reduced the calorie norm from 2400 to 1890 and the average calorie intake that it defines for the poor is less than 1700.

This particular procedure is logically spurious because you cannot actually change a calorie standard over time and validly compare poverty estimates over time. Having failed to remove poverty, what all these people are doing consciously or unconsciously is to lower poverty by the simple reduction of the poverty norm.

However, the basic point is that the method of comparison over time is not logically valid when the consumption standard is being altered, as is being done in the indirect estimates. The consumption standard in 1973-74 was 2400 calories, by 1993-94 the standard implicit in the official indirect estimate was down to 1968 calories, and in 1999-2000 it was even lower at 1890 calories. How can anyone say how ‘poverty’ has changed over time using the above method?

We are bothered about these numbers because they have a significant bearing on public policy, especially in regard to the distribution of foodgrains from the public distribution system. In India, the allocation of grains from the Centre to the States is based primarily on the basis of poverty estimates and so when you have very low poverty estimates, then you have very low allocation of foodgrains as well.

Further, the question of how the poverty estimates are arrived at is not a matter of statistics alone. These estimates have to be tested against the trends emerging from the overall macroeconomy. The macroeconomic trends in fact show decline in public expenditures, rise in unemployment and fall in foodgrains absorption. They are consistent with rise in mass poverty, not with decline. Of course, rise in mass poverty is a phenomenon which will get reflected not just in energy intake but also in asset transfers –in pauperization.

Is it the case that the rural sector has been experiencing improvement in terms of employment and higher rates of growth, which would underpin the official claims of reduction in poverty in the rural areas? No, exactly the opposite is the case. The decade of the 1990s has seen a complete collapse of output growth in rural India and a very substantial rise in rural unemployment. The reason for this of course has been cut back in public investment in agriculture, and also in public development expenditures on agriculture in general, which are all part of the well-known neo-liberal set of policies which India started following from 1991 onwards. If we look at the proportion of GDP spent on rural development expenditure (irrigation, power, employment generation programs, special schemes before the reforms, that is, during 1985-1990 period, it was 14.5%. Although this was exceptionally higher than in previous periods, this had dropped to less than 8% of GDP during 1992-93, and by 1999-2000, it had dropped to less than 6% of GDP. This is a massive order of contraction- some 30,000 crores of rupees (1 crore = 10 million) less was being spent in rural India in 1999-2000 in real terms compared to 1999-91. If a plausible multiplier value of between 4 and 5, this works out to between Rs. 120,000 to Rs. 150,000 crores of income deflation at the end of 10 years after the reforms. Meanwhile, the rate of agriculture growth has slowed down drastically, from 3.1% in the 1980s to 1.7% per annum in the 1990s and the rate of employment growth has collapsed even more drastically from 2% per annum during 1987-93 to only 0.7% per annum during 1993-2000.

The other very important impact (apart from falling development expenditure in rural India) has come from the external sector. There was a big rise in international primary product prices between 1988 and 1995. So, most people in India believed that India was going to benefit greatly from the 1994 GATT Agreement and integration with international markets. But, nobody told the farmers about the volatility of international prices and they found out for themselves the hard way, when prices stated crashing from 1995 onwards. Since protection to the farm sector was removed precisely at the same time as global primary products prices were falling. India removed all quantitative restrictions and went in for tariffication two years before it was actually required under WTO commitments and the average tariff rates have been lowered to 35%, far below the bound rates (which are 100% for most crops). Thus, the farmers were exposed to falling global prices. Since the government could not sustain the implementation of minimum support prices for food grains and some other crops which it tried to support in this situation of across-the-board fall in prices, this also led to severe income loss for the farmers. In addition, the farmers had to face the large inflows of low priced primary product imports arising from the lower tariff rates.

Further, the impact of the financial sector reforms that were introduced in India after 1992 following the Narasimham Committee Report meant that easy credit to farmers and to small scale industries was taken away. This aggravated the impact of income loss discussed above. So, we have had enormous rise in farm indebtedness as prices collapsed, kidney sales to repay debt and large number of farmers' suicides. She also drew attention to the 3000 (the figure pertaining only till January, 2003) and more farmers' suicides in the State of Andhra Pradesh. Agrarian crisis was a major reason why the previous right-wing NDA alliance in India was thrown out of power in 2004 elections. Subsequently, the new government in Andhra Pradesh – the state which was particularly badly affected- constituted a Farmers' Welfare Commission chaired by Prof. Jayati Ghosh, which submitted its report only last week.

There has also been a very steep fall in per capita absorption of foodgrains, which is the result of the massive deflation of purchasing power in rural areas. The fall was relatively slow between 1991 and 1995 from 177 kg per annum per capita to 174 kg, but since 1997, particularly since the exposure to the volatility in international prices, the fall was drastic and rapid until the last two years, to 155 kg per capita per annum- This is a massive decline of 22 kg per head at an all-India average level, compared to 10 years ago- leading to massive hunger, and massive increase in calorie deprivation. All these trends are simply not compatible with any reduction in rural poverty as claimed by the official poverty estimates. In fact, if we use the direct estimation method, which is the logically correct one, we observe a very substantial increase in poverty. Comparing 1999-2000 with 1993-94, the proportion of people consuming below 2000 calories has gone up and below 1800 calories also has gone up.

IV:2. Discussion by Guy Mhone

The critic offered by the paper for a logically incorrect estimation method for estimating poverty was valid. The fact that the factors that underpin the increase in the depth of poverty in India came about as a result of economic liberalisation and outward orientation, is also crucially relevant for Africa. The paper offers interesting lessons for Africa, where many countries have been undertaking poverty assessments as part of the ongoing PRSP processes. Many of these poverty estimates and the PRSP papers have not been assessed for the kind of problems that have been brought to light in the Indian case by Utsa Patnaik's paper.

However, we need to disentangle the micro effects of the macro policies in terms of how public expenditures, export prices, import prices, etc. are impacting upon the rural masses. The separate effects of these policies on employment, returns/income and consumption etc. need to be disentangled more clearly in the paper. And this is not possible without knowing the economic structure of households and their economic activities. Thus, while the paper could point to the negative consequences of economic liberalization and outward orientation on rural peasantry, it could benefit from a mapping of the peasant population in terms of a characterisation of the economic activities so that we can better trace where the different effects in terms of employment, consumption, income etc. are being felt and what the aggregate effect are. There is also the link between foodgrains and calorie intake which he brought attention to. According to some studies in Southern Africa, it is possible to make up for the reduction in foodgrains consumption by other substitutes that can also increase the calorie consumption. May be we need to explore how that operates in the Indian situation.

Also, more data that would help disaggregate the actual impact of public expenditures on food availability, changes in prices of both tradables and non-tradables in agriculture on various groups of people such as agricultural workers, those that produce for exports and those that produce for the domestic market, etc. needs to be included in the analysis to reinforce the argument presented in the paper.

IV:3. Discussion from the floor

Alemayehu Seyoum Tafesse (Director, African Centre for Economic and Historical Studies, Addis Ababa)

The focus is on the nature of the poverty line and how it is used in the measurement of poverty. Since poverty is multi-dimensional and since many of these factors are not captured by the income poverty line-based measure, it is a partial measure. Even so, it can be given its due credit. It is based on a calorie standard and a cost of acquiring it, that's how the price index comes into the picture. While the presenter claimed that the researchers who came up with lower poverty estimates used in effect lower calorie consumption levels, she did not establish it actually. But, for that, it is important to note that calorific consumption is a function of prices, incomes and choices that households/individuals make. Therefore, having a certain level of expenditure cannot be matched one-to-one to a certain kind of calorie consumption level. The second point was that the need to use a certain reference point arose from the need to compare absolute poverty over time. So, we can pick any year as a reference year and then adjust it to price dynamics, only then we can make a comparative analysis of the absolute poverty between two points of time. He also raised a question on the trends in agricultural unemployment in India in the recent period.

Getahun Tafesse (Poverty and Human Resources Division Head, EEA)

If data analysts use the same set of data and similar methodologies, there is no reason why the results should differ. So, researchers should describe in detail the methodology they use, so that any confusion may not arise. However, results could differ for any variation in method employed at any stage of the calculation used for obtaining the result. So, the presenter's focus on calorie consumption levels may be misplaced, as prices have to be factored in when comparing poverty estimates over a period of time. Analysts may use different calorie conversion rates and also how the minimum basket is calculated also can lead to different estimates. Are any participatory qualitative assessments that could confirm one result as opposed to the other?

Mohammad Muttaka Usman (Lecturer, Ahmadu Bello University, Zaria, Nigeria)

There is a difference of opinion from those raised by the last two speakers. The important thing was not the problems of data, rather how the data was being doctored to justify certain policies. It was pointed out that it is unprecedented to look at relative poverty levels, and then suggest that since relative poverty has declined, we will now push growth-oriented policies. This fact that the doctoring of data is being used as a basis of economic policy is what should be of concern to us.

Germina Ssemogerere (Professor, Makerere University, Kampala, Uganda)

There are a number of real surprises to me in the paper. How is it that the food poverty line was defined without paying attention to the balanced diet concept? The WHO had made sufficient argument in this area. The author needs to distinguish between two ways of looking at poverty- the neoliberal economists are looking at reducing poverty so that less number of people will need to be supported through the public support system. That attitude is still around with us. But, we in the underdeveloped countries are struggling with mass poverty, which is much more related to development policy. Now, unless the planning commissions in our countries are made to understand this distinction, they will go on struggling to reduce the number of poor people as their incessant worrying is over the extent of public expenditure.

Berhanu Adenew (Agricultural Division Head, EEA)

What has happened to the role played by the private sector in Indian agricultural services following liberalisation? Have they been facilitated or weakened?

Jayati Ghosh (Professor, Jawaharlal University, New Delhi and IDEAs Executive Secretary)

There is a need to revisit the issue of price index. The persons, who have been using the current poverty line which was under discussion by the presenter, use that price index because they argue that it would be people at that income level who can afford to buy enough calories to be above the poverty level. The point which the presenter is making is that a large number of people are in fact not actually consuming these calories. Now, why are they not? It is not only an issue of choice. The standard neoliberal response is that they are not consuming enough foodgrains because their incomes have gone up and so their consumption pattern has changed. But, it is in fact the total calorie consumption that has declined, and not just foodgrains consumption. So, it would be a mistake to see this as a positive consumer choice. It is in fact an indication of the generalised deprivation and that is why it is useful to look at calorie indicator. Further, if we look at the same sample survey data, we can see that the same people are spending vast amounts on private health, because they want to live. But, they are spending vast amounts on private health because public health systems are not providing that and have in fact collapsed.

On the question from the floor about other corroborative evidence over the 1990s, we may consider the following. All-India infant mortality rates have stopped falling and in five states they have started increasing for the first time since independence. Maternal mortality rates have stopped falling and there are other indicators which would offer similar corroborative evidence. But, critically, all these are linked to the issue of employment in rural areas.

This leads to what Carlos Oya was saying in the morning session. There is this 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. What is remarkable is that across the developing world, there is a rise in open unemployment in the rural areas, across Sub-Saharan Africa, Latin America and Asia.

As Utsa Patnaik mentioned, the 0.6% per annum employment growth in rural India in the 1990s include all kinds of employment- part-time, casual, subsidiary, etc. But, there is also a substantial increase in open unemployment in the rural India, as we have other parts in Asia, Latin America and Africa. So, we cannot afford to ignore that issue.

Jomo K.S. (Currently at the Department of Economic and Social Affairs, UN, New York)

The debate which Utsa raised has a global dimension to it in the sense that there are two very influential views and a third rather uninfluential view which have tremendous implications while addressing the whole question of poverty and inequality. There are people like Surjit Bhalla and Xavier Sala-i-Martin who argue that there has been a significant decline in inequality and poverty at the global level. Surjit Bhalla goes so far as to say that the millennium development goals (MDGs) have already been achieved and argue that we can go on with economic liberalisation unconstrained and even that the World Bank exaggerates poverty to keep itself in business. Now, the World Bank argues that poverty is declining but not declining fast enough so that it should remain in business. What others are saying is that what is being measured by the one dollar or even the two dollar poverty measure is to miss a great deal of what Utsa Patnaik's paper raises. It is very important to appreciate that. The main thing that can be measured is calorific intake and that is why the question of real income is not so significant. And this is also important from the point of view of the ongoing discussion on human welfare.

Jomo also highlighted the crucial significance of Table 4 for Africa and the de-industrialisation that has been going on in Africa and other parts of the world recently. The great hope is supposed to be agricultural growth. But, as Table 4 shows, there is a tremendous decline of agricultural prices from the second half of the 1990s. If we look at the paper by Ocampo and Para which tests whether the Prebisch-Singer thesis is valid, they found that through the 20th century, there has been a terms of trade decline against primary commodities. There is also evidence that the Lewis thesis of terms of trade decline against tropical primary commodities is especially severe. These two findings plus other recent evidence suggest that we can well have immiserising growth (as it is happening in the US).

It is very important to recognise that the distinction which has been made after the East Asian crisis that financial liberalisation is bad but trade liberalisation is basically good is something which we have to very careful about as the evidence thrown up by this paper shows.

The last point is 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, the settler colonies of Australia, New Zealand, etc. By and large, no developing country in Africa is going to benefit, but some of the Cairns Group agricultural exporting countries may benefit. In fact, Berhanu Nega was wrong in suggesting this morning that Washington Consensus did not have anything to say on Africa. The Berg Report by and large is still the Bible on Africa and there is no evidence to suggest that there is any truth in the path that Africa is being led by the Washington institutions.

IV:4. Response by Utsa Patnaik

On the comments on the aggregated data used in the paper, it will indeed be useful to provide more disaggregated data.

On the question on how do you look at calories alone to define poverty- I would myself define poverty is a very different way to include minimum requirements to include not only food, but also clothing shelter, education, health, etc. But, in this paper, the objective was to take accepted methodologies and concepts and to argue that there is a fundamental logical problem with the way that poverty is being estimated by people using the indirect method which is price adjustment to a base-year poverty line. The method is a Laspeyares Index, in which the quantities that people consumed three decades ago are retained unchanged while using the price index to base-year poverty line to update it. The very assumption of an invariant consumption basket is assuming away changes in welfare or poverty, whether improvement or decline- a large part of which arises precisely from changes in the consumption basket.

The real rot in poverty studies in India started from the second half of the 1990s. Before that, those who looked at poverty in India, used both methods- price adjustment to a base year method and they talked about the deviation from the calorie line and noted with great concern that the gap was widening. So, they suggested that it was far better to use the direct method. In the second half of the 1990s, the dominant literature began to look only at the indirect method of estimating poverty because the pro-reform economists and policymakers and the government had vested interests in showing low and declining poverty and thereby intellectual integrity has been thrown out of the window.

No, they are not deliberately lowering the calorie equivalent. What is happening is that the price-adjusted poverty line cannot give the same calorie/nutrition standard to people today as the base-year poverty line gave 30 years ago. The reasons for this have also been discussed by the critical economists. Thirty years ago, agricultural labourers were being paid mostly in kind evaluated at farm gate prices, now these are all monetised. Labourers are now paid in cash with they have to buy their food grains from the shops at the retail prices. So, for a given real income, they cannot access the same level of food as they could thirty years ago. Again, earlier, the poorer farmers could go and gather firewood, fodder, etc. which were not fully evaluated in the statistics. Now, common property resources have disappeared and poor farmers have to purchase fodder from the market for their livestock. There are no forests left for them to go and gather firewood, so they have to purchase fuel.

So, for a given real income, the proportion of income that can be spent on food has got reduced. Therefore, there is non-voluntary reduction of foodgrains intake and the idea that non-foodgrains compensate for foodgrains is a total falsehood. Look at the FAO data which gives you the food balance sheets for every country that is returning the information. Look at Kenya, Tanzania, Uganda, etc. The average calorie intake from all foods has declined; while that from cereals has declined by 200-300 calories per diem, that from non-foodgrains and from non-vegetable sources has increased by utmost

10 or 15 calories. So, what are we talking about when we say substitution of non-foodgrains for foodgrains?

I would like to end by saying please look very carefully at the basis on which these poverty estimates are being done, because the people who are making them have seen all the data that I presented, they know very well that a poor person in India cannot access the same level of calories that they did thirty years ago using their poverty line income. So, there is an element of deliberate obfuscation of the truth. Apart from the logical spuriousness of the method used, how can you compare the percentage of people below 2400 calories in 1973-74 with the percentage of people below 1960 calories in 1993-94 and below 1890 in 1999-2000? You are altering the standards. That's all I have to say.

VI. Discussion from the floor on Thandika Mkandawire's paper on '*Maladjusted African Economies and Globalisation*' presented by Jomo K.S.

Francis Wilson

I would like to raise a question that was sparked off by the title, which is a critique of the adjustment experience in Africa. How useful is it for us now to talk of Africa as a single place? It is an enormous area with very diverse economies, some of which have been hugely successful in the last 30 years, some of which have been utter disasters, some which have experienced World Bank adjustment policies, others which have not. He raised the question as to whether we need to look at other classifications like industrial countries in Africa, countries that are primarily agriculture-based, countries that are oil exporters, and so on. So, we need to have broader categories to analyse 'the development problems' in Africa.

Elibariki Msuya (Assistant Lecturer, Sokoine University of Agriculture, Tanzania)

I think it is useful to talk of Africa in general as we all face the similar conditions, we all are in the process of implementing the SAPs or the PRSPs. So, I would like to like to hear from the last speaker on which are the successful countries in Africa that he's referring to.

Juan Carlos Moreno (Regional Advisor on Economic Development, UNCEPAL, Mexico)

There is a need to recognise the fiscal problem in countries in Africa and Latin America, where most derived the majority of their tax revenue from tariffs. But, through trade liberalisation we have abandoned that major source of revenue. And since the engine of fiscal reforms is not implemented in most countries, this leaves us even more fragile than before with more needs for public investment. Thus, while we end up recommending alternative policies, we do not have the resources to do that. So, this is a topic that should be addressed.

Ben Turok

It might be useful to provide the figures for total inflows into Africa- aid, the rest of capital inflows- and the total outflows, taking account of trade balances and so on. Because whenever we have meetings and discussions with people from the North, you always have distorted presentations on how much we are doing for Africa. And yet, there is a real outflow. So, it would be useful to include an analysis of this in the paper.

Carlos Oya

It is relevant to revisit the way the African situation was assessed by the Bretton Woods institutions when the Berg Report was published. It was based for most countries on data for the previous 5-7 years; precisely the years when a different crisis was unleashed especially in countries that had to take support from the IMF and the World Bank. This background has since been forgotten in the recent literature on adjustment. Another point is that the adjustment support from these two institutions were designed to address the short- and the medium-term issues and not long-term issues. So, there is a major irony if they now after 20 years say that not enough time has passed to allow an assessment of the impact of the policies, and they do not make sense at all! He agreed with Francis Wilson’s point that there was a need to understand the differences in experiences between countries and within countries at different points of time. There is a paper by Dani Rodrik on growth accelerations and significantly he found that there are several episodes of growth accelerations in Africa since the 1950s. There are quite a few countries which have experienced growth accelerations like Botswana, Nigeria, Cote d’ Ivoire, Mauritius, etc. But, when we try to understand what factors underpin these performances, it is found that it is not policy reforms or investment etc. which explain their different performance, rather idiosyncratic factors hat explain their unusual growth experiences. So, only detailed indepth country studies will unearth such performances and these exceptional performances do not represent the general picture for Africa.

Praveen Jha

There is a politics of the Bretton Woods institutes involved in pointing out Africa as an exceptionally unfortunate block where their reforms have failed. Similarly, there is a critical need to point out the game involved in pointing out India as a poster boy of successful reformer in order to legitimise the whole package of neoliberal reforms for other developing countries. We have just seen how the entire game of poverty estimates is being dealt with in India in order to showcase the “success” of neo-liberal reforms. It is important to note that the G-8 is expected to uphold India and China as ‘having made it” and therefore the need is to focus on Africa exclusively.

Alemayehu Tafesse

The criticism about the bad performance of the Bretton Woods Institutions is well taken. But, perhaps their greater impact is in affecting this reactive way of thinking rather than proactive way of thinking.

They define the agenda and the real thinking “outside the box” should be in terms of how we can define the agenda, and that requires proactive and dynamic thinking.

Utsa Patnaik

While all those points about diversity is well taken, despite all the diversity, as far as we can see in general, the agricultural sectors across Africa are following the same broad macroeconomic trends and these have to do with the problems of trade liberalisation which Juan Carlos mentioned. There has been a systematic set of policy package that have been out in place by the BWIs – This is open up and liberalise your entire economy, particularly the agricultural sector, based on the argument of dynamic comparative advantage that African countries should increase their primary sector exports.

The Ricardian theory of comparative advantage is completely fallacious since we cannot define the transformation frontier for many goods that are traded between the advanced countries and the developing countries. 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 what 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 bogus theory has been thrown at us again and again to say that countries in Africa and others should go in for a primary products-based export drive and I have tried to indicate the disastrous consequences of that.

The second point is that we have to recognise the fact 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, Africa will start facing the same problems of rising indebtedness, farmers’ suicides, etc. which we are facing in India today. The solution is to increase protection to our farmers.

The BWIs have been proactive in increasing poverty in developing countries. If there is any justice in this world, there should be an economic crimes tribunal at which all these economists should be tried, because of the increase in farmer deaths that we have seen.

Guy Mhone

About proactive thinking and where we should move from here, I would like to mention that CODESRIA is thinking about a program on rethinking development economics in Africa, on the questions of development and underdevelopment in Africa beyond the critiques of the BWIs.

Also, the question of looking at Africa at disaggregated levels is true on both levels. At one level, as Thandika has shown in his data, there was some growth taking place soon after independence which got deflated by the resort to the SAPs. But, what is remarkable is that in most of Africa we have not dealt with the colonial legacy in terms of the structure of the economies we inherited. So, if we want to look at this structurally, one hypothesis is the following: we have in almost the whole of Africa, a kind of grafted capitalism that is exogenously given, which has had the tendency of marginalising and excluding the majority. If we consider the dynamic segments of the African economies outside South Africa, almost 70-80% of the people are in the informal sector or the rural economy. That is a lot of underemployed people who have not been utilised in a process of productive transformation and accumulation.

So, what we have are different varieties of 'enclave capitalisms', some based on minerals, some on export agriculture, others based on a combination of peasant agriculture and exports etc. And we can classify Africa along those lines- the settler enclave economies, those that are confronted with some form of 'Dutch disease'. Botswana is an interesting example, as it has had very high growth rates for the past three decades, but it still has high levels of unemployment and underemployment.

So, there are structural problems that are common in Africa, what we have failed to address is the fact that we have not reversed the exogenously-driven growth processes and reasserted an endogenously-driven accumulation and growth path and we need to address how we are going to achieve that. Both the market-oriented and the socialist-oriented countries prior to SAP, failed to address the structural problems we had internally. And in this context, revisiting the point made by Jomo earlier, the success of the East Asian countries was in the fact that they managed this agrarian transformation and transformed the underemployment into more productive employment. So, there is an agenda for us to explore the strategies for development over and above the critique of SAPs.

Finally, in response to Carlos Oya's intervention on the short-term and long-term elements of SAPs; the stabilisation part which the IMF is responsible for was the short-term part. The structural adjustment part which the World Bank is responsible for really argued that if you liberalise, open up and privatise etc., it will move our economies to a growth path that will be beneficial in the long-term. So, there was indeed a long-term aspect to the SAP and the point is that this is not happening.

Carlos Castel-Branco (Professor, Universidad Eduardo Mondlane, Maputo, Mozambique)

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. 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. So, we need to devote more discussion to understanding these details. We can for example, look at the economies that are being shaped by the mineral/energy complex of South Africa. 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 that use South Africa as a way to come into the region. So, if we say protect, what are we protecting at the end? For example, if we look at tobacco, coffee, sugar, etc. in our agricultural sectors, it is the big corporations who organise the production, trade, technology of these dominant sectors. So, while it is surely clear that liberalisation has not helped our economies and has in fact worsened the situation, we must indeed protect, but in order to systematically formulate policies, it is important to clearly understand the dynamics within our economies, in terms of the structure of our capitalisms.

There is a lot of research work in Asia in this regard, but in Africa we are not doing this sufficiently and talking in generality at this point will not help.

Jomo K.S. concluded the session by referring the audience to some of the papers including Thandika's – which were presented during the EEA's annual conference in Addis Ababa two years' ago and to another paper by UNCTAD in 2002 that specifically looked at the consequences of the SAPs for growth and development in Africa.

Saturday, 18th December, 2004.

Session III: Issues of Trade in Agriculture

10:00 am- 01:00 pm, Saturday, 18 December, 2004.

Chair: Ben Turok

VII:1. Presentation on '*Agricultural Mal-Adjustment in Sub-Saharan Africa in the Context of Macroeconomic Reforms'* by:

Carlos Oya (Dept. of Development Studies, SOAS, London)

The paper gave an overview of the theoretical rationale of structural adjustment as applied to the agricultural sector in Sub-Saharan Africa and as put forth by those advocating the neo-liberal position through the supranational institutions, in particular, the World Bank. Most of the empirical work has been driven by bogus theories of comparative advantage and have relied constantly on different types of tautological reasoning, static and partial analysis, the typical state-market dichotomy, etc.

But, empirically, there were three key factors that triggered the introduction of structural reforms in the early and mid-1980s. The first of this is the short-term agricultural crisis from the mid-1970s onwards. 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 crisis which some of these countries which had to approach the World Bank and the IMF for assistance. Many of these crises were due to idiosyncratic factors, some of them structural as well, 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. Related to this was the unproven assumption of the heavy taxation of the agricultural sector in most of these countries. But, if we look at the experience of these countries from the 1960s, the cited empirical evidence is seen to be quite conjunctural. For instance is the case of Cote d'Ivoire. In reality, Caistab, the price stabilisation fund for Cocoa, started making profits only in the mid-1970s during the cocoa price boom, but, in the remaining periods it was subsidising farmers. But, these trends are not considered by the World Bank in projecting the country as a classic example of 'excessive' taxation of farmers by the government which then led it to obtain multilateral assistance. Thus, in 1994, the World Bank praised the reforms in Cote d'Ivoire. It is also true that many of the SSA countries which followed the Ricardian development strategies in the late 19^{th} century did not have any supranational authority that controlled the access to foreign capital.

There has been a lot of controversy whether reforms have been implemented and to what extent. If we look at each country case that has embarked on liberalisation, while the sequencing and/or the timing have been different, across the board, we would see that most of the policy package has been implemented one way or another during the 1980s and 1990s, even in countries where there has been some degree of policy reversals dictated by socio-political conditions, like in Zambia in the late 1980s and partially in Senegal in the late 1980s and early 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.

The presenter highlighted the fact that these were basically driven the logic and need for addressing the fiscal constraint problem, as agriculture was considered a heavy drain on public resources. According to him, 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.

Secondly, the paper looked at what do we know about the impact of reforms 20 years later- though in some countries the period is much shorter, 15 and sometimes only 10 years. The paper should be viewed against the many different socio-methodological constraints a researcher faces while assessing the impact of particular reform packages in very different contexts and with very different initial conditions.

The mainstream analysis of the post-reform experiences tends to give a mixed picture of successes and failures. The key variable in mainstream analysis is price incentives, which in the case of African countries are seen to have been a 'problem' and in that sense they are considered to have maladjusted because the 'price incentive problem' was not really addressed. The evidence is always presented in terms of what is happening to export prices. Indeed, the proportion of export prices paid to agricultural exporters may have increased in some countries, but what it is not saying is what happened to the real producer prices in a context of falling world commodity prices. The other important variable to consider is the food crop prices. In general, in many cases, they actually went down. From the mainstream perspective this is a bad thing, as they assume that most rural poor are food producers, ignoring the fact that most poor people actually buy food from the market.

More crucially, the important thing is that food or export prices in average terms do not tell us anything about their volatility. This is in fact one of the key findings of most country case studies that were reviewed in the paper. Further, even the mainstream assessments acknowledge 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.

A third important area which was addressed was the distributional consequences of these agricultural reforms in countries that embarked on these reforms with high intensity. In this context, the assumption that peasant farming is homogenous, which seems to underlie both critical and positive assessments of agricultural reforms, needs to be rigorously questioned. The exemplification of the average representative farmer by the typical family smallholder simply does not help very much in understanding the differential impact of particular policies on different types of farmers. If you think that farmers are not a homogenous class of rural dwellers, that some farmers can sell their output at different points of time and some others can sell their produce at different places in each country, we can then automatically assess the differential impact of the reforms and the effects of prices on different sets of farmers. This is an area of the literature on the impact of reforms, which is rather virgin because the literature on agrarian structures and differentiation in the African context has almost died after the 1970s.

What anecdotal and scattered evidence from micro-level research shows is that there is actually a process of faster growing social differentiation in the countryside. Also, 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 these changes between seasons and regions. The bottom line is that poorer peasant farmers and agricultural workers were severely hit by the reforms especially in the 1990s.

Another point of discussion is the impact of the macroeconomic reforms linked to agricultural sector reforms especially those affecting the fiscal framework, where there are important contradictions which have not been recognised, even though there is reluctant acceptance recently from the World Bank about the importance of sequencing reforms. There is also a need to be more realistic about the prospects for agricultural trade liberalisation and the prospects for African countries.

To one of the key questions as to whether neoliberal policies could have worked at all under Sub-Saharan African conditions in the 1980s and 1990s, some new institutional writers like those from the Imperial College say that unless you have the basics such as roads, irrigation etc, established, these policies will not work. But, the argument could be pushed further. If you look at the historical experience of countries that followed the Ricardian development strategies, today's OECD countries, even once has the basics been established, even once have their farmers been supported, liberalisation policies have not been really implemented in any historical experiences.

We need to examine whether there is a need to extend increasing protection in agriculture to African countries and the need to address this on a country case-by-case basis.

We need to reassess the role of marketing boards in the light of the 1990s experience in some countries, for example, comparing the so-called success of contract farming schemes and their structural differences in terms of management and logic with the structures of state intervention that was implemented in the 1960s and 1970s.

Finally, one critical impact of the whole process of reforms has been the increasing weakening of state capacity in most countries that have embarked on this process. Especially, there has been a loss of any sense of mission and the loss of any strategic vision. Any package – for liberalisation, or for greater protection, or for industrialisation- needs a bureaucracy that believes in what it does. But, this is no longer the case today; at least that has been my experience in working with agricultural ministries. This low morale is not just related to low pay; but related to the loss of vision and mission that has been a key outcome of the structural maladjustment in the 1980s and 1990s.

VII:2. Discussion by Francis Wilson

The discussant commented that the paper was a very important and must-read for everyone, including those in the IMF and the WB, African governments, etc. It shows the devastating effects of the arrogance and power of people with distant theory talking to people on the ground reality. It shows also the importance of understanding the particular and of diversity. This is extremely significant in the African context, which everyone tends to talk of as one country. Africa is a huge continent with enormous diversities between countries and within countries and that is the key point of his analysis. However, one way of strengthening the paper would be to consider some alternative ways of handling the 1970s crisis, rather than simply attacking the neoliberal policies.

He also pointed out that the paper, while looking at the role of state, one could consider the enormous success of South African commercial agriculture over the 20th century, in a country that has no rains and in fact is not an agricultural country. In fact, South Africa's success in developing agriculture has been because of the intervention of the state in every single step you can think of. But, there is the issue of distribution in terms of who is benefiting.

In Mozambique when the cashew nut catastrophe happened, the World Bank threatened to stop funding the country if it did not liberalise its cashew nut markets. 20,000 people lost their jobs, but prices did not rise for the farmers, but it led to better income for traders. This distributional question is beyond the comprehension of the World Bank. If the required information for this kind of analysis is not there, the African academics ought to be doing a lot better. Enough of policymaking for Africa has been done from the distance, now it should be done on the ground and that is the lesson coming out from the debacle of the last 15 years.

VII:3. Discussion from the floor

Praveen Jha

The point about differentiation that was raised in the paper is an extremely important one and one that needs to be researched in depth. As in the case of much of Latin America where agriculture has become a backyard for American multinationals, do you see such a trend in Africa also?

Chukwuma Agu (Research Associate, African Institute for Applied Economics, Enugu, Nigeria)

There is an underlying assumption about state capacities which the paper did not bring out. This is that the nature of the role of the state itself could be one of the problems. While talking about developmental states pumping subsidies (for example, in OECD) and African governments investing so much in agriculture, it is important to recognise that it is mostly agribusiness that is benefiting from this support and not farmers. He took the example of fertiliser distribution in some of the African countries, Nigeria in particular. The machinery of distribution implies that intermediaries between governments and farmers are the ones making huge profits.

Charles Ombuki (Ph.D. Fellow, Jawaharlal Nehru University, New Delhi)

The paper identified growing fiscal deficits as one of the factors which pushed the African countries into the structural adjustment programs. Do you think that the overspending by African governments in the pre-reform period was justified?

Hakim Ben Hammouda (Director, Trade and Regional Integration Division, UNECA, Addis Ababa)

We have a general agreement on the failure of both the state-led and the Washington consensus one-size-fits-for-all developmental models for African agricultural development. So, we need to think beyond this now in terms of the alternatives. Any new alternative strategy need to consider the specificities of various countries. So, in your opinion, what could be two or three major policy directions on the agricultural development front?

VII:4. Response by Carlos Oya

I do not believe that the experience of the 1960s and the 70s was a failure overall and that is precisely there is the need to reassess them. In some countries, there may have been particular problems that state interventions had under particular conditions; and that needs to be taken into account. One specific case is the role of the marketing board and a lot has been written on their inefficient management in the 60s and 70s, the huge debts they incurred, etc. While the growing fiscal deficits were partly due to this mismanagement, one also has to understand the underpinnings of this debt.

Essentially, while reassessing the experience of the 1960s and 70s, one cannot abstract from the political economic processes that were in place at the time. Agricultural policies were part of the politics of the time; part of the need for building up some kind of legitimacy in rural areas, for states that were very different from what they look like now. Assessing the role of state during the 1960s and 70s need to be carried out through an understanding of the political economic conditions under which state interventions took place then. We do not know enough of the successes and the failures to say that state interventions were a total failure. For example, in Senegal, the little agricultural capitalisation that took place there was based in the successes of the 1960s and 70s, which simply disappeared in the following decades. There is increasing undercapitalisation of the small and medium farmers since then and we need to understand how to address this within the fiscal constraints that we face. 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, etc. had access to different channels of foreign capital in the late 19th century that were not available to the African countries in the 1970s or 1990s. The policy space was wider than it was in the 1990s. But, the point is that we do need to understand the causes of these failures of the 60s and 70s in order to make sure that similar policy mistakes are not repeated.

The pervasive feel seen in the Berg Report and other reports from the World Bank that the policy mistakes of the time reflected simple technocratic ignorance also need to be questioned. The way they have tackled this ‘problem’ is by creating this new set of technocratic capacities that is deemed to believe certain kinds of principles which are different from the previous set of beliefs.

On the question of the change in attitudes in the World Bank and some reluctant acceptance of their failures, he said there is a need to understand whether the post-Washington Consensus or the so-called the ‘augmented Washington Consensus’ actually means anything new or anything that is really feasible. One could actually interpret these changes as simply expanding the wish list of possible recommendations or bringing in more institutions into the analysis in order that the old Washington Consensus can be more successfully applied.

Everyone has acknowledged the role of rural infrastructure. But, the way the World Bank is going about rural extension services now is to promote a demand-led extension service system; this has already been applied in countries like Senegal. He questioned the logic of going through a demand-led extension system in undercapitalised agricultural sectors of mostly smallholder farmers with very low resource capability. According to him, outsourcing 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 is a non-starter. But, this is the new way in which the World Bank is trying to address institutional constraints.

On the agribusiness issue, there are three typical changes that 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; sure, we do have more private traders in the local markets. However, the point is that at a particular level within the villages, you have only one or two traders. Ironically enough, this was the situation which existed in many countries before the public marketing boards were established and which the latter were meant precisely to remove the disadvantages of the monopoly power enjoyed by them. The second development is the contract farming systems, which is similar to the agribusiness developments in Latin America, with some differences. To give you the example of Mozambique, the interesting thing is that the *sina qua non* conditions of the companies that invest in Mozambique is that they want exclusive rights on territories because of the underlying simple moral hazard problem they face. This is the same situation the marketing boards faced that peasants would not pay back their debts. They would sell to other traders, or in the parallel markets, etc.

On addressing the issue of wrong spending by governments, once again the need is to reassess the experiences of the sixties and seventies. There was indeed wrong spending in some cases in the sense of poor targeting, in the sense of believing that a particular set of policies would work under any conditions and not looking at the sort of conditions under which they could work- in fact, the sort of mistakes which the policymakers made under the Washington Consensus later on.

For formulating two or three principal policy directions, we have to look back into history and understand which types of Ricardian strategies were successful under what conditions. The point is that the a few historical Ricardian experiences that were successful were based on two principles- one is 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 are implemented, that is the capacity for moving from one type of Ricardian development strategy to another –from one kind of export crop to another that adds value to the process. And this is not something that has been available to many countries in the 1980s and the 1990s. In fact, if we look at cases of inconsistencies in sequencing of macroeconomic reforms and agricultural sector reforms in countries like Zambia, we have a situation in which even if you have potential competitiveness in certain sectors, you simply kill it because you miss time in the sequencing of your development strategy.

The other option is to move out from Ricardian development strategies to Kaldorian type of strategies- moving straight up to the manufacturing sector at different levels by focusing different sub-sectors. But any kind of Kaldorian strategy will hinge at some point on the reliance on agricultural exports; the question is when you will move up and whether you can do it actually in the prevailing international market conditions or not.

The follow-up question is whether African governments can actually implement these policies or not, can they afford to do it given the resources they have. Everything will depend on the policy framework that is applied by those controlling the resources needed by African governments. The pessimistic conclusion is 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. And unless these donors and the sources of foreign capital do not change in their perspectives as to what sorts of agricultural development strategies are implementable, we will meet with the same dead end as we have been n the last 10-15 years.

Hakim Ben Hammouda

It is based on an understanding of the policies of the 1960s and 70s that we design policies for African agriculture now. I disagree with Carlo Oya's appreciation of the policies of the 1960s and 1970s for two reasons. One of the main objectives of the policies of modernisation of agriculture was to reduce African countries' and African agriculture's dependence on the colonial pattern of commodity exports. This has been a failure. We are still exporting commodities. You were talking about Cote d'Ivoire and Senegal. Cote d'Ivoire's dependence on commodity exports has increased from 80% before to 95% now. It is not only the agriculture sector that has been affected; the failure of this policy has had a huge impact on the whole economy. The main policy was to keep the agricultural sector prices low so as to facilitate surplus transfer from rural areas to urban areas in order to fund industrial development. This was a major mistake because this policy of maintaining low prices in the agricultural sector had the consequence of lowering the demand of the major population so that the internal effective demand was low. This explained the failure of the agriculture-based industrial development strategy. We are behind the marginalisation of agriculture and the failure of the attempts for diversification out of agriculture.

Carlos Oya

Agree with the classical critique of low agricultural prices in that they must not have been appropriate and might have in fact hindered the expansion of domestic market in certain countries at certain points of time. However, agricultural prices had not been systematically low.

Further, while low agricultural prices are a problem, we have to consider the advantages of having stable prices. And this is the main difference between the old policies and the new policies. If you consider the logic of a very typical peasant farmer, the first concern is having stable prices earnings, and then high earnings within stability. This is something that was addressed under the old policies and it had significant political economy consequences. I do agree that part of the story was related the surplus transfer from agriculture to industry and part of the failure was the fact that these transfers were not productively used. But, that can be addressed.

VIII:1. Presentation on '*Trade Liberalization under the Doha Development Agenda: Options and Consequences for Africa*' by:

Hakim Ben Hammouda (Director, Trade and Regional Integration Division, UN Economic Commission for Africa (ECA), Addis Ababa)

The paper presentations on the first day of the conference and today focused on the internal conditions in African countries that led to the failure of African agriculture. But, it is imperative that we understand the important role played by international conditions in the 1960s and 1970s in the failure of not only African agriculture but agriculture across the developing world. Indeed, the issue of reforms of agricultural policies in the developed world is one of the major recommendations of developing countries in the international arena, the G-20 involving the dynamic countries of India, Brazil, Egypt and so on and also the G-90 grouping involving LDCs and other developing countries. The discussion is revolving around the support given by the Quad or the OECD countries to their agricultural sectors. So, the paper has documented the levels of support given by the developed countries to their agricultural sector. But, just to give an idea, in 2002, the total support given by the developed governments to their agricultural sectors was 318 billion dollars a year. Further, according to our analysis, this support is not decreasing; in fact, the figures we have for 2004 show that this support is indeed increasing.

If the gap between the OECD prices and world prices is 31%, it means that the internal prices at which the OECD countries are selling are 31% higher than what the international prices are for their export products. The focus here is especially on export subsidies. This gives an idea about how the international markets for agricultural products are working and how this did not help African agriculture. The prices in OECD countries are one and a half higher than what it should be. And as many of our colleagues were saying here, African countries have reduced their subsidies program.

The major concerns for Africa are in three areas: one is the market access in terms of the level of tariffs applied by developed countries on our exports of agricultural products. The median level of tariff of agriculture by the developed world is 62%, which means that there is really no way for African farmers to compete. Then there are the strategic products for developed countries like cereals, for which the tariffs are even higher, because these are the products where the developed world consider that they need to produce in their countries and cannot afford to import. This should push us to think a little more on agricultural policy and the need to actually make sure that it takes care of the production of at least those products which are necessary for ensuring food security. 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.

Thus, we can see the effect of the agricultural policies of the developed world on African agriculture. So, for African countries, there are two or three major challenges. One is to have better access to the developed world and the elimination of distorting subsidies. The other major issue within the context of these international trade negotiations is also to have some protection so as to have better conditions for ensuring their 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.

Critically, in the Doha Development Agenda, there are some commitments from the developed world to substantially increase their market access, and reduce their domestic support and export subsidies. The lack of consensus on these three major issues was behind the failure of Cancun WTO Ministerial.

In the paper, we tried to analyse three scenarios using econometric methods. One is through a little reduction of support given by developed countries to their agriculture, then there is a moderate scenario, and full liberalisation of agricultural markets. Our main results showed that substantial reduction of the support of OECD countries to their agricultural sectors would have a huge impact on African agriculture; this will increase GDP, increase exports, increase agricultural production, and also increase the investment in the agricultural sector. So, in conclusion, there is a need for real reforms in the international market conditions facing Africa agriculture, in order to increase the policy space available for African governments while formulating their national agricultural policies.

VIII:2. Discussion by Jayati Ghosh

There are several points of disagreement with the paper and I am particularly glad that the presenter did not stick with the paper during his presentation.

The basic points raised by the presentation are correct. These are that: external conditions are extremely crucial; that the problems of market access, high levels of domestic support and export subsidies remain issues for African agriculture. And thus, ensuring an increase in market access for their exports and allowing for some protection for African agricultural sectors are the two main challenges facing Africa.

In fact, I would emphasise the second and I would argue that in addition to the fact that subsidies extended to agriculture go predominantly to agribusiness and not necessarily to farmers (as discussed in the morning), that they have distorted world prices and do not reflect international costs and so on at all, they have operated against developing country agriculture everywhere. But, even a complete elimination of these subsidies will not lead to a perfect situation for agricultural exporters, in particular in Africa. It is worthy of noting that this was something that was recognised even during the Uruguay Round, which is that a complete elimination of subsidies will actually become a major issue for the food importing countries of Sub-Saharan Africa and that there are huge problems that would face "non-distorted" trade in African agriculture. So, the emphasis really has got be on the second one, which is what we have been discussing all along, which is what do we do in terms of dealing with this kind of international scenario.

All of us have some degree of cynicism about these models with simulation exercises that generate these wonderful results about so many gains and so many benefits, especially after our experience during the Uruguay Round where GTAP models predicted some 230 billion dollars of welfare gains, etc. It turns out that they had assumed away a whole lot of things, costless shift of resources from one sector to another, no change in prices, only change in tariffs, which was going to generate all these welfare gains, there is going to be full employment all the time, and so on. The model they have used presently is much better because most importantly, it accounts for unemployment, it allows for wasting labour resources and it allows for the role of preferential trade agreements, which are particularly important for African trade. But, despite this, there are a number of results of this model which are problematic. Everybody knows that the costs for trade facilitation are going to be very high for Africa. It is estimated to be around of one and a half percent of GDP. This model assumes it away. Further, the model gets positive effects for Non-Agricultural Market Access (NAMA). This result was completely stunning. One cannot understand what kind of assumptions generated this positive result.

But what is even more disturbing were the dynamic gains predicted that there are going to be dynamic gains over time. You will not get those dynamic gains unless you assume economies of scale. You are assuming away the dynamic losses of specialisation. There are those whole sets of models including the Krugman and Findley kind of models which show that if you get locked into a low value-added scenario or constant returns to scale, then you are actually losing over time. Any dynamic specification that uses the other kinds of closure where you essentially have a savings-led process, puts us fundamentally on the wrong track.

But, the greatest source of discomfort was the last set of conclusions in the paper that trade reforms are good because they are going to reduce uncertainty and that is going to give us an increase in capital inflows. It is further argued that capital inflows are going to bring in growth and it is going to be wonderful for Africa. On the contrary, the big problem in African development has been that assumption and if we get away from that, we can start talking about food security and sustainable development.

It is very important to note the World Bank estimates that Africa has in the last two decades lost three times more in trade losses than it has got in gross capital inflows- forget about net capital inflows. So, there is no doubt that getting locked into this kind of trade specialisation has been much more adverse for Africa than anything it has gained from international capital markets. Capital inflows are neither necessary, nor a panacea.

But, if we want to go in for the second option which was correctly emphasised by the presenter, you still have to negotiate it within this whole trade framework. There are a couple of things African economies will have to constantly bear in mind when they are dealing with negotiations. One is to absolutely insist on Special and Differential Treatment (S&DT), as also mentioned in the paper. The other is to make as much use of Sensitive Products as possible, which is still under negotiation. But, it is likely to be granted according to the July 31st package. You can have a whole range of protective measures for declared sensitive products. Thirdly, insist on the possibility of using variable tariffs and temporary quantitative restrictions whenever required. The latter have been used by countries like Vietnam and they are still available under the WTO regime.

Fundamentally, within Africa, there has to be much less focus on selling to the developed world as the only route. There have to be improved trade links within the region and across the South through preferential trade agreements and better transport and bilateral agreements etc. This is important because waiting for the developed countries to reduce their subsidies and improve their market access. We will have to generate our own trade expansion increasingly. And within all that, the primary focus has to be your domestic food security.

VIII:3. Discussion from the floor

Jomo K.S.

There are two issues that Utsa Patnaik had emphasised in her presentation on the first day, which are of extreme relevance in the context of Hakim's presentation. Firstly, the prices of several primary commodities have continued to decline steadily after the great decline of the 1980s. 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 Luisian labour supply curve. But, whatever the assumptions, there has been a decided decline in prices of several primary commodities and that is why the GTAP model and the assumptions underlying the present exercise are very suspect.

The great hope suggested in the summary of the paper belongs to the school which says that the problem with Africa is that you have not liberalised enough; if you have full liberalisation, you will have all the intended beneficiary effects. The presentation of course did not seem to intend this. But, the paper definitely is liable to be used in this fashion. And given the politics of international trade negotiations, this is an extremely problematic stand to be taken by the ECA. Indeed, the relevant authority here, the ECLAC has emphasised the problems with primary commodities generally. But, I would emphasise the Luisian observation here that tropical commodities have been particularly adversely affected than temperate commodities. This is very important for equatorial and tropical Africa rather than for South Africa or highland East Africa where you might have different crops. But, the possibility of immiserising growth which even such ardent promoters of trade liberalisation as Jadgish Bhagwati have mentioned about, is a very real phenomenon as far as developing countries are concerned. This happens when your prices declines outweigh of your output productivity increases.

The second important issue is where do we go from here and Jayati has identified a number of possible areas. I wrote a paper looking at South East Asian experiences where selective interventions have been extremely important in: one, agricultural expansion; and two, in agricultural processing. Without those selective government interventions, their growth dynamism would simply not have happened. The Malaysian Palm Oil refining case is a useful example. Malaysia was producing palm oil, which is actually a West African crop, for quite a number of years. With the decline in rubber production, there has been an increase in the shift to palm oil production. But, at that time the major export market was perceived to be Europe, but its tariff structure was such that it had a higher tariff on processed palm oil rather than for crude palm oil imports. So, Malaysia was at the time, like many other countries, exporting crude palm oil. The government in the mid-1970s introduced an export tariff on the export of crude, which gave a tremendous incentive – you can call it a rent- which induced plantation interests to invest in refining. And Malaysia became, within a space of 10 years, the most efficient palm oil refiner in the world. Part of the reason was that unlike European vegetable oil refineries that switch between different types of oil, such as rapeseed oil, mustard oil, etc., Malaysian refineries were highly specialised and there were economies of scale and scope which were also very important. Next thing was that while producing refined palm oil Malaysia found that the markets were being closed. They couldn't penetrate the European market and there was a huge campaign against vegetable oils other than soybeans in the US. While the private sector players would not do anything in the situation because of the so-called 'free-rider' problems, the government intervened and negotiated markets with

India, then Russia, with Pakistan, recently with China. So, you have huge markets for refined palm oil now.

This experience clearly shows the importance of government interventions in two contexts: One, in making it worthwhile to invest in refining capacities and two, in helping to find new market was extremely important. It is not understandable why this is something the West African governments could not have done in the case of oil refining. It does not require great technical skills; a lot of learning for refining is learning-by-doing and so on. So, what I am suggesting is that the unintended consequences of such a paper is perhaps to promote a vision of something which is simply unattainable; and to make them believe that agricultural trade liberalisation will lead Africa to some kind of heaven. Further, there is also a complete disregarding of the possibility of developing a manufacturing sector with sufficient linkages to the primary sector so as to generate adequate economies of scale.

Carlos Oya

I have serious problems with your first challenge. First of all, do we actually know the real politics behind the OECD subsidies and behind OECD agricultural policies? Do we know what kind of policies they are trying to obtain? If not, then we are living in some kind of a fantasy. The experience with Europe in the last few years has been 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 will be implemented. So, the question is whether we are simulating on the basis of fantasies, or are we trying to provide some realistic policy options to the African governments? For the medium-term scenario, let us assume that there is going to be some phasing out of subsidies in the EU, US and Japan. What do African governments do in the mean time? They have to do something in the meantime. But, that something may to be consistent with what is being negotiated in the agreements under the WTO.

Secondly, I would agree with Jomo that this paper can be interpreted in the manner agricultural trade liberalisation has some kind of net welfare gains overall. That is missing the point. Do we actually know how the markets for different commodities operate? How are the prices for oranges determined, by whom? It is not by a simulation model that looks at supply and demand in the world. The degree of speculation and expectations of agents and what happens in the Chicago stock exchange are important. There is some information about some factors that underpin the prices, but we do not really understand the dynamics. My point is what I was trying to make in my presentation. From the long-term perspective, it is true that there is a secular decline in some primary commodity prices. But, what is of even more concern are the fluctuations or the volatility of prices to which countries will be exposed in a free market context. This has to be addressed in any trade negotiation.

The other point is on the scope for regional integration. 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, if you look at the case of Southern Africa, 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 SADC (Southern African Development Community) protocol in the short-to-medium-term will probably mean wiping out a large section of the manufacturing sector related to agricultural produce. 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. And so, if the countries do not have enough policy space to decide for example, on a particular tariff or non-tariff barrier against South African imports, we are then left with the question of how we are going to ensure the shift in a particular development strategy from Ricardian to Kaldorian strategies.

Mamadou Dansokho (Assistant Professor, Univ. of Cheikh Anta Diop, Dakar, Senegal)

The first question is about the elasticity of substitution, which is infinite in this model. This means that everything you produce, you can sell in the world market. It is very important to understand the implications if we modify this assumption to finite elasticity. Secondly, the results of this paper are in contradiction with the kind of studies which tried to see the consequences of trade liberalisation.

Charles Ombuki

Given the constraints that agriculture and African agriculture in particular face in international trade, I wonder if there is nothing we can do apart from beg our developed colleagues to help us in trying to have a level playing field. The situation now is that our access to their markets is becoming more important than our own markets. So, given that we have realised that we are working within such an unfair agreement, what stops us from making our own markets inaccessible to them, rather than begging them to open up their markets or reduce their subsidies? Why do not we just tell them that since you are protecting your farmers, we have a moral right to protect our farmers and do it? Also, I support Jayati Ghosh's argument about the need to develop more trade links among ourselves. In fact, we also need to define our own concept of quality and quality control, since we do not attain the same technological advancement. Developing our own systems of quality control will also help us to increase the trade links amongst ourselves. But, all these need strong political will, but we have not done anything.

Zenebewerke Tadesse (Managing Editor, Africa Review of Books, Addis Ababa)

I really appreciated the point made by Jayati and Jomo that we should not be looking at impossible scenarios. But, I think in the end Hakim's presentation at least did agree with the main points made by Carlos Oya that we need state intervention. But, Samir Amin always says that we should not ask them to not subsidise their farmers; but we should subsidise our own. They should let us subsidise our farmers. 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.

I also want to ask Hakim about what is really new about Doha about the dynamics of trade liberalisation rather than the scenarios of further trade liberalization. You mentioned that some of the

African countries are involved in new rounds of negotiations. But, if they let us access their markets, what are we going to sell in any case given the scenario of declining prices? So, what is the new dynamics around Doha, around developing countries trying to build up new kinds of alliances? This whole issue of looking for new markets is the most dynamic thing I heard this morning. But, this regional integration idea that has become the mantra of the continent, if we start selling similar products to each other which we all seem to produce, it will create another set of problems; so what are its implications? We need some new thinking about what are some new products and markets.

Chukwuma Agu

What is the kind of tariffs that you use- open, weighted or implicit tariffs? The other point is that we can use this paper to make the point. The challenges listed in the paper are not the challenges that are of concern to us. The central challenge is how the African governments could regain control over their agricultural development strategies and open up other markets and not just beg OCED countries to open up their markets.

Julius Kiiza (Lecturer, Makerere University, Kampala, Uganda)

The shift in trade negotiations from multilateral arrangements to bilateral agreements appears to be driven by the power politics of the bigger players- the international political economy. Specifically, it does seem that the AGOA- the African Growth and Opportunity Act – does not work for the furtherance of the interests of weak African economies like Uganda. In the case of Uganda, AGOA has led to the dependence on imported readymade manufactured textiles from abroad- so, all we do is to import, cut and tailor, so the labour is added in the process and the textile products are exported to the US market. So, it does seem that AGOA does not promote sufficient linkages between textile manufacturing and the local agricultural sector.

But, more importantly, AGOA is actively being used by the US to further its own political interests. In the Cancun negotiations, the trade minister from Mauritius resisted and what happened? The US trade representative telephoned the Mauritius Prime Minister and said, 'your minister is not behaving properly to support America's position and so I'm sorry we have to reconsider our position in the case of AGOA'. In the case of Uganda, the President has behaved like a little child. He has endorsed a law which exonerates prosecution of American soldiers for human rights commissions outside the US. He has signed a law which says that America may invade any country when the country interferes with its own interests. This is very dishonourable to my country. We were the few members of the 'Coalition of the Coerced' and the US was making a lot of political capital out of it. So, the question is about the feasibility of multilateral and bilateral trade arrangements in situations where domestic political and bureaucratic elites have been captured by the US-led economic imperialism.

Gebrew Mersha (Professor, Addis Ababa University)

The US agriculture sector which was dominated by the legendary family farms had been subsidised for centuries, not only for years, in fact from the very inception of these family farms. European Union agriculture sectors have also been subsidised for centuries, but the subsidies were intensified after the Second World War. That shows how pervasive has been state intervention in each of these countries, while we are told that we should not intervene in our agricultural sectors.

Our appeal to the developed markets to reduce their subsidies and increase market access to our agricultural products has been reduced to a moral question. But, whose morality are we talking about? Are we appealing to the morality of the multinational corporations in the agribusiness, who wants to destroy the 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. So, it does not work if we are appealing to the morality of such corporations whose morality is totally at issue here.

Praveen Jha

Paul Baruch had a paper on the cost of cultivation that showed that how for a whole lot of things that appear in the trade basket, the gap between the developed and developing countries has been narrowing and for many crops, probably developed countries now have a lower cost of cultivation, excluding subsidies. I got somewhat sceptical about it, but it may not be totally off the mark. The way world agricultural production processes are getting transformed gradually with the component of labour cost becoming smaller and smaller, we have a whole lot of segments of the production chain being controlled by them. This is something which is yet another issue why the presumed gains from trade are likely to become even more difficult to attain.

VIII:4. Response by Hakim Ben Hammouda

The problem has been the title of the paper. The main issue discussed in the paper is not trade liberalisation for Africa, but about dismantling the support of the OECD countries to their farmers. We have never said that Africa need to liberalise. The main purpose of the paper was to see the impact of removing all the support given by the OECD countries on Africa. The authors do not believe that African agriculture is going to benefit from trade liberalisation. However, the comments from the floor may be an incentive for us to consider a change of title for the paper, because it in fact does not deal with African trade liberalisation. It deals more with the developed world than with the developing world, as one of the conditions to make sure that Africa could implement a pro-development strategy.

The points raised by Jayati Ghosh are noteworthy and indeed the work we are doing at the ECA currently is along those lines, specifically on S&DT, non-tariff barriers, and regional integration. We are also doing some impact studies on EPAs and the preliminary results show that as they are designed now, the EPAs will strengthen North-South relations and as such go against the very idea of RTAs.

I would like to send out an appeal to IDEAs, CODESRIA and EEA, to think about the methodological issues. While we have been putting more emphasis on the qualitative analysis, we need to think about the analytical tradition in the quantitative work to give more relevance to our analytical work. IDEAs probably is the best place where we can work on as to how to improve the methodological aspects. I do understand the weaknesses of the GTAP model.

On the Doha Agenda, whatever impact studies we have done show that Africa is going to have very little beneficial impact, if anything at all. We think it is a good time now for us to go beyond the Doha Agenda and ask for more political commitment from the developed world for Africa's development. In fact, some of the ideas we are trying to develop now is to say: Since the mid-1980s, the whole reform of international trade has been based on full reciprocity and the idea we are trying to promote at the ECA now is to get out of this full reciprocity and to give the necessary policy space to African governments to design and to implement their national policy.

IX:1. Summary of the Presentation on '*African Development Governance, South African Sub-imperialism and NEPAD*' by:

Patrick Bond (Director, Centre for Civil Society, University of Kwazulu-Natal, South Africa)

The paper focuses on the New Partnership for African Development (NEPAD) within the context of global apartheid and worsening global inequalities in the context of an economic slowdown. The central issue is of understanding whether there are any new alliances, power relations or strategies in the particular context of NEPAD to reduce or even abolish the global apartheid. Is NEPAD part of the solution or part of the problem? The paper also raised the question whether the strategies being suggested by the social movements in the African Social Forum like de-globalisation and de-commodification, are realisable economic strategies?

It is argued that Thabo Mbeki and George Bush do walk hand-in-hand and NEPAD is home-grown Washington Consensus. NEPAD's fundamental drawbacks are that: neo-liberal economic policy framework is still at the heart of the plan; African people played no role in the conception, design and formulation of NEPAD; the social and economic measures that marginalise women are still implicit; in spite of claiming African origins, NEPAD's targets are foreign donors; its vision of democracy is defined by the need for creating a functional market; and it underemphasises the external constraints that are fundamental to Africa's crisis and indeed further locks African economies disadvantageously into this environment.

IX:2. Discussion by Sam Moyo

I agree with the paper's overall critique of NEPAD. It was a critique at three levels, the first of which was its suggestion of an economic strategy. Secondly, much of the paper was devoted to the sub-imperial use of NEPAD and the role of South Africa and the third argument revolved around the political role of NEPAD and the confusion over governance issues, with a rather heavy emphasis on Zimbabwe. The fourth point was about alternatives and the role that social movements will play in this. There was a good overview of the elite transition that South Africa experiences.

However, there is a serious methodological problem with the paper. For somebody who has done a good amount of work on the logic of capital accumulation with a fair amount of class analysis, the striking weakness of the present paper is a narrow rendition, with the agency reduced to Thabo Mbeki. The kind of biographic discussion put forth by the paper completely submerges an analysis of the structural issues and the broader external-internal relations of the African economies, South African economy, the Zimbabwean problem etc. The structural political conditions which define the elite transition need to be included, also in order to assess whether the intended sub-imperial project which the paper critiques and the so-called aspiration of the South African nation to become an aspirant bourgeois state and whether the configuration of classes and the nature of capital in South Africa can in fact sustain that project. South African capital itself has relocated since 1990. So, it is crucial to understand the type of trade relations and the nature of capital in South Africa, the class dynamics and the type of struggles there that may in fact make this projection of a sub-imperial South Africa a bit pedestrian.

One of the big problems with respect to the focus on Zimbabwe is that on the one hand, while rejecting NEPAD, the paper expects South Africa to play the sub-imperial role at the political level. It expects that South Africa should play a disciplinary role in Zimbabwe, (the Zimbabwean debate in South Africa being the national debate) in a rather uncritical way in support of liberal democratic movement that is not asking for any fundamental reform or resistance to imperialism, except for slight changes recently in acknowledging the external/global sources of the Zimbabwean problem. It is a bit of a populist NGO kind of analysis. We have to think about what kind of civil society activism we are promoting. While there are indeed complicated questions in Zimbabwe related to governance and human rights, it is unfortunate that the paper misses the important structural and social transformations that are happening and the potential for creating an alternative from this transition.

IX:3. Discussion from the floor

Ben Turok

Sub-imperialism means that the South African regime is acting as a surrogate for Western imperialism on the continent of Africa. But, according to him, the notion put forward by the paper that NEPAD is some kind of a western conspiracy imposed on Mbeki and Africa ignores the fact that we are living in a period of massive compromises of policy and there is an international conjecture in which all these things are happening.

Julius Kiiza

The fundamental question we need to grapple with is whose interests do Mbeki's agenda and NEPAD in general serve? The concrete realities in most African countries suggest that we need an economic and political agenda which is substantially different from NEPAD's direction. While South Africa might need some opening up because at 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. Further, we also need to understand the socio-economical forces that underpin Thabo Mbeki's agenda, which is much more complicated than just condemning him.

Mohammed Muttaka Usman

The problem before Africa is to understand how democracy will work in the continent and how to evolve that democracy which will serve the interest of the people rather than that of the neoliberal agenda.

Chukwuma Agu

What credible alternatives do we have to NEPAD?

Francis Wilson

We need more focus on the ambiguity and uneasiness with which the other African countries look at South African leadership. Again, the kind of issues like how the SADC protocol is very good for South African producers and SA traders, but how it wipes out Zambian manufacturing sector, have to be dealt with in thinking through these issues.

Jayati Ghosh

Imperialism is a systemic feature of world capitalism, which is essentially a struggle of large capital over markets resources and it has historically always incorporates local elites. That is the nature of it and so it is not the South African situation is not anything new. Also disagreed with the presentation of the world economy today as reflecting over accumulation; it is rather an unemployment equilibrium created by the deflationary effects of international finance. In fact, the date provided in the paper points of under consumption and so it cannot be a situation of over accumulation, rather there is deflation. In the deflationary impact created by the movement of finance, the struggle for markets becomes much more intense and it is to be expected that this struggle will get reflected internationally, regionally, within regions, within nations, etc. So, the question was raised whether there was a need to distinguish sub-imperialism, as it was part of the imperialist process which has been there always.

When you describe the nation state in South Africa as being the sub-imperialist representation of the interests of large capital, it may be true. We have all grown up talking about the class character of state and debating whether they are comprador, or national bourgeoisies etc. What we have to recognise is that clearly nation states are arenas of contestation; all of them, even the most undemocratic ones, need legitimisation which requires some susceptibility to local pressure and that they remain absolute critical elements of our struggle against imperialism. When we address all our flak to all our local nation states, we are throwing out our baby with the bath water. They are in fact the source of the possibility of a struggle against imperialism and therefore we have to address the possibility of changing the policies of that nation state. There is an element of greater hope however bad a present situation may appear to be, and the struggle against imperialism has to be within the contours of that nation state.

Jomo K.S.

As we understand, there is an ongoing debate about the contemporary understanding of sub-imperialism and there is the problem of regional hegemony. There is a problem in the analysis of sub-imperialism in that in popular discussion, it is often the political rather than the economic that dominates the analysis. But, our present focus should be in understanding economic processes. All of us agree that there has been a significant expansion of the South African capital into the rest of Africa. Our focus should be in understanding the relationship between the South African government's public policies and that expansion of capital. So, the paper lacks in making a serious analysis of this kind to make the case for South African sub-imperialism. But, politically also there are problems. We are not living in this black-and-white world; we are dealing with lots of shades of grey. It is not as if Thabo Mbeki simply follows George Bush's wishes in tandem. The relationships between states are much more complex. And so, since you concede at the outset of the paper that the MBC is quite neo-liberal in its economic policies, why do you expect it to be a progressive force? One could see that it is quite a liberal force consistent with the European way of being consistent- politically liberal in terms of asking for democracy, etc. and economically quite liberal as well. It is wishful thinking to consider them as suddenly progressive, just because they are the main opposition in a particular context.

Well-intentioned liberal funders of NGOs also have their agendas. That's why we find that it is easier to obtain funding for AIDS issues than to fund Malaria, or to work on a whole range of other tropical diseases, for instance. We should guard against considering internationally-oriented NGOs as against strong mass-based local NGOs as the embodiment of civil society.

Jomo opined that de-linking Samir Amin's style was not serious economic strategy and we have to recognise that there are problems with what is summed as dependency. But, de-linking is not a serious option given our histories and de-globalisation is also not a serious option. We have to recognise that while we are nationalists in our political formation and hopefully in our economic strategies, we have to have serious viable alternative strategies which go beyond simplistic formulations of de-globalisation. We are also internationalists. Next year is the anniversary of Bandung which was a statement of a different kind of internationalism; Ethiopia was the only Sub-Saharan African country to be involved in this. 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.

Praveen Jha

The presentation was exceedingly simplistic in understanding the dynamics of accumulation on the global scale, because it is a bit similar to the old kind of dependency theory which has been shown to be shaky on various grounds. How does one fit in the emergence of China in this kind of metropolitan-periphery kind of framework?

Ben Turok

The government's position on the consequences and the dynamics of South African business and parastatals' penetration into Africa is a little ambiguous. On the one hand, it is watching business very carefully to ensure that the practices have some integrity in terms of avoiding corruption and providing the actual services but, on the other hand, within the NEPAD structures and the African Union, there is no doubt that the Africa welcomes South African capital and business enterprises. He suggested that IDEAs organise a debate on this crucial question.

IX:3. Response by Patrick Bond

Attempts to reform the global is not getting anywhere and so the strategies of de-linking and de-globalisation have become open options. We are winning concrete victories against the pharmaceutical corporations to get the AIDS medicines out here or to de-fund the World Bank that is really working very well, and these are manifestations of a strategy of de-linking as Samir Amin and Walden Bello have called for- closing down the institutions, not legitimising them.

On keeping intact nation states, he agreed with Jayati Ghosh that it was indeed important to follow through with these formulations and keep together the nation state as the main bulwark against imperialism.

On the theoretical aspect, he said that he has used the idea of uneven development in his paper as a solution to the problems of dependency theory. Indeed, there is a revival of the work of Rosa Luxembourg combining capitalism and non-capitalism, David Harvey for example is using that. There is a lot of theoretical richness in going back to an anti-imperialist project. Yes, we need alternatives and it up to us economists and political economists to work with social movements towards developing those alternatives. But, one major point to stress is that it is important to identify who your friends are and who your enemies are. And my position is that when Thabo Mbeki is putting NEPAD on the agenda, he's doing it in a top-down way in the interests of Johannesburg capital, and by extension London capital, he's doing so to police the chains of global apartheid, not to break them and it is really up to us whether to join him in that project or find social forces intend on social justice.

Session IV- Financial Liberalisation and Agriculture

02:00 pm-05:00 pm, Saturday, 18th December, 2004.

<u>Chair: Jomo K. S.</u>

X:1. Presentation *on 'Agricultural Sector Credit and Structural Adjustment: Uganda's Experience under SAPs 1990/91–1996/97; and Beyond into Poverty Reduction 1999/00 – 2003/04'* by*:*

Germina Ssemogerere (Professor, Makerere University, Kampala, Uganda)

Under the current factor commodity and prices on the open market, credit for agriculture is not profitable in Uganda. How will we ensure lending to a sector that is not currently profitable? Almost 70% of the farmers are small-holders, while the people who use credit are in the estate sector which is at most 10%.

The policy episodes are divided into two phases- 1991-92 and 1997-98. There was no specific policy directing credit to agriculture. But, there was liberalization of exchange rates, interest rates, producer prices to farmers for export crops, etc. The underlying assumption was that agriculture would become sufficiently profitable to compete in the open market to compete for credit with the other sectors. That couldn't 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. For example, many communal farmers do not have title to land and therefore no collateral. Many farms are scattered and therefore no incentive to service them by private sector-led commercial banks. Most of the loans were also short-term. There is no estimate as a result which gives an idea of how much credit went to the agriculture sector during this first phase of structural adjustment.

The second episode addressed the key problems in the financial sector- imprudent lending, near bankruptcy of several financial banks, very high NPAs, etc. Those problems were addressed and today we have a stronger financial sector which is prudentially supervised and commands considerably more confidence than the previous one. Still, a number of things still prevent the flow of credit to the agricultural sector from this reformed financial sector. Firstly, banks have become even more risk-averse. And since agriculture inherently is more risky than other sectors (price fluctuations, weather problems, pests and diseases, etc.), the stronger financial sector is even less willing to lend to agriculture. It is not even lending to the economy as a whole very much, because loans-to-deposits ratio is only around 25-35% which is quite low.

Secondly, interest rates did not go down sufficiently for a marginally profitable sector, which was arising from the macroeconomic problems of managing large inflows of foreign aid. The large inflows led to currency appreciation as the government had to sell some of it in the open market. Currency appreciation led to an implicit tax on agricultural exporters and made it less profitable. On the other option, the government was selling treasury bills and the banks preferred to invest in these less risky instruments. Again, a lot of Ugandan agriculture is food for own consumption. The financial sector on the ground has been quite thin and even more so in the rural areas, as it serves mostly urban and semi-urban areas.

The combined effect of all those is that agriculture has got crowded out. The 10% share of agriculture in commercial credit is mostly short-term and essentially for crop finance. The policymakers are aware that agriculture, which is one-third of the economy, is not receiving credit. The kind of credit that is needed by agriculture is summarised in the paper. The credit that is going to agriculture currently is largely crop finance, which is only a small proportion of their credit needs. So, the policymakers started advocating microfinance, on the argument that it will have an advantage over commercial banks a sit will spread out to rural areas at much lower costs than commercial banks as you could adopt it better to service scattered areas, use the group method to sort out the creditworthy borrowers and also to monitor the loans. There was an overall framework of the plan for modernisation of agriculture within which the government pressed the MFIs to extend credit to agriculture. But, again, the cost of MFI loans to agriculture was expensive; other key constraints such as the very low profitability of agriculture which made it incapable of servicing the loans at such high rates, and so on. Some of the credit being extended is to select a stream of enterprises and you lend to the farmer against these rural enterprises and hope that some of the profits from those will go into agriculture. Perhaps now some of these is beginning to flow into agriculture. Some women are taking out loans and many of them are engaged in agriculture; but that is not helping out as they are taking out extremely small loans.

Inn conclusion, both the regimes and the structural adjustment have not helped agriculture to access the kind of credit that is required to help the sector play its role in economic development. In terms of recommendations, there may be a need to increase the credit extended to all enterprises in the rural sector and hope that this will also help the farmers. But, there is the crucial issue of raising the profitability of agriculture so that it can grow. We also have to understand what interventions are optimal in a liberalised economy in order to address the specific constraints that prevent credit flow to the agriculture sector.

XI:1. Presentation on '*A Review of the Performance of Agricultural Finance in Ethiopia: Pre- and Post-Reform Periods*' by:

Assefa Admassie (Director, EEA/EEPRI)**.**

This is an attempt to share my observations of the experience of agricultural finance in Ethiopia both before and after financial liberalisation. Financial elements are critical in the whole agrarian question as shortage of financial resources is 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. Commercial banks associate lending to small farmers with high transaction costs. Moreover, farmers also lack the generally defined collaterals and management skills which are often required by financial institutions. All these together have the consequence that farmers, particularly, small farmers lack the capital or financial resources. Ethiopia is by any measure, an agrarian economy and within the agricultural sector, small subsistence farmers dominate. In order to raise agricultural productivity and break the cycle of poverty with which Ethiopian history is associated with, it is essential to inject financial resources into the agrarian economy.

Before the economic reforms, there were two regimes: the imperial regime until 1974 and the Derg regime from 1974 to 1991. During both the periods, several financial institutions were created and there have been changes in their organisation structure, ownership pattern, management style, etc. Banking and financial sector history is very old in Ethiopia with the State Bank of Ethiopia created in 1942. Until 1963 when it was split into the National Bank and the Commercial Bank, the State Bank used to serve both as the Central bank and as a commercial bank.

In the rural sector, the first bank that was created was the Agricultural Bank of Ethiopia which was established n 1943. Between 1951 and 1974, Ethiopia had series of experiments with five year plans. The importance of the agricultural sector in the different five year plans in terms of the proportion of allocated resources in respective Plans. For instance, in the second five year plan, 50% of total bank credit was to be allocated to both subsistence and large-scale mechanised farmers. Subsistence agriculture was supposed to be transformed into viable and dynamic farming systems through the introduction of advanced inputs etc. along with better prices, tax policies, land reforms, etc. Credit for farm tools and equipment were to be extended by the Development Bank of Ethiopia, and banks were also authorised to extend credit for commercial farms as well. However, an evaluation of the pre-five year development plans and the plans show that were not successful. First of all, access to the loans required high collateral, as high as 200% sometimes. There was diversion of loans to non-agricultural uses. The landlord-tenant relationship, communal farms, etc. made it very difficult to produce certificate of ownership during the imperial regime. For instance, the proportion of credit extended by the Development Bank of Ethiopia to the agricultural sector was only 42% of the total between 1951 and 1969. More interestingly, the small farmers received less than 10% of the credit that was provided to the agricultural sector. By 1961, the Development Bank of Ethiopia had to cease its existence in 1969. The Agricultural Industrial Development Bank, the successor to it did not do any better job. The policy of the bank in fact disqualified many subsistence farmers. It required farmers who lived far away from the main roads to give property collateral, it required farmers to sell their output to its subsidiary at fixed prices. The package programs that were instituted in the late-1960s and 70s also did not improve the situation.

During the Derg period, the financial institutions were nationalised and restructured. There were five public monopolies with private entry into the financial system banned. Each of the FIs was assigned specialised functions. Interest rates were fixed, the credit policy gave absolute priority to the social sector and the private sector was totally marginalised. More than 89% of the total loans provided by the aid bank went to state farms and agricultural cooperatives. The interest rate discriminated against the private sector- while individuals and private enterprises were charged 8%, state firms and cooperatives were charged only 6%. So, the outcome in terms of credit to small farms was disappointing in the Derg period, as in the period before.

The period after 1991 saw the onset of financial sector reforms, priority sector lending was removed, interest rates were liberalised, banks and FIs were restructured, domestic private FIs were allowed and treasury bills were introduced. Banks were no longer required to specialise and service certain sectors of the economy. With regard to rural finance, the lending approach followed is the two-tier approach, the regional governments take loans from FIs using their allocated budgets as collateral and re-lend to small farmers.

Despite some successes, financial reforms have not led to an improvement in the share of farmers in total credit, it is only marginal. The bulk of services provided to the small farmers originate from the informal sector and not from the banks. For instance, the share of agricultural sector in the total credit disbursed between 1992 and 1998 was only about 14-15%. All of the agricultural credit is of short-term in nature and hence cannot be considered to be of developmental in nature. Growth in agricultural credit has also been very dismal when compared to credit to other sectors.

So, financial institutions before the Derg period had some financial autonomy, but after nationalisation they lost their autonomy. During the Derg period, state enterprises and cooperatives were the major beneficiaries of the credit policy and private sector firms were discriminated against in credit allocation. So, the overall policy before the financial reforms was not favourable to the efficient and productive use of financial resources.

So, the financial reforms that started in 1992 had some improvement. New actors were there. The role of the public sector has been reduced. But, despite this, there have been some drawbacks. Financial facilities in rural areas are still scarce or limited. Small farmers are therefore unable to access formal agricultural credit. There is also lack of medium- and long-term credit facility in the rural areas. The main recommendation is to create robust rural financial institutions for improving the credit access for farmers.

XII:1. Presentation of V.K. Ramachandran and Madhura Swaminathan's paper on '*Financial liberalization and Rural Banking Policy: An Indian Case Study*' by:

V.K. Ramachandran (Professor, Indian Statistical Institute, Calcutta, India)

The paper is on rural banking in India and financial liberalisation since 1991. The post-1991 financial liberalisation undermined quite severely the formal system of institutional credit in rural India. It represented a explicit reversal of the policy of social and development banking put in place in the late 1960s and contributed in no small way to the kind of deprivation and distress that were described by Utsa Patnaik on the first day of this conference.

The whole question of rural indebtedness in India is very well known and despite great structural changes in credit institutions since Independence, the exploitation of the rural people in informal sector credit markets is very well known. There have been four major problems regarding rural credit in India: 1) The supply of formal sector credit to the countryside has been inadequate. Rural areas were never seen as a legitimate area of operation for commercial banks since 1970. 2) Rural credit markets in India themselves have been very fragmented and imperfect. 3) The distribution of formal sector credit has been unequal, particularly with respect to region and class, as well as caste and gender in the countryside. 4) The major source of credit for rural households, particularly income-poor working households, has been the informal sector and the latter is advanced at very high rates of interest. In the village where I work, the 'model' rate of interest is 120%, when the prime lending rate is 12%. Again, the terms and conditions attached to informal sector for loans in India has given rise to a very elaborate structure of coercion in the countryside. These problems considered fundamental to the rural credit have been recognised in India since the 19th century.

Coming to the modern rural banking history in India, it was in 1969, the 14 major scheduled commercial banks were nationalised. I divide the period from 1969 till now into three sub-periods. The first was the period immediately following the nationalisation of banks and the early period of the so-called Green Revolution to the early 1980s. This was basically an attempt by the State to mop up the new liquidity in the countryside. But, in doing so, they declared a policy of what is known as social and development banking whose objectives were to provide banking services in previously un- or under-banked rural areas, to provide substantial credit specific activities like agriculture, cottage industries and so on, and to aim credit at disadvantaged groups like women, oppressed castes and tribes and so on. The second period was from 1980 to 1991. This was a period of directed credit and of geographical and functional expansion of the banking network; we almost achieved the norm of one bank for every 15000 population. It was a period when the government gave up any reference to land reforms and anti-poverty policies consisted of two things: wage employment policies and self-employment programmes based on loan-cum-subsidy scheme called the Integrated Rural Development Programmes (IRDP). I call this second phase the IRDP phase. It is now well recognised among historians of banking in India that the spread of banking – in terms of geographical and functional reach and the establishment of new institutions of commercial rural banking- during this phase is unprecedented in the world.

Post-1991 is the last phase- the phase of financial liberalisation. In 1991, the then government appointed a commission called the Narasimham Committee – ironically, the same person who was responsible for setting up the regional rural banks in India in the 1970s became instrumental in reversing that policy as well! The Narasimham Committee explicitly said that "redistributive objectives should use the instrumentality of the fiscal rather than the credit system; that directed credit programmes should be phased out; that social and development banking was no longer to be the policy of the government of India; that capital adequacy norms should be changed; interest rates should be deregulated; that rural banks be based on an institutional structure that is market-driven and based on profitability".

But, the changes have been dramatic. 2400 banks have actually closed down in the phase of financial liberalization. Rural branches of commercial banks have closed down. There has been a decline in the absolute number of rural banks and also rural branches' share of commercial banks. The share of bank credit that went to rural areas fell in the 1990s. It also acts as an instrument for the Central government's power to undermine the power of various states. The credit-to-deposit ratio has fallen particularly in the most backward areas. For instance, in Jharkhand state, one of the most backward states, the credit-deposit ratio is rural branches is 19%. In West Bengal, the state with the highest growth rates for agriculture in the country, it has fallen into the 20s from about 26%.

Now, part of the process of social and development banking was to insist that all banks had to lend 40% of their loans to the priority sectors. This rose to over 40% by 1990, then plummeted in the 1990s. But, interestingly, it shows a slight rise at the end of the 1990s. This can be easily explained. The Reserve Bank of India (RBI) was asked by the World Bank to stop priority sector lending. But, since this is politically impossible to do this, priority sector was redefined. Now, venture capital in the countryside and agro-based industries are part of the priority sector. So, loan by a bank to Pepsi Cola or ConAgra now get classified under priority sector lending.

Agricultural credit not only declined, and the major decline was in the share of credit that went to marginal and small farmers. The share of formal sector credit among landless labourer households in the villages that were surveyed in different parts of India also declined. The exception that drove the rule is in a left-led cooperative in a peasant union dominated village. The cooperative takes care of the credit needs of the village. But, the general trend is that formal sector credit has plummeted. For bigger farmers, a larger portion comes from the formal sector.

Purposes of borrowing – In the Green Revolution phase, credit for productive purposes was about 24%, it rises to about 44% in the IRDP phase and plummets again to 23% in the liberalisation phase. There is some fungibility here. Nevertheless, the trends were clear.

So, financial liberalisation has had implications for the informalisation of the credit market, the weighted average rates of interest has skyrocketed in different parts of India because of the predominance of informal lending. The only alternative that has been offered is micro-credit, which has been put forth on the basis of arguments that microfinance organisations are better in repayments, and in lowering transaction costs. On both counts, a study on cross-country comparison of transaction costs of rural banks across countries in the world has shown both of these arguments to be bogus. At 8%, the lowest transactions costs for banks in the world were for the Indian commercial regional rural banks. So, that reasoning just does not hold. A second is that the non-performing assets of the major micro-finance institutions have been higher than even the priority sector loans of the major nationalised banks in India.

In conclusion, if financial liberalization had the effect of damaging the system of formal credit severely, our case studies show that changes in national banking policy have had a rapid, drastic and potentially disastrous effect on the debt portfolios of the income-poor. In general, as formal sector credit withdrew, the informal sector rushed in to occupy the space that it had vacated. Although it is clear that chronic indebtedness among the rural poor is a problem that cannot be solved by banking policy alone, and that the abolition of usury requires agrarian reform, a decisive change in banking policy is essential for the very survival of the working people in rural India.

XI:2. and XII:2. Discussion of the papers presented by Assefa Admassie and V.K. Ramachandran by Carlos Castel-Branco.

Both papers look at the impact of different financial regimes, with emphasis on financial liberalization, on the availability and cost of credit to small farmers. Ramachandran and Swaminathan's paper looks at two different types of credit – social credit, for consumption, and credit for working capital and investment – as well as at the impact of the different regimes on the type and coverage of rural banking institutions.

Both papers have shown that previous financial regimes had failed to address the credit needs of the small farmers, and that financial liberalization has not improved the situation and has made small farmers more dependent upon informal finance that tends to be more expensive and exploitative than formal finance. Thus, if anything, liberalization has made small farmers worse off with respect to access to formal credit.

Admassie's paper starts its review of the post-reform performance of agricultural finance by enthusiastically stating the case for financial liberalization on the grounds of the Shaw-McKinnon theory: financial deepening; increase in savings; and improvement in the quality of investment. However, the paper then does not follow up on any of these arguments to discuss the performance of agricultural finance. It limits itself to stating that small farmers have not benefited, but without linking this result with the theory of financial liberalization. Then, the paper argues that more complete liberalization of financial institutions is required, together with an adequate or favorable macroeconomic environment, to develop solid rural financial institutions. Quite apart from the fact that the meaning of "favorable macroeconomic environment" is not made clear, it is not clear, from the history of rural finance in Ethiopia, as it is told in the paper, how a solid rural financial system will ever be developed, let alone developed through liberalization helped by a general macroeconomic environment.

Ramachandran and Swaminathan's paper is very rich in detail, and I particularly liked its description of shifts in finance policy regime in relation to shifts in other policy regimes – such as, for example, the financial system that was introduced to address the needs of the *green revolution.* I also liked its critical description of microfinance and how its claims (lower transaction costs, accessibility to the poor, etc.) are proven wrong. I would like to invite Professor Ramachandran to come to Mozambique to share his critical experience of microfinance with us, because we face similar problems as described in his paper.

However, none of the papers develop a sound theoretical critique of the financial regimes of the past and of the liberalization phase, starting from the point of view of how finance, production and other broader economic and policy issues interact. This applies also to microfinance – what are the underlying postulates and assumptions behind the faith in microfinance, and why it fails (or does it fail?)? Thus, from the papers alone it is difficult to understand: why policy and institutional shifts have been made, both within and between financial regimes; the social, economical and political interests that underlined the shifts; why they failed to address the credit needs of small farmers; and, more importantly, why is that liberalization not only does not solve the problems, but makes them worse. It is also difficult to understand who and what may have benefited, or be benefiting, from such policy shifts. Small farmers may loose, but who gains and why? What is the actual dynamics of resource mobilization and allocation?

None of the papers clearly state the case for the performance of any rural financial regime being measured against how it deals with small peasants. Is social credit the solution for lack of access to education, health services, housing and for inter-generational indebtedness? Can small farmers, as they are, borrow their way out of poverty? Can they 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 labor relations be more important than rural credit to address poverty amongst small farmers? None of these questions can be adequately answered without a better understanding of the theoretical questions that underline them and of the particular historical and socio-economic conditions in India and Ethiopia. The papers would be stronger if they would explicitly make the case for small farmer credit, not on the grounds that small farmers are poor, but arguing how credit would make them richer (or less poor) rather than poor and indebted.

Finally, both papers could be improved by a more detailed and rigorous discussion of two related issues. One is the analysis of the policies of the past. We are often suggesting a return to some of such policies, but we do not know if they would work under present conditions; what sort of changes would be required (political, economic, social, institutional, etc) to revert to such policies; and what would the impact of such policy reversal be – would we arrive at the past or at the future? What would the social costs of such a turn be? Another aspect is the political conditions under which policies are made and changed – even if we can arrive at a better future by walking to the past, were would the political energy come from to make such a change in policy? And are the class and other political and economic conditions that shaped such policies in the past still present? Otherwise, how would they work and for whom?

X:2. Discussion of Germina Ssemogerere’s paper by Jomo K.S.

All three papers basically make the case which what all of us would expect- a deterioration and greater inequity in access to credit with increased financial liberalization. Germina’s paper should have discussed in detail how we need to understand different types of policy interventions mentioned towards the end of the paper. She distinguishes between permissive, functional and strategic interventions. In his opinion, the way functional interventions are defined, they are justified ostensibly because they address the so-called market failure problems. And on the other hand, strategic interventions are rejected by the neo-liberal school, because they ostensibly are not justified in terms of market failures as recognised by conventional economics. In fact, the latter go beyond that. But, we do find a great deal of evidence on developmental and equity grounds which support strategic interventions. It is a folly to think that markets are concerned with equity at all, they are not. So, equity really is a concern of political will.

This then raises the question of what kinds of states we have and what kinds of populisms we find presently. In the case of both Uganda and Ethiopia, it was seen that a regime which comes to power through armed struggle, capture of power, etc. then reinvents itself in a sense to become friends of the BWIs, while at the same time retaining some kind of populist appeal. It is not the simple straightforward neoliberalism which you find in a non-populist regime. In the case of India, we have the rejection of a government which had a certain populist rhetoric but was perhaps more neoliberal, in favour of a government which also has a certain populist rhetoric, but of a different kind. So, we need 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.

In a sense, the politics of credit is what needs to be looked at, which all the three papers hinted at, and the paper on India raised the issue more explicitly. In this context, it would be interesting to see how public policy or credit policy at the national level relates to popular initiatives to create credit- the peasant cooperative in the South Indian state of Kerala is very interesting and suggests a different way of approaching both developmental as well as egalitarian considerations from what we have in the micro-credit approach being touted by Washington. In fact, there are three specific claims made by the micro-credit advocates which need to be addressed. One is the issue of lower transactions cost which Ramachandran's point countered. People like Stiglitz argue that peer monitoring is a way of lowering transactions cost and this is a way of lowering the cost of credit. Another important argument is that of reach. In the case of Bangladesh, it has been argued that there is evidence that it has been the poorest segments which have been reached most effectively through micro-credit and there have been certain experiments in parts of India too where there has been similar success. But this has not been the general case and so it is important to examine why such exceptional cases have had that kind of performance. The third aspect which needs to examined critically is the gender argument that micro-credit has often reached women more effectively than other kinds of credit. According to him, it needs to be explored if this indeed has been the case or whether there has simply been a shifting of the debt burden from men to women, which is not particularly empowering.

A more general point is about the arguments that are being put forth in favour of financial liberalisation. Financial liberalization has been clearly seen to have adverse macroeconomic deflationary consequences and also as undermining the possibility of putting in place developmental financial sector policies. In addition, the original analytical case for financial liberalisation turns 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. 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, what we find is that while they indeed had relatively low interest rates, the savings rates showed an increasing trend, which was following the growth rate and the investment rates that were required. The savings rates follow growth and investment, rather than the other way around as is generally argued. The developmental and egalitarian consequences of government interventions were particularly important in bringing about relatively egalitarian distributional outcomes, especially in Taiwan.

In conclusion, the three papers have provided strong support for many of the arguments that have been made in the sessions during the conference on the consequences of liberalisation. In particular, they brought out the anti-developmental and in-egalitarian consequences of financial liberalisation.

Jomo then invited Terry McKinley from the UNDP who has done important work on the Indonesian financial sector to make some comments.

XII:3. Combined discussion from the floor in the finance session

Terry McKinley

We have done very similar work to that has been presented by the papers through about 20 country studies on economic policies and poverty reduction. Almost all of them looked at the impact of financial liberalisation on growth and poverty reduction. The general conclusions are fairly familiar in that financial liberalisation led to less equitable access to credit than that was before, especially in the rural areas. So, 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. Another question that should be of concern is the whole question of mobilising domestic resources. Is it the case that in Africa the incomes are so low that as some people argue we will be able to raise the savings rate only if we are able to raise the growth rates? In the midst of the Millennium Development Goal Campaign with its emphasis on injecting more development assistance, Terry McKinley raised concern about how we will mobilise more resources. He revisited and supported the argument made by Juan Carlos Moreno on the first day about the problem with falling taxation revenues. In the case of domestic saving mobilisation, it has to be the financial institutions which have to do this. They certainly are not doing this, and certainly not in the rural areas. I think the problem is that while we are very good on the analysis and relatively good on the criticism of financial liberalisation, and we recognise that micro-credit is sort of donor-inspired and really does not solve the general problem of rural banking, we are really thin in terms of a policy agenda. Are we going back to development banking or are we in favour of social policy lending? What are our policy options post-liberalization, post-micro-finance policy agenda? By this time, we should be coming up with some recommendations and thrashing out their viability.

Onyukwu Onyukwu (Lecturer, University of Nigeria, Enugu)

Unlike what Carlos suggested, while recognising the poverty reduction and wider developmental purpose of extending subsidised credit to rural agriculturists and small sectors by trying to rechannel the efforts to other more profitable sectors, is it not possible to also make these forms of enterprises more profitable, going beyond the argument on increasing their access to finance?

Charles Ombuki

The purpose of extending credit to smallholders need to examined in depth, in the context of credit diversion by smallholders to alternative uses away from the farms. While doing empirical survey of Kenyan villages at more than one point of time in 1995 and 2003 personally, it was observed that despite the fact credit extended to farmers have reduced particularly in the reform era, the proportion of credit diversion away from farm has also been increasing in the reform era relative to the pre-reform era. The reasons are obvious that since the farmers are more constrained in the reform era financially, and so they use the money for other personal uses. Examples in Kenya included the payment of schools fees, medical expenses, construction of houses, etc. Once such credit diversion takes place, it obviously does not achieve the goal of productivity enhancement on the farm. So, what has been the experience regarding credit diversion in the countries discussed? Also, has Reserve Bank of India's Kissan Credit Scheme improved the credit access for the credit needy farmers in anyway?

Fanny Nthakomwa (Canadian International Development Agency, Lilongwe, Malawi)**.**

One of the reasons for lack of access to credit by farmers in Malawi was the lack of collateral. This problem is aggravated by the lack of recognising the importance of land as collateral. To have a title deed on your land, Malawians have to go through a lot of procedures and which acts as a disincentive for people to have title deeds. But, if they legalised the use of land as collateral, so that farmers can have access to credit. On the issue of the riskiness of agricultural investments, the significance of state's role in offering an incentive to banks and micro finance institutions in terms of state guarantee for their lending to farmers need to be stressed. There was also a lack of credit culture among the Malawian farmer borrowers. Since it has often been the case that political interference in state-run banks led to writing off of bad loans, it eventually has led to the situation that farmers consider state loans as handouts and do not repay their loans. This in turn had acted as a disincentive to the lenders to extend credit to farmers. Also, the fact that there is no identification system in Malawi because of which it becomes difficult for the banks to follow up on their borrowers, also acts as a disincentive.

Horacio Zandamela (Consultant, WITS, South Africa)**.**

There was no discussion on the linkages between the different sectors of the rural economy. While the focus on peasants is important, unless you can explore the linkages between the former and the other sectors of the economy, we will not be able to solve the problem by just extending credit to the farmers.

Francis Wilson

In India, informal credit being charged at 120% implies that the poorer you are the more you pay. It would be useful to distinguish between credit for production and credit for consumption. Secondly, coming back to the micro-credit experiences in India, the Self-Employed Women's Association (SEWA) of Ahmedabad was able to give credit cheaply to very poor people and it was always repaid. So, is there a way to replicate those successful experiences? Ramachandran responded that repayment has been a real problem for SEWA as according to his data its NPAs were higher than that of the banks.

Elibariki Msuya

Is there an informal sector in Uganda? Do the farmers really need credit and what kind of credit do they need? Also, what role can be played by contract farming say in terms of cooperatives or private investors, in solving the problem of access to credit?

Juan Carlos Moreno

Micro credit can never be a substitute for economic strategy. There is this argument that Haiti is poor because the poor do not have any property rights; as soon as you measure their assets, they have all these assets and are rich, though they do not know that they are rich! But, are there are any other countries where this is legalised because I really do not think that it is going to make a difference as especially in the rural areas, people cultivate the same commodities and so they face the same risk.

Also, one needs to be careful in using the term populist policies, as mainstream economists tend to talk of populism as soon as there is a fiscal deficit which is slightly above zero. Any type of policies by which the government wants to change market prices and incentives and create new advantages may be viewed by some one else as populist. So, how would one define populism in the politically correct way?

X:4. Response by Germina Ssemogerere

Really, it is not credit per se that is the problem, but whether credit can be extended to those enterprises that are potentially profitable. So, while the provision of credit is important, there is a broader question we need to address in terms of how to improve the productivity of agriculture. In terms of credit provision to Uganda's informal sector, while it is good to extend credit to the informal sector operators who are either upgrading themselves to move into the formal sector or can engage in productive activity in the informal sector itself since it will make them more competitive, it is not a good idea to extend credit to those kind of informal sector operators who are there because they cannot go any where else. There is a need to promote rural agricultural institutions in order to make the rural credit market more organised and legally accountable in terms of loan recovery by lenders. She referred especially to cooperatives which will also be in a position to bargain for longer-term credit from the lenders at better terms as well.

On the issue of the developmental views of different regimes, it is interesting to note that some of the people involved in the current regime are more pro-IMF than what Uganda has ever seen. On the question of whether micro finance has improved credit access for women, the loans were generally very small, as women are still typically in low-paying enterprises and are unable to graduate to bigger loans. So, the group methodology only increases the multiplicity of labour for women, as they have to now also spend consider amount of time in supervising the group, etc. So, this is good only as a short-term learning experience in the credit market, before which they should be able to graduate to better and bigger enterprises. But, women do face tremendous difficulties in getting more credit in order to graduate out of micro credit groups. However, there was a need to understand the underlying mainstream argument for microfinance, which is that, it is there so that working poor can go out and access credit and need not be dependent on state handouts. So, to think that micro-credit is there to provide soft loans to the poor can be misleading. While in Uganda the state interventions in the rural credit market failed to make any improvement in the situation and so there was a case for rolling back the state, more work is needed for determining the combination of private initiatives and state interventions, which would help improve the credit situation for farmers.

XI:4. Response by Assefa Admassie

Clarifying the role of regional governments in the Ethiopian credit market, it can be said that after liberalisation, they serve as intermediaries in effect, as they use budgetary allocations as collateral to get credit from the financial institutions and banks, which is in turn extended to farmers. They are not supposed to do this, because they are not financial institutions and while they give out credit, they do not have the capacity to mobilise savings. So, we need to have other institutions which extend credit and at the same time will also mobilise savings. Secondly, this practice of the regional governments also creates inefficiency, as they are using the extension services to collect credit payments and undermines their work for extension services. So, the role of the government should be to create the enabling environment in terms of overall economic and sectoral policies. On the issue of cooperatives being a better channel for credit disbursement, during the Derg regime when there was a centralised cooperative system, cooperatives of agricultural producers and some service providers were organised by the government and were not voluntary organisations by the farmers themselves. Access to credit and extension services were only for members of the cooperative. In general, the beneficiaries did not like this system and that is why as soon as the Derg regime collapsed in 1991, these cooperatives were abolished almost overnight. On the question of why should the small farmers need credit-why shouldn't they? They have to first survive in order to produce and since they do not have the resources to improve production, there is a need for interventions to assist them as credit from the informal sector will be too expensive for them. They need credit for the purchase of inputs, increase production, etc.

On mobilising domestic resources, I would like to refer you to a recent study which I have done on microfinance institutions in Ethiopia. One of the issues studied were the mobilisation of savings- both compulsory and voluntary savings. While most of them were against compulsory savings, there was indeed voluntary savings which actually rejected the arguments that are sometimes put forth that farmers cannot save. They do save and government should create institutions and facilitate these small savings.

XII:4. Response by V.K. Ramachandran

Why did the shift occur in the 1990s and what went wrong before that? Before 1990, those of us who used to talk of the previous state of banking, were very critical of its bureaucratic failures, its insensitivity to the socioeconomic conditions, its failure to bring closer to the poor. But, what happened in 1991 was not to bring it closer to the poor, rather to throw everything overboard. Further, we need to be clear that this shift in policy did not occur in response to some kind of a demand from below, from rural India. The shift was not because of people's dissatisfaction with social and development banking, it was done behind their back.

Why should small farmers receive credit? It is given in the paper. The chronic indebtedness in the rural sector is not something that can be solved by banking policies alone. But, it must be recognised that the collapse of the social and development banking in India occurred at a time when living standards generally were collapsing, public investment and rural employment programmes were being withdrawn. These caused a lot of changes in the demand for credit and the purposes for which credit was taken. So, that is a complex issue which can be discussed. But, it needs to be stressed that national assets which have been created over 30 years are being destroyed at a short span of 8-10 years.

As a serious means of addressing the reasons why rural people need credit, micro-credit is a vast and elaborate hoax. It is miniscule compared to the quantum of finance that is being withdrawn by the state. On the gender aspect, according to him, women's based self-help groups have simply not got the kind of finances which the social and development banking provided earlier. The women's movement in India recognises that the fact that these self-help groups have not made much of an impact in terms of living standards. But, there are some positive aspects like how self-help groups have helped women to come together to handle money. But, in fact the irony is brought out by the fact that 20% of all the self-help groups are in Andhra Pradesh, which has become notorious for its farmers' suicides.

Of course, we have recommendations. We must reaffirm the policy of social and development banking, we must reaffirm the path laid by the banking system in poverty alleviation and redistribution, commercial banks and cooperatives must lead the rural credit revival, etc. We must openly declare the need for a return to social and development banking. One of the promises of the new government in India has been that they will double the flow of rural credit in three years.

On land titling and creditworthiness- the result of land titling depends on the nature of the regime which is talking of titling. While in India, titling to sharecroppers has made them creditworthy, in Nicaragua titling led to large scale loss of land by farmers.

Session V: Panel Discussion on 'Macroeconomic policies, Agriculture and Poverty'

05:00 pm-o6.30 pm, 18th December, 2004.

Chair: Zenebeworke Tadesse

The panel for the final discussion was excellently chaired by Zenebeworke Tadesse. The panellists in order of their presentations were: Ben Turok, Guy Mhone, Juan Carlos Moreno, Jayati Ghosh and Jomo K.S.

V:1. Ben Turok (ANC Parliamentarian, South Africa)

Being a nascent democracy, South Africa has a great deal to learn from the experiences of the Third World as a whole that were being discussed over the last two days. There is a distinction to be made between the country's first and second decades of democracy. We are now in the second decade of ANC rule and there is a change in macroeconomic and overall policies. In the first decade, the ANC came to power with a document called the 'Reconstruction and Development Program' (RDP). This was an excellent program which assumed that the ANC would establish a developmental state of the kind that was being discussed. But, it did not happen because, after two years in power, all sorts of pressures occurred and the ANC came up with a new policy called, 'Growth, Employment and Reconstruction Program' (GEAR). This was actually structural adjustment with a South African face. There were many reasons for this new program. There was first of all enormous pressure from the creditors and the Bretton Woods Institutions on South Africa that it was no longer led by communists and terrorists (that being the reputation of the ANC before1994), but that it was led by people who took their international profile seriously. So, the government had to change its focus to a reduction of its fiscal deficit and also the question of the high interest rates in servicing the large domestic debt inherited at the time of obtaining democracy. South Africa's external debt was relatively small compared to many African countries, as no one had been willing to lend to apartheid South Africa. So, the first years were focused on a severe stabilisation policy with the government attempting to balance the severe impact of the contractionary effects through a policy of providing social services. So, a housing programme was put in motion, as were services of transport, telecommunication, electricity, water supply, to the rural areas. At the end of ten years of democracy, the ANC would claim that there has been a substantial expansion in services to the poor in the townships ad the rural areas.

But, in the second decade, there has been a shift in rhetoric and policy, which is that we have established stability on the macro side, so let us shift to the micro. What comes to the fore immediately is the lack of capacity. After 10 years of democracy, there is an increase in unemployment to exceptionally high levels of between 30-40% and poverty to about 50%. Gini coefficient is one of the highest in the world and equivalent to Brazil, and it is not being reduced.

So, what measures are being taken by the government about the current abysmal situation? The first thing is the controversial proposal on black economic empowerment, which has been changed to broad-based black economic empowerment. The second focus is on reversing the trend in the stalling of infrastructural capacity expansion with a huge allocation for infrastructure in the current budget. The expanded public works program is part of this is, with jobs high on the priority list of the government. Because of the policies of export-oriented growth in the first decade, there has been significant increase in unemployment, casualisation and informalisation of labour, outsourcing into 'sweated labour' in textiles, garments and other industries arising from the high degree of competitive pressure facing the export-oriented manufacturing sector. We also passed the Cooperative Bill and the Small Enterprise Development Agency Act, which will have substantial funding for setting up a small enterprises development agency.

In the course of the second decade, Mbeki has put forward an examination of the dual nature of the South African economy; about the nature of the 'second' economy that we have been discussing here. So, that debate has a lot to draw from the discussion that has taken place here in the conference.

V:2. Guy Mhone (University of Witwatersrand, South Africa)

While the conference has been a very awarding experience, there is also a big task cut out for us in terms of the need to look at the developmental issue as a whole, rather than in terms of the parts each one of us discuss. For instance, 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 a 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 we are lagging far behind in clarifying the developmental problem of Africa when compared to countries in Latin America and Asia.

Coming to our focus on agriculture, we know that agriculture has multiple roles in our economies, in supporting livelihoods, providing inputs for industry, generating export revenue, and in providing demand for industrial goods. Clearly, agriculture has to be integrally linked to what happens in the secondary and tertiary sectors of the economy, in that you cannot discuss it in isolation. Among the problems that we discussed, some of them are internal to the sector, some are inter-sectoral problems, and some are related to how the sector itself relates to the external economy. So, we need to interrogate the dynamics of the internal and external problems of development in a more thorough manner. There is a lot of literature on the nature of developmental strategies- the kind of agricultural, industrial and trade policies that successful countries have followed. However, we are not synthesising these lessons adequately.

We have a problem of underdevelopment and dependency, which sustain a high degree of inarticulation of how these sectors relate to each other and deflates our ability to generate an 'auto-centric development' path. In fact, rather than the concept of de-linking, Samir Amin's reference to auto-centric development would be the most useful concept in this context in defining development and in formulating the industrial, financial, trade and macro policy measures that can underpin that auto-centric developmental path.

Many of our countries have surplus labour, land, natural resources, water, etc. which we are underutilising. It is necessary to employ all these resources and generate an internal accumulation process that begins to drive strategy and change. We need to define a triggering process of primary accumulation in the utilisation of surplus labour Africa; a vision of what should be the long-term relationships between the primary, secondary and tertiary sectors of our economies and how all of these relate to the global economy; a view of the relationship between social policy and economic policy within this context; and within this context, what should be the broad macro policies of fiscal and monetary strategies that can manage these processes and lead us to an auto-centric path. It is within such a totalising context that we have to articulate the role of the state and the nature of the social forces required to bring about these changes. So, the agenda before us is to have a long-term totalising way in which we understand our reality.

V:3. Juan Carlos Moreno (UNECLAC, Mexico)

Africa and Latin America are just oceans apart, but while geographical distances can be easily transcended, ideological ones cannot be so easily overcome. Mexico and the United States are very distant neighbours. But, the problems of Africa and Latin America are largely the same.

Coming to macroeconomic lessons in solving the agrarian constraint, may be it is not an agrarian constraint that we are faced with here. For the 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 are the financial constraints, the fiscal constraints, the investment constraints, the external constraint, etc.

The other lesson is that the obsession with stabilisation and the unleashing of market forces to obtain development and growth was initially itself flawed and has reached a dead-end. So, it is time that we move on. What have Latin America or Africa achieved having followed the neoliberal policies for 10-20 years? If we look at any of the social or economic indicators we can see that our societies are back to points we started from 10, 20, 30 or 50 years ago. And far from closing any of the gaps with the OECD, our gaps are even wider than before. Internally, there is increased duality and inequality and uneven ness than before in our countries.

In fact, we are far worse than we were in terms of all the three major constraints to development that we face, viz., the external, fiscal and domestic constraints. But the most binding constraints are the ideological and political constraints. There is also the institutional constraint, the capacity to tax and the capacity to have a transparent and accountable government.

V:4. Jayati Ghosh (JNU, New Delhi)

The focus will be on the following two issues that were raised from the floor during the discussion in the last two days. One, what are the possibilities in regional cooperation? Secondly, while we know what kind of policies need to be in place to follow a particular developmental path, what do you do with all these nasty, corrupt regimes- democratic or otherwise, which we are all stuck with?

Regional cooperation is one of those things like import substitution that we have been told over the last ten years that it has failed and that it is no longer suited. But this is not actually true. In fact, the way that productive capabilities have evolved in the developing world in the last two decades has meant that there is much more scope for regional integration. In a peculiar way, the many things that are seen as challenges are often contributors to different kinds of regional cooperation, if we stretch our minds a little bit.

Take currency regimes for example. ASEAN Plus 2, has been buying each others' bonds as one of the means of stabilising the regional currencies to prevent desperate capital flight. And this is being done by pretty awful regimes- it was proposed by the regime of Thaksin Shinawatra in Thailand and is adopted by the not-so-pleasant regimes in the South East Asian region. But, it is doing this wonderful impact of minimising currency instability and reducing this peculiar situation that all of us help fund the US spend far more than it earns and to become the largest debtor in the world. The simple diversion of some resources to stabilise each other's currencies can have this huge beneficial impact. Such a thing can also happen in Africa, where again the level of reserves is the highest since the last thirty years and so many countries in Africa are also net exporters of capital to the developed world- not just the capital flight, but official reserves.

There are a whole lot of possibilities in international trade as well. For example, commodity price stabilization funds which were destroyed in the 1970s were crucial in offering some protection to international volatility in primary commodities. These are things that can be done at the regional level, to provide some stability, some protection from international price volatility which is absolutely crucial to our primary product producers.

Regarding trade possibilities within the South, there is this hypothesis by the Swedish economist Staffan Linder (1961) that countries which trade the most with each other are similar countries. It is basically the demand-led trade hypothesis, which is that you buy the things that you need and that you are actually likely to be producing them if you need them. So, countries are more likely to be trading with each other in manufactured goods when they are broadly at similar levels of income. The higher the income inequality within your country, the more likely you are to be trading with other countries, as the elite in your country will want to have the other stuff. But, if we can actually develop that argument further that similar countries have more potential for trade with each other, than it opens up huge amounts of scope for intra-regional trade or what used to be called South-South trade. We are however, obsessed with the idea that the Northern goods are better and are busy doing trade facilitation with the OECD countries. Why don't we reduce transaction costs across the developing countries? We can reduce transport costs between our Southern neighbours. We can emphasise certain kinds of productive potential locally through small changes in fiscal strategies such as differential taxation and selective trade policy interventions that will help to develop a regional market for particular local products including basic agro-processing industries. For example, across South East Asia, you will find local bear being used. There is also a whole lot of manufactured goods produced by developing countries which are more suited to local demand conditions in the South because we are similar in the way we operate.

Coming to the question of governance, the notion of the failed state in Africa is really overplayed. Thandika Mkandawire had once made the following important point. If we consider the civil servants to population ratio as an indicator of the kind of public services we are providing to people, the international average is 3 per 100, Western Europe average is 6 per 100, for India 2 per 100 and in Africa as a whole it is less than 1 per 100. 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, we have to have much more confidence in the need to revive the capacity of our states.

Finally, 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. Even the most authoritarian regime cannot completely ignore the voices of the people. There is a minimum need for legitimisation that is sought by every regime, even if repressive and we have to try an open up those spaces. Perhaps, we have also not been confident enough in making our voices heard. 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.

V:5. Jomo K.S.

At the end of two days of deliberation, it is worth revisiting the whole purpose of organising this conference. If every body leaves this room thinking that Washington Consensus is really fallacious and that we are in a position to reject the view that there is no alternative, then we can consider that to be a measure of some success.

Partly because of the way in which this conference was organised, there were a number of problems and it would be useful for us to learn from you where we went wrong, how we could have done things better, etc. Also, because we were covering ground largely raised by the presented papers, we may have missed some issues. We have two immediate challenges for the future.

The first is the characteristic of the Bush administration is the promotion of free trade agreements (FTAs) with different parts of the world. The original idea of US trade representative Robert Zoellick in advancing the FTAs was to put pressure on countries to accept the WTO's multilateral process. It is very important to understand the content of these FTAs which have included things which have nothing to do with free trade. For example, intellectual property rights (IPRs) constitute the very negation of free trade and their strengthening under the WTO agreements by giving monopoly of a technology to a particular firm at the expense of all other firms and often at the expense of other economies is one of the most disadvantageous to the developing world. So, even to talk about liberalisation as consistent from a liberal perspective is bogus. The Washington Consensus has very little to do with 19th century economic liberalism; it has more to do with contemporary corporate interests, and the means of asserting hegemony in the contemporary age.

One of the other crucial issues to be considered in this whole approach to an auto-centric development path mentioned by Guy Mhone is the central issue of financial liberalisation and investment. The growth process and investment are intimately related and we cannot simply assume that by raising the savings rate, growth will necessarily follow.

We have in Africa, as in much of developing world, a great deal of emphasis on FDI. While we may not be dogmatically against all FDI, it is important to recognize that what is often meant by FDI in popular perception differs a great deal from what is actually classified as FDI. According to UNCTAD's own figures, more than 80 percent of the FDI in the 1990s consisted of Mergers and Acquisitions (UNCTAD) and as far as Africa is concerned, it is clear that it is mostly acquisitions and not mergers. Further, since the second half of the 1990s, there's been a decline in the overall FDI. So, we have a decline in 'greenfield FDI', which is considered to create new economic capacities, with a large proportion of it being attracted by China alone. Most FDI in Africa has been mainly in mineral extraction. Since this is the case, Africa must drive the toughest possible bargain to secure its interests in allowing these inflows of FDI.

Another important aspect for us to realise is that increasingly, economies of scale are going to be crucial in determining if investment are going to be viable or not. In the past, we have all emphasised protecting our national economies. But, given the nature of the smaller economies in the developing world, including in Africa, we really have to increasingly consider protecting our regional markets rather than our national markets. In this regard, it is important to raise the whole question of regional economic cooperation in a pro-active sense. While we have to very mindful of the real possibilities of sub-imperialism as discussed by Patrick Bond, it is also important for us not avoid any kind of regional option by raising the spectre of sub-imperialism. In East Asia, for example, in the past, there was the real possibility of Japanese domination, and more recently of Chinese domination. But, that has not stopped us from either raising the question of the desirability of regional cooperation or from insisting that free trade areas are not the only way of cooperating on a regional basis.

In looking at the whole question of developing alternative strategies, one of the important issues that has been raised by a number of speakers is the whole question of the nature of the state. We must not be statists or dirigists for its own sake. We have to very mindful of the consequences of particular types of interventions. We also need to recognise that there are policy choices that force us to look at the distributional and developmental implications of policy interventions. In this regard, it is increasingly important for us to recognise the political and public role of economists; 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.

In this regard, IDEAs has been very keen on working much more in Africa, having chosen to work particularly with CODESRIA. But, ultimately, our ability to influence public policy debates in Africa is principally by empowering economists to recognise and to assert that there are alternatives, as Carlos Oya and other speakers have reminded us repeatedly over the last two days, we have to be mindful of the very different circumstances in which we all live, that one size does not fit all whether it is the Washington Consensus or the Alternative. We have to work very carefully in developing alternatives which are very mindful of the different circumstances and different challenges which feed into the contemporary context. We should not resign ourselves to the thinking that there is no alternative, but work proactively at the national and international levels to create conditions whether it through the WTO or through other processes which would be far less restrictive and far more conducive to developing a much more progressive development alternatives.

V:6. Discussion from the floor

Carlos Oya

We have to think pro-active and practical and consider the sorts of alliances that will allow us to make some kind of difference. In the African context, there are two important challenges. In terms of capacities, probably Africa has been one of the biggest victims of the multi-billion ideological operations carried out by the World Bank and other organisations in creating different types of technocratic capacities that cut across civil society boundaries, universities, research institutes, states, ministries, etc. which has in a sense led to 10-15 years of intellectual capacity loss for the continent. This is the situation one has to face. In fact, related to the discussion to fiscal constraints, how can we challenge a multi-billion ideological operation with an operation that will not require that sort of financial resources and had not been used so far? How can forums like this have an impact on those with the leverage of directing these resources? Because so far, the whole history of state weakening in Africa has been a self-fulfilling prophecy of those who have been in power of managing resources on which universities, institutes and African governments have depended.

Richard Kamidza

There is a need to focus on South-South trade, as there are a lot of things that we can trade among ourselves, as Jayati Ghosh pointed out. But, the challenge we observe is that there is a tremendous amount of pressure we face from the international and bilateral trade negotiations that right now, Africa is under siege. It is a revisit of the Berlin conference, where EU is trying to divide up Africa into small pockets here and there. But, what some of us have observed is that the capacity of the state and the civil society that are part of these negotiations, they need the support of this house. The challenge it seems is now upon us academics to make sure that we try to reverse the kind of pressures that is coming out of various quarters. Even the nature of regional cooperation is under challenge. So, we all have to think about how to reverse the ongoing processes.

Terry McKinley

The environment that I have to work with in UNDP means that I have to work with the Poverty Reduction strategy Papers (PRSPs). 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 invariable, to open up the discussion and getting the debate going.

The other entry point which we have not talked about 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 we need to grapple with in this context. It means that if we are taking that direction, then we are talking about large-scale public investment programmes in the context of public sector-led development strategy and not private sector-led which 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, 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 you 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.

V.K. Ramachandran

An idea that has been floating around is that of a developmental state. I would like to argue against it as a historical and non-class concept. A related debate is taking place in India on this. The transition from what is known as ‘popularism’ - the Nehruvian state, to the neo-liberal dispensation of the last 10-14 years can in one point of view, be seen as different historical phases of a state ruled by the same classes. In India, this is the bourgeoisie and the land lords led by the big capitalists and increasingly in collaboration with foreign capital. Thus, the Nehruvian phase was characterised by a certain configuration and structure of public institutions, but by a certain betrayal with respect to public educational institutions, land reforms and so on. The contemporary phase is characterised by what we have been discussing here. So, the basic task of national development requires not a return to the developmentalist state, but recognition that this state power has to be replaced by a whole new configuration of classes in power.

The second point is about understanding the class character of the state and specifically, the agrarian constraint. The discussions during the Workshop also brought out that there is a paucity of specific studies of class relations, or the relations of production in agriculture, of different regions. This is certainly true of India after the 1990s and probably true of most countries that are represented here. So, if we are really going to understand the agrarian constraint, we must turn our eyes to the countryside as activists and scholars.

Praveen Jha

What Prof. Jayati Ghosh talked about as the lack of confidence in the developing world need reiteration time and again. Arthur Lewis in a paper in the American Economic Review in 1984 had looked at the development prospects of the developing world as a whole and the developed world. He used various benchmarks and made a very persuasive case to argue that the developing world having not done well is quite bogus and it needs to be challenged. I would call upon the younger participants here to look at that paper and develop some of those arguments further.

Second, the Indian economist Amartya Sen had written a paper in 1983 titled ‘Development Economics: Which way now?’ and again made an impressive argument that almost every question which was important in the genesis of old-fashioned development economics remain as relevant today as they were in the 1940s and 50s. However, after that he does not go into any explanation of why that has fallen off the table. In terms of fundamental concerns, it is obvious to us that those questions repeatedly need to be brought to the table- as part of the task of reiterating our concerns the importance of which Prof. Ghosh raised.

In the context of Prof. Jomo’s reference to IPRs, there is not a single study that can make a case for IPRs facilitating competition- the theoretical rationale put forth is that by giving protection to the innovators, IPRs promote competition. On the contrary, Columbia University Press has a brought out a book that shows exactly the opposite. It says that if we look at the times from the 16, 17^{th}, 18^{th} centuries and so on, there is no case to favour this protectionism of intellectual property.

Finally, I am very uncomfortable with Prof. Ben Turok’s presentation on Africa. It seems that there is no serious contradiction between structural adjustment and a whole lot of things which he has said are positive achievements of the ANC government. The contradictions seem so evident and you seem to have underplayed them.

Yaicob Likke (EEA Secretariat)

I cannot agree with all speakers who talked about the need for high government intervention in our economies. We are of course concerned with both fiscal and monetary policies. With regard to fiscal policy, we are concerned about covering the shortage of purchasing power of the households as well as what is lagging in private investment, given a desired level of growth. In terms of monetary policy, governments must also get involved in providing credit to the productive sector, particularly, agriculture and agro-processing industries. Unless we extend our credit policies in these areas, there is no way that agriculture can contribute to the demand and supply needs of our economies. However, all of these require a proper planning which we have not discussed as much as we should have. Without proper planning which was abundant in the early 1970s, government expenditure could not expand as much as it had.

Another aspect that has not been discussed is the issue of western cultural intrusion into our economies. In the Ethiopian context, which has a very narrow monetised segment, the consumption is so much as compared to the traditional sector.

We have pointed out during our discussions here that the voices of the masses are extremely important in bringing out the necessary changes. But, as long as the masses are afraid of voicing their needs and concerns, there is a big problem.

Francis Wilson

There is a need think strategically about how to bring the African diaspora back into the intellectual debate about Africa. I would ask IDEAs and CODESRIA to think strategically about that.

It there was a conference in Cape Town to talk about development problems in Africa in 1819 and it were to focus on agriculture, it was fine. But, it would have missed the point, because diamonds and gold were just being discovered. In the same way, it occurs to me that the huge issue facing Africa is oil and the terrifying prospect is that of Africa getting looked after by the United States to sort out democracy so that they can control of their oil interests. How are we in Africa going to use our oil resources for our own benefit and not for the benefit of the outside world? Probably one of the best examples of how to handle this has been Botswana government's use of the diamond resources.

Carlos Castel-Branco

We more or less agree on the problems, but there does not seem to agree on the ways forward. The latter is because we do not have the same theoretical or methodological approach to explain them. In order to develop a better understanding of the whole picture, we have to understand better our methodologies and our approaches and very rigorously and critically analyse them. So, a lot more critical thinking needs to be done for us to move forward.

Unnamed participant

We need to be more specific about what specific aspect of the current set of policies we are criticising. For example, in the case of Washington Consensus, it would be wrong to say that there is nothing wrong with that policy at all. These policies would work in a given macroeconomic context. The point is to understand and specify under what conditions and at what sequencing it should be done and then to say what could be wrong. But, to draw a blanket completely over it and say it is all wrong, it will not help us to move forward. Also, it will help us to make a balanced analysis and adopt a balanced policy stance rather than to move from one extreme of the pendulum to the other extreme. Some of the discussions at the conference were too general; while they were very rich in providing solid critiques, they failed in providing alternatives.

Secondly, I disagree on the two points put forth by Jayati Ghosh. Regional integration requires product differentiation and economies of scale in the production process. In the absence of those, regional integration is really barking up the wrong tree in the context of Africa. Maybe cooperation should have been in sectors like electricity, etc.

The question of the failed state has been underplayed. One of the biggest constraints we have in Africa in our development problem is the failed state. It may not appear as big a problem to those living in the largest democracy in the world.

Muhammad Muttaka Usman

The critical question is how the trade policies which we discussed can be taken forward. There have to be follow up debates and the participants from Africa should think about how to take the momentum brought forth by this conference forward. Further, it is important to recognise that while there have been credible alternatives provided at the conference, it is clear that those cannot satisfy everyone. In any economy, there have to be trial positions.

Gebru Mersha

First of all, I agree with Jomo when he says that the state has to play a role in the development process. But, the question is whose interests does the state represent and protect? Secondly, one aspect which has been left out in the two days of discussion but is very important is the following: Although structural adjustment has been mentioned, an important omission has been the intervention of the West in terms of creating wars and conflicts on this continent. There is not a single conflict in Africa, that was not either instigated, or financed, or armed, or a combination of all these, by the West. War, conflict and development do not go together.

Demelash Habte (Unity University College, Addis Ababa)

Throughout the conference, we were engaged in analysing and criticising the neoliberal views from the Socialist point of view. It would have been very much better if the conference had also included representative views from the neoliberal perspective.

Horacio Zandamela

Part of the solution is about sharing and expanding a common understanding of the problem and from that point of view, this conference has been most useful and important.

Response from Panellists:

Guy Mhone

I would like to underscore the fact that there are different ways of analysing the developmental problem. We have suffered from particular forms of development in Africa and we are well aware of that. Nobody wants to revisit the same. We are also aware that particular forms of state intervention had successes at particular points of time. Further, we are aware that 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. It is a disaster not to have a strategy or vision at all, and that's Africa's biggest tragedy – the directionless nature of our governments. As for neoliberal theories, yes, there are certain truths to certain aspects of these theories. But, the tragedy is that the neoliberal paradigm comes as a coherent package with particular effects of the things which it wants to put into place, no mater how narrowly the different things might appear to be; so it is important to be cognizant of that. On listening to neoliberals, we have lots of fora for that. The purpose here has to been to mobilise people with clarify on the nature of the problems that we face and who think in a similar way, to try and articulate these things much more clearly.

Ben Turok

I would like to reiterate the importance of recognising the hegemony of ideas. I come from an armed struggle, a revolutionary movement, which had to retreat because of the conjuncture in which we found ourselves in 1990. It was a revolutionary idea, but because we had to enter into compromises and because we have had to have a negotiated settlement, the hegemony of ideas was threatened by the new situation. And all of us find ourselves currently in the hegemony of ideas from Washington, from US power and it is up to us the people of Africa to ensure that the hegemony of ideas of progressive development resurface and are established. And that is why I think this meeting has been important.

After Jomo K.S. reiterated the views from the above two panellists, the panel discussion was brought to an end by concluding remarks from Zenebewerke Tadesse, the Panel Chair.

Following this, Jayati Ghosh, the Executive Secretary of IDEAs brought the conference to a conclusion after extending gratitude to EEA and CODESRIA for collaborating with IDEAs. Special appreciation was also extended to Terry McKinley of the United Nations Development Programme (UNDP) for his support in bringing the Workshop and Conference to fruition; and to Assefa Admassie (Director), Berhanu Nega (Former Director) as well as Metasebia, Bruktawit and Chuchu of the EEA Secretariat for the excellent local organisation of both the events.