

The United Kingdom Parliament

Select Committee on International Development:

DFID's Agriculture Policy

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SUMMARY

Seventy-five per cent of the world's poor live and work in rural areas.ⁱ Most of these people are smallholders who depend on agriculture for their subsistence. Agriculture is therefore of crucial importance to meeting the Millennium Development Goal on poverty reduction, especially in Africa. But agriculture fell out of favour with DFID and other donors in the 1990s and, since then, the plight of poor farmers has worsened. Today, most smallholder farmers are unable to access the basic services which could help them increase their productivity and forge a sustainable livelihood from agriculture. Despite the obvious contribution of agriculture to poverty reduction, DFID has been slow to re-engage with the sector but is now showing a willingness to do so.

Some commentators argue that, in a globalised world, smallholder agriculture has a limited potential for acting as a force for development. In the long-term, they may be correct, but we believe that agriculture should be understood as a process in which small-scale farming can drive development at an early stage. As agricultural productivity intensifies, people will leave the land to work in other sectors and the size of farms will increase. Smallholdings, an ever-present reality in Africa, can be efficient and can successfully engage in commercial operation. Small-scale farming can initiate rural development and be a source of poverty reduction. But this can only happen if farmers are provided with the services they need. These services include access to basic inputs: fertilisers and improved seeds - the provision of which helped Asia more than double its productivity during its Green Revolutions.ⁱⁱ Financial services are vital to enable farmers to access these inputs. Plant breeding and other new technologies can also raise productivity provided they produce innovations that are useful to smallholders, and not solely to large-scale commercial operators. Farmers also need information about, and access to, markets. In part access to markets is enabled by the development of infrastructure which DFID has rightly emphasised. But DFID has, in our view, concentrated too narrowly on creating an economy-wide "enabling environment" to the exclusion the specific challenges of getting smallholder agriculture moving. DFID must now urgently turn its attention to the sustainable provision of the most basic of services to smallholders.

Agriculture's fall from favour has to be seen in the context of the failure of large agricultural projects and the realisation that there were severe problems with state provision of agricultural services and the use of generalised subsidies. The role of the state was reduced and the private sector was expected to fill the gap in service provision. While this did happen to some extent in the cash crop sector, the private sector did not step in to provide services to those growing staple, food crops. We are convinced that some level of state involvement in delivery of these key agricultural services is now necessary. It is time for DFID to work to develop appropriate models for state involvement that recognise the respective benefits, and limits, of the public and private sectors. DFID must also act as an advocate for agriculture with the World Bank, the body which has the main influence on the broader policy environment. DFID and other policy makers need to understand why past policies have failed and address the existing gap in service provision. The world's poor need a mixed strategy that strikes the right balance between state and private sector involvement, as well as an

appropriate balance in emphasis on small-, medium- and large-scale farms. Finally, the regional diversity of agriculture requires policy to be sensitive to the local context: a blanket approach will not work.

BACKGROUND AND ACKNOWLEDGEMENTS

Over the course of this Parliament, we have commented on the apparent lack of an agricultural policy in the Department for International Development's (DFID) overall development strategy. However, we note that DFID published policy papers on agriculture and eliminating hunger in 2002 and that DFID provides the UK's permanent representative to the UN Food and Agriculture Organization.ⁱⁱⁱ We were pleased to see DFID publish, in December 2003, a consultation paper entitled 'Agriculture and poverty reduction: unlocking the potential'. The paper provided an opportunity for us to contribute to DFID's consultation on its emerging policy, by taking evidence and publishing a short report highlighting what we see as the key policy issues.

During the inquiry, we heard evidence from witnesses during two evidence sessions. Our first session examined policy foundations with reference to past experiences and the NGO perspective. Witnesses included: Dr Christie Peacock, Chief Executive Officer, Farm-Africa, Andrew Jowett, Director, Harvest Help, Dr Lea Borkenhagen, Livelihoods Programme Development Manager, Oxfam, Colin Williams OBE, Director, International Development Enterprises, Colin Poulton, Imperial College London, Dr Michael Hubbard, University of Birmingham, Dr Steve Wiggins, Overseas Development Institute and Dr Peter Hazell, Director of the Development Strategy and Governance Division of the International Food Policy Research Institute (IFPRI).

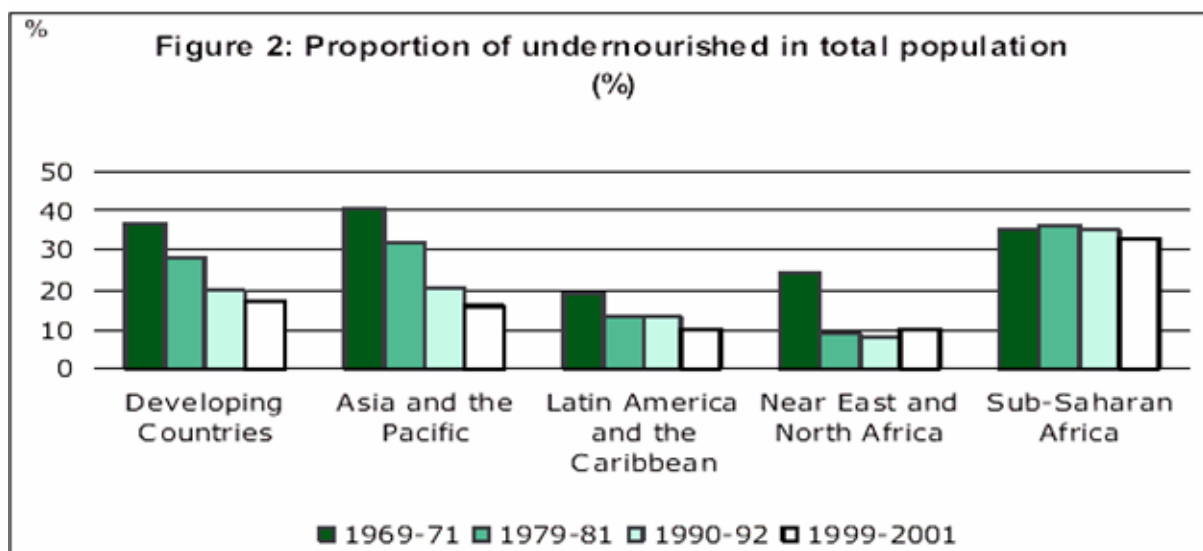
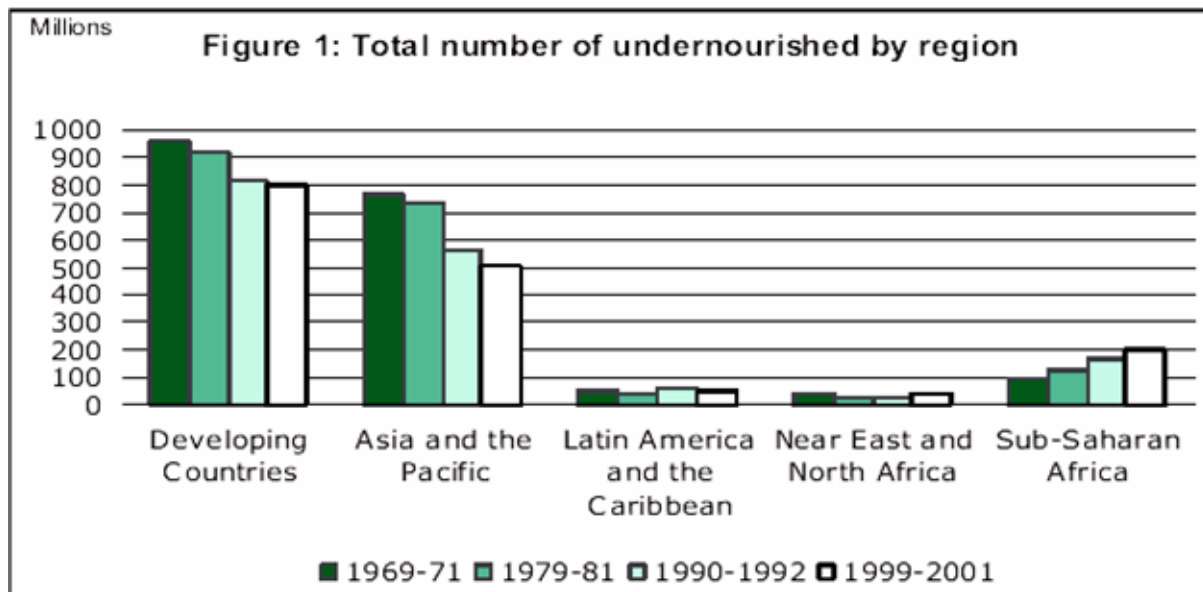
Our second evidence session concentrated on exploring practical solutions to the problems faced by farmers, including an examination of the role of research and of new technologies. We heard evidence from Stephen Carr, OBE, independent expert on African agriculture and long-term resident of Malawi, Jonathan Coulter, Natural Resources Institute, University of Greenwich, Dr Colin Thirtle and Professor John Mumford, both of Imperial College London, Professor George Rothschild, Co-ordinator, Independent Advisory Committee of DFID's Renewable Natural Resources Research Strategy Programmes, and Dr Michael Lipton CMG, Sussex University. We are grateful to all those who contributed to the inquiry; the oral and written evidence which we received is published alongside this report.

1 THE CONTEXT OF AGRICULTURAL DEVELOPMENT

1. Seventy-five per cent of the world's 1.2 billion people living in extreme poverty work and live in rural areas.^{iv} Many poor people remain strongly dependent on their own farms, growing for themselves a part of their food requirements as well as meeting the need for cash through sale of produce and animals. Significant numbers of these smallholders, along with landless and near-landless rural people, also work for other farmers at periods during the year. DFID itself cites a correlation between a 1% increase in agricultural productivity and a reduction by between 0.6 and 1.2% in the proportion of people living on less than \$1 a day.^v No equivalent relationship, on this scale, has been found for manufacturing and services, in either rural or urban areas. Prospering labour-intensive agriculture is therefore critical for the achievement of the Millennium Development Goals (MDGs).

2. The south and east Asian "Green Revolutions" have demonstrated that when agriculture has prospered, and the agricultural sector has been labour-intensive, the result has been a dramatic reduction in poverty.^{vi} The Green Revolutions' impact on poverty resulted from a range of beneficial processes; in addition to raising farmers' incomes and creating more farm employment, activities linked to farming and farm household consumption were stimulated. And falls in the real price of basic foodstuffs helped the poor, both rural and urban.

3. But even though the Green Revolutions of Asia delivered many pro-poor benefits, the continent remains home to a large proportion of the rural poor. The UN Food and Agriculture Organization (FAO) has estimated that of the 842 million undernourished people in the world today: 60% are found in Asia and the Pacific and 24% in sub-Saharan Africa.^{vii} These figures seem to demonstrate that the problem of hunger is most acute in Asia. However, trends show that whilst there has been a steady improvement in nourishment levels in Asia, there has not been a similar improvement in Africa. As figures 1 and 2 show, under-nourishment in sub-Saharan Africa has risen steadily over the last thirty years. As this report highlights, close attention to agricultural development, particularly in Africa, is urgently needed if the trends are to be halted and reversed.



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4. The Committee welcomed DFID's re-engagement with agricultural development, marked by the launch of the consultation process on its new policy. Indeed, we have for some time been calling for such a re-engagement and have drawn attention to the importance of agriculture to poverty reduction.^{viii} As one of our witnesses told us, research demonstrates that "improving productivity in agriculture leads to a high impact on poverty reduction relative to other areas of investment and that the distribution of created wealth is even more [potent] than with other routes".^{ix}

5. Agriculture's potential contribution to poverty reduction is multi-faceted. It includes:

- the tightening of the rural labour market which, by raising real wages, creates welfare gains for many of the poor;

- employment generated upstream and downstream from farming which, for smallholder farming, is itself likely to be labour-intensive;
- the linkages which arise when people begin to have more spending power: compared to wealthier groups in society, and even to the urban poor, prospering smallholder farmers spend a higher share of additional income on goods and services produced either locally or within the national economy;
- cheaper staple food: this is unambiguously beneficial for households which are mainly dependent on the market for their staple food, but a disadvantage for farmers who earn cash through selling food surpluses;
- slowing the rate of rural-urban migration thereby reducing the strain on the demographic profile and social infrastructure of urban and rural areas.

6. But despite agriculture's potential to reduce poverty, in recent years donors have shifted away from their previously strong focus on this sector. In 1983 aid to agriculture stood at its peak, with total aid from all donors standing at over \$9 billion. By 1997 the figure had fallen to below \$5 billion.^x Although UK assistance to agriculture has not experienced such a dramatic drop, spending on agriculture has remained at similar levels despite increases in the overall aid budget. UK spending on agriculture as a proportion of the total aid expenditure has fallen sharply from a peak of more than 10% in the early 1990s to below 5% in the early 2000s.^{xi} Comparative figures provided by DFID demonstrate that, with the exception of the USA, funding to agriculture either fell or remained constant amongst donors through the 1990s.^{xii}

The shift away from agricultural aid

7. The Green Revolution in Asia marked a shift away from widespread hunger, towards the creation of food surpluses - reducing the pressure to produce food and with it the strong emphasis on agricultural development.^{xiii} Donors encouraged agriculture in the 1970s, driven by a belief that a major push in smallholder agriculture projects could bring an end to hunger. But although there were successes, there is now a widespread perception that past agricultural policies gave disappointing results. Some agencies have seen agricultural aid, whether in the form of projects or sector programmes, as amongst the worst performing components of their portfolios. The World Bank's Operations Evaluation Department found that the failure rate of agricultural projects in Africa was 70-80% compared with 40% elsewhere in the world.^{xiv} Perhaps the rapid scaling up of agricultural programmes, before there had been adequate opportunity for lesson-learning, lay at the heart of the problem. Integrated rural development projects, supported by the World Bank and other donors, involved large scale irrigation projects or farm credit and were often amongst the worst performers.^{xv} These projects tended to suffer from poor design and from over-ambitious, unrealistic expectations.^{xvi}

8. Traditional models of aid to agriculture leaned heavily on state involvement for the delivery of agricultural services. This typically involved channelling funds through Ministries of Agriculture to support public services to farmers. Such models of agricultural development had been the foundation for agricultural success in Asia where, in most cases, state services and subsidy continue today. But the 1980s saw the start of a shift in development thinking.

The new emphasis moved to promoting a greater role for the private sector, markets and competition, while restricting government to its core functions of regulation and the funding of certain public goods. Part of the motivation for the swing away from state involvement was an awareness of the declining quality of governance in much of Africa.^{xvii} Additionally, with disappointing growth and high indebtedness in many developing countries, there was strong pressure to cut back on public spending. The levels of public investment in, and subsidy of, agriculture (e.g. through parastatals/marketing boards) that did bring success in some parts of Africa were ultimately at a level that was hard to justify and sustain.^{xviii} As we noted in relation to Malawi, in our report on the Humanitarian Crisis in southern Africa, untargeted subsidies have been problematic and prone to misuse.^{xix}

9. Unfortunately, in many situations, the private sector did not step in to fill the gap—that of providing services to smallholders—left by cutting back of the role of the state.^{xx} Many farmers were left without the services they needed. The failure of some past projects led many donors to recoil from them.^{xxi} However, as we argue in this report, it may be necessary to revive versions of models of service provision that had been seen as failing. The need for agricultural credit remains one of the most vital. There is also a strong case to be made that some level of state involvement in service provision will be required to put agriculture back on its feet. It is essential that agricultural policy-makers learn what lessons they can from the problems encountered in the past, and do not over-react by rejecting them altogether.

10. In addition to the above, the 1990s saw an increased emphasis on environmental concerns: "Agriculture was bad suddenly because it was environmentally destructive".^{xxii} Concerns mainly centred around the excessive use of pesticides and herbicides as well as the conservation agenda which highlighted the clash between wildlife habitats and agriculture. Whilst this was a problem in some cases, people have frequently been driven to settle in environmentally-fragile environments because of the failure to intensify smallholder agriculture. In these cases land-extensive but low input agriculture has been the norm, resulting in considerable damage to the environment.

11. The decline in aid to agriculture has to be understood as resulting from a number of other approaches that gained currency amongst development policy makers:

- Agricultural aid should be reduced and refocused to support rural diversification. This is because in countries which have achieved Green Revolutions the priority has been to switch support to other non-agricultural activities which help the poor. In other words, to promote economic diversification and to invest in more roads, telecommunications, schools and health services. Indeed, in these places, the agricultural policies which were so potent in the past in supporting poverty reduction may have ceased to work.
- Agricultural aid is not necessarily as pro-poor as is sometimes claimed. The rural poorest are landless and agricultural support tends to raise food prices.
- In a globalised, rapidly-changing world, it is unwise for governments to lay strategic bets on agriculture, or indeed any other productive sector. Instead, government should invest in generic resources such as education, health, roads and telecoms. To the extent that government directly support productive sectors, the focus should be on spotting opportunities for the poor and then assisting these, without "sectoral" preconceptions.

- A substantial and often growing share of rural incomes come from non-agricultural sources and so policies should instead focus on "livelihoods".

Livelihoods

12. The rubric of "livelihood programmes" has become an increasingly popular approach to rural development in light of the shift away from explicit involvement in agriculture. Its strength lies in its recognition of the diverse ways in which people make their livings and survive. It could be argued that, as the majority of the world's poor reside in rural areas, "livelihood" policies have been a mechanism for continuing to focus on agriculture even when it was, in development terms, unfashionable. Colin Poulton told us that:

"the livelihoods approach came to prominence at a time when there were ongoing debates about where agriculture should fit into development strategies and donor assistance, and therefore, depending on the individual concerned, you could either use a livelihoods framework for saying, 'Clearly agriculture is critical to these people's livelihoods', or you could use it to emphasise diversity".^{xxiii}

But although the livelihoods approach has flexibility, it can lack strategic direction. It is prone to taking a snapshot of livelihoods at a certain point in time without considering the 'bigger picture'. This can lead to the neglect of lessons of the history of economic growth, including the roles of agricultural growth in stimulating non-farm growth and rising wage levels.^{xxiv}

AN ENABLING ENVIRONMENT

13. Within the context of its relative disengagement from agriculture and the emphasis on livelihoods, DFID has, in recent times, concentrated on creating an 'enabling environment' for the private sector. The creation of an enabling environment has entailed a drive towards "a more stable macro-economic environment, liberalised markets, tighter fiscal regimes and a more developed institutional environment".^{xxv} In practice, donors have sought to find ways to help farmers access markets, for example, through provision of roads and infrastructure. **The creation of an enabling environment for agriculture is essential, but by itself it will not succeed unless services are also provided to farmers (by the private sector or the government). Farmers have to be able to take up the market opportunities which the enabling environment aims to create. In its policy paper, DFID have finally recognised the need to move beyond the mere creation of an enabling environment.**^{xxvi}

An African problem?

14. Despite the large number of rural poor in Asia, it is in Africa that rural poverty is continuing to increase. The Green Revolutions experienced in Asia have not been easy to replicate in Africa. Low or declining agricultural productivity is particularly prevalent in sub-Saharan Africa, to the extent that agricultural production declined by 5% between 1980 and

2001.^{xxvii} Peter Hazell clearly identified some of the reasons for the particularly poor performance of Africa, compared with Asia:

"What was missing was the pre-conditions for successful agricultural growth. Africa does not have the infrastructure. Today if you look at road density in Africa it is a tiny fraction of what India had in the 1950s before its own green revolution. Most farms are just not connected to the market. Transport costs are horrendous. Fertilizer costs four or five times the world price for most Africans."^{xxviii}

There are other notable differences that have had an impact on the performance of the two regions. The level of political commitment to agricultural investment in countries like India in the 1960s was extremely high and government has sustained a very high level of investment and subsidy of agricultural service provision.^{xxix}

15. Climatic and topographic differences between the two continents have a major impact on water storage and control, and as a result have had an effect on the productivity of agriculture. Put simply, "the huge advantage of Asia is that water runs downhill and in much of Africa the water does not run downhill".^{xxx} In Africa, use of water resources regularly involves expensive pumping, or at least greater use of mechanisms for trapping water during the rainy seasons. One of our witnesses, Stephen Carr, drew the following comparison between India and sub-Saharan Africa:

"As you fly across India, parts of India, you see thousands of what they call tanks shining underneath you, these ponds of water from run-off, and I am now trying to duplicate that in Malawi where people catch run-off and then practise irrigation in the dry season".^{xxxi}

Until recently, the need to irrigate in Africa has not been so apparent. However, an increase in population density and the scarcity of land now require the productivity of African smallholder agriculture to be raised.^{xxxii} Irrigation can play a key role but, in Africa, it continues to be under-utilised.

2 THE FUTURE: SMALL AND LARGE SCALE AGRICULTURE

16. As we have highlighted in the previous Chapter, agriculture fell out of favour with development policy-makers. While small-scale agriculture played a major role in poverty reduction in the past, some commentators now maintain that it cannot do so in the future. A debate has therefore started over the future of smallholder agriculture and large-scale commercial agriculture.^{xxxiii} The proponents of the view that smallholder agriculture is not the key to poverty reduction point to three key factors:

- The growth of very large farms (agri-business) in favoured parts of the world (mainly the Americas). These are achieving continuous cost and price reductions and qualitative improvements, and are increasingly integrated into supermarket supply chains.

- Trade liberalisation is causing increased import penetration of the domestic food markets of poor countries by produce, which has originated in middle to high-income countries. At the same time, the trade preferences which some poor countries have enjoyed in rich country markets are being eroded.
- The growth of supermarkets within poor countries themselves. To the extent that they procure from domestic agriculture, these supermarkets tend to deal with the larger less labour-intensive farms, which can meet their volume and quality requirements.

17. We recognise the logic of the arguments in favour of a declining role for smallholder agriculture where development is successful. On the other hand, in many of the poorest countries there are few realistic alternatives to smallholder agriculture for creating employment-intensive growth. Agriculture's core contribution to poverty reduction is at the earlier stages of a process of development. Increased growth and prosperity within labour-intensive (smallholder) agriculture will trigger forces which will lead to diversification out of agriculture and eventually to a rapid fall in the numbers it employs. This is a desirable outcome. **Some commentators may have a romantic attachment to smallholder farming: if so, we do not share it. We are convinced that the process of economic development necessitates an eventual reduction in the role of agriculture, particularly small-scale agriculture. But the central issue is one of timing and circumstance.**

18. **Where there is a decline in agricultural activity (or where it becomes less labour-intensive), policies should allow people to make what might be termed "good exits" from farming.** These exits will, in the main, be made by younger people who were raised in moderately prospering rural economies and who in their youth were adequately fed and who had access to, and benefit from, schooling. They will move out of agriculture gradually, as and when opportunities appear in the cities or locally. By contrast, "bad exits" arise when farming ceases to provide the basis of an even minimally acceptable livelihood, and younger people abandon farming precipitously, despite the lack of alternatives. Many end up in petty trading, an intensely competitive and low-return activity with minimal prospects. In today's poorer countries far too many "bad exits" from farming are occurring.

19. We accept that the role of smallholder agriculture will ultimately decrease and that it is critical to assist those leaving agriculture to leave successfully. But smallholder agriculture is a practical reality in sub-Saharan Africa, with a substantial share, and in extreme cases as much as 85%, of the population living on smallholdings.^{xxxiv} Even with changing demographics smallholder farming dominates: globally, 1 billion people could leave agriculture altogether and the average farm size would still be a smallholding of 1 hectare.^{xxxv} The move to large-scale agriculture in Africa would involve major land concentration to create substantial parcels on which to carry out large-scale production.^{xxxvi} But this would not necessarily be an easy process, as Stephen Carr emphasised:

"Inevitably you have to ask the question: if you displace 100,000 people off their land in order to have commercial agriculture, what are you going to do with the 100,000 people? That is a question very few people have an answer to".^{xxxvii}

Land issues will be discussed further under the heading of access to land and other productive assets.

20. Witnesses also told us that smallholder farming can be efficient.^{xxxviii} Peter Hazell stressed this point:

"In a poor country where labour is cheap and capital is scarce and often land is scarce, small farming is economically not only viable; it is the most efficient form of farming. As countries grow and labour becomes more expensive farmers expect to earn a higher income to keep up with their urban counterparts, then farms do have to get bigger, but it is quite appropriate for Africa to have small family farms at this stage of its development, and also in much of Asia".^{xxxix}

In arguing for the efficiency of small farms Stephen Carr told us that, in Malawi, local people had been able to produce maize at substantially lower cost than on commercial farms.^{xl} Michael Lipton couched the argument for the efficiency of small-scale agriculture in terms of its employment-intensive nature:

"The fact is that for most crops in most African situations smallholding is actually a rather efficient way of managing resources. If you are using a lot of labour and you cannot afford much capital, what you want to do is cut the supervision costs of labour, and a family is good at cutting supervision costs of labour.... They are also good at supervising hired labour ... If you have a labour-based farming system, as almost everywhere—not everywhere—in sub-Saharan Africa does, smallholding does pretty well."^{xli}

21. There may be drawbacks to working in a family unit. The obligation to employ unproductive workers is an obvious one, but, in addition, the differing objectives of family members, coupled with the power of family hierarchy, can have an effect on the management of the smallholding. It is also necessary to recognise that while smallholders may have the comparative advantage in the labour markets, they are still at a comparative disadvantage (in relation to big farms), in credit, input and output markets. But there is certainly room for governments, donors, NGOs and the private sector to work with smallholders to overcome some of these disadvantages.

22. Smallholder farms have the potential to operate commercially.^{xlii} This is particularly the case if their relationship with supermarket purchasers is mediated by a third party, such as a cooperative or association.^{xliii} Providing the quantity required by purchasers may require smallholders to club together, but having a single point of contact will usually be more manageable for purchasing agents. The relationship may also have positive benefits for smallholders who can have a stronger voice when operating collectively.

23. Aid agencies and national governments must re-emphasise the short- to medium-term strategic importance of labour-intensive agriculture and devise new strategies which take account of lessons learned and trends in the global economy. The role of smallholder agriculture has to be understood as part of a process of development in

which small-scale agriculture plays a key role at the initial stages, but will ultimately evolve into medium- and large-scale farming. An approach that recognises this will also need to consider the way in which people make their exits from agriculture.

Regional trade

24. A further argument in favour of small-scale farming in Africa rests on the level of demand and the potential for regional trade within the continent. In a food-deficient continent there is huge potential for increased production and marketing of food grains. Africa currently has a large internal demand for food grains and other commodities, an increasing share of which is supplied from imports (commercial and food aid). Recapturing a greater share of its own domestic market provides an avenue for African agriculture to expand without difficult changes in commodity composition. Peter Hazell suggested that there is \$50 billion worth of domestic Africa-wide consumption in basic food staples, including crop and the livestock products.^{xliv} This demand is, in part, being met through imports. The domestic market was identified as growing:

"The traditional food staples, the \$50 billion dollar market today, is going to double. A lot of small African farmers can double or triple their income over the next ten years by increasing their productivity in food staples".^{xlv}

25. Particular countries' food deficits are already met by regional trade within sub-Saharan Africa; northern Mozambique, for example, exports its surplus grain to Malawi.^{xlvi} This brings into focus the importance of regional trade in foodstuffs, a very difficult area for governments to manage. Achieving free regional agricultural trade requires regionally coordinated agricultural policies, which would not only be difficult to negotiate in the first instance, but would also run risks of limiting extra-regional trade negotiations. **Despite these concerns, it is essential that agricultural strategies tap into the potential of the African domestic market, which in the short- to medium-term holds greater potential than the broader global market.**

The needs of smallholders

26. **New strategies for agriculture in the poorest countries must focus on the needs of smallholders.** The challenge for smallholders is to raise agricultural productivity to the extent that an annual harvest will provide enough to feed (whether by producing a crop to eat or sell) the smallholder family for the entire year.^{xlvii} Witnesses identified the main obstacle to smallholders raising productivity as inadequate use of modern inputs, principally fertiliser and high-yielding seed.^{xlviii} A lack of access to financial services and training in skills is a major reason for the low use of inputs and technology. Land quality and water availability and management are also challenges. Smallholders are also exposed to significant risks such as bad weather, changing commodity prices and market failures. New technologies, which despite their potential to deliver higher productivity are dominated by commercial interests, can increasingly put smallholders at a disadvantage in local and global markets if they are unable to access them.^{xlix} Weak service delivery and failings in governance and

administration infrastructure are further challenges—not to mention the impact of the AIDS pandemic.

27. One problem is that agriculture is inherently risky. Smallholder farmers investing scarce saved cash and/or borrowings in inputs and their labour (which could have earned a wage working for others) are not just taking a chance on weather and pests, but also on the state of the market up to nine months later. This implies that the business environment for investment in farming, and for agricultural finance in particular, would be transformed by reducing risk. Reducing risk may involve government intervention in markets. This could be achieved by setting minimum prices for agricultural outputs, or experimenting with market-based mechanisms for managing risk, such as futures markets. **In summary, much more support is needed to enable small farmers to engage in the transactions, which would be normal for most other businesses. What is needed is support for practice-based research across a broad front: from the practical difficulties faced by farmers, to working out how national and regional agricultural policies may be developed to reduce risk and provide incentives to farmers, at acceptable fiscal cost. We cannot emphasise strongly enough the need to bring sustainable solutions to the financial needs of smallholders.**

INPUTS

28. The Green Revolutions of Asia were driven by the use of fertiliser and seed. By comparison, use of fertiliser in Africa has been concentrated in a few countries, and even in those countries has been 10-14kgs less per hectare than in south and Southeast Asia.¹ We were told that Africa has little hope of raising its agricultural productivity without access to these key inputs:

"In the last 15 years of the last century, fertiliser use throughout the whole of south and east Asia increased by not less than double in every country and in countries like Vietnam it went up six fold ... For some reason people are expecting Africa to feed itself without using any fertiliser."ⁱⁱ

Not only has fertiliser use in sub-Saharan Africa stagnated or declined in the last fifteen years, but the soil is becoming less and less fertile as it is drained of nutrients. As much as 80,000 tonnes of nutrients are taken out of the soil of sub-Saharan Africa each year without being replaced.^{lii}

29. Organic strategies may offer an affordable and environmentally friendly way to replace lost nutrients and raise productivity (and certainly quell environmental concerns about over-use of fertiliser). But although organic strategies can work technically, they are likely to require high labour inputs and farmers have to wait for several growing seasons before any substantial benefit is felt.^{liii} Most smallholders are too poor to invest their labour for benefits, which will be realised so far in the future. There is therefore a strong demand for inputs, notably fertiliser and improved seed. In Asia, government subsidy of fertiliser has made it accessible to farmers but Africa has not been able to sustain similar generalised subsidies, and has often been discouraged from doing so by donors, more often than not for good reasons.^{liv} Smallholder credit to assist in the purchase of much needed inputs has proved hard

to provide for poor families under the current policy environment.^{lv} But Stephen Carr told the Committee:

"If we continue to deny African farmers access to the one thing which has transformed the agriculture of all the rest of the world, we can expect to go on with the same kind of failure we have had for a number of years... we have to see how we can give farmers in Africa access to the two things which have transformed Asia. If we cannot do it with subsidies and we cannot do it with credit, then we just have to use our imagination and think of other ways in which it can be done".^{lvi}

We conclude that DFID's strategy for agriculture must include the promotion of mechanisms to increase smallholder access to inputs. In particular, smallholder access to fertiliser and seed is vital to increasing agricultural productivity in the majority of cases.

FINANCIAL SERVICES

30. Inputs require finance and smallholders often have no alternative but to borrow to meet the cost. With the decline of government lending schemes (many of which had performed badly) a major gap emerged in this area, which is not being well addressed by the provision of micro-finance lending. **Micro-finance lending is usually provided on the basis of borrowers' track record and consists, at least initially, of very small loans with short maturity periods. To make a difference, agricultural loans have to be larger and longer than those typically offered to micro-finance starter-borrowers. Such services are generally not viable for commercial banks but there may be potential for state involvement in the provision of low interest, somewhat longer-term loans. There is a role for donors and international agencies (World Bank/IMF) to play here.** We therefore welcome DFID's comments that:

"Development agencies now need to reappraise the state's role in agricultural finance. Instead of ignoring state banks, we need to identify and support banks with the right leadership, management and infrastructure to deliver financial services in rural areas, and investment in agriculture".^{lvii}

LAND AND OTHER PRODUCTIVE RESOURCES

31. In many parts of Africa high population density and land scarcity are a fact of life. The poorest may have no land of their own and may instead work on the land of others. Land reform can be a mechanism for increasing the ability of the poor to access land. It has also been argued that, where tenure is based on community membership, the introduction of private property rights over land could give smallholders a form of collateral which would allow access to credit and other financial services.^{lviii} There is also a strong case for actions to strengthen land rights of tenants and sharecroppers who would gain greater security and potential access to credit. But our witnesses noted potential problems of smallholders using their land as collateral for loans:

"very, very few banks are going to take a smallholder's holding as collateral. To go into a village and confiscate the home of a local person is going to arouse so much antagonism that very few commercial banks would be prepared to do it".^{lix}

32. Land issues are complex but important. While land reform, which provides western-style private property rights, might not be able to provide collateral, many argue that land (even a plot for a homestead) remains a critical asset enabling the poor to gain some economic and social stability.^{lx} In cases where the distribution of land is sharply unequal, redistributive land reform is justified for reasons of equity, pragmatic politics and possibly efficiency. For example, the situation in Zimbabwe would probably be very different today if land reform had helped establish a better relationship between commercial (predominantly white) farmers and (predominantly black) smallholders. Land reform could have involved some limited redistribution and provision of some key services (water, inputs) to smallholders via larger, mainly white-owned, farms. In other cases, there is less scope for re-distribution. Redistributive land reform focused on establishing tradable land rights can lead to the disenfranchisement of some groups (particularly women).^{lxi} Because land issues are so complicated, as well as being politically sensitive, it is tempting for aid agencies to avoid them. **DFID must engage with this issue. DFID has reduced its focus on land in recent years and should now seek to regain lost expertise.^{lxii} Detailed analysis of land issues need to be incorporated into agricultural and other development policies.**

33. Access to other productive resources has been identified as a challenge for smallholders. Water has great potential to deliver increased productivity. As we have already noted, the challenge of water capture and storage is greater in Africa than in Asia.^{lxiii} Our witnesses, Michael Lipton and George Rothschild, felt there was potential for increasing access to water through the use of small-scale water storage as well as irrigation technology such as treadle pumps and micro-drip systems.^{lxiv} **We recommend DFID scale-up its work on water technology and policy, as it is vital to helping smallholders raise productivity.**

OTHER NEEDS AND CHALLENGES

34. Part of giving smallholders the capacity to take advantage of market opportunities is ensuring market access—this has been a principle behind DFID's strategy of creating an enabling environment. Witnesses told us that lack of infrastructure remains a key obstacle to market access for smallholders.^{lxv} **We support DFID's focus on creating an enabling environment through infrastructure development, but there is now a pressing need for the policy to move beyond this.** Access to information about markets can also be useful to smallholders, as can assistance in building relationships and linkages with existing market players.^{lxvi} New information technology has great potential to increase access to market information.^{lxvii}

35. AIDS poses an unprecedented challenge to farmers in Africa and across the world. It is difficult to overstate the impact of the HIV/AIDS pandemic on agricultural capacity and production, particularly in Africa. The World Food Programme (WFP) reports that seven million farmers have been lost to AIDS in Africa alone.^{lxviii} The death of women has had a

particular impact on food production. The impact on agriculture due to loss of life to AIDS is greatest in the thinly populated countries where access to labour is a constraint. Even where there are sufficient able bodies to work the land, the AIDS pandemic and the rising number of AIDS orphans commonly means that a smallholder may have to provide for a greatly increased number of dependents.^{lxi} Agricultural strategies have to respond to this, for example through the development and promotion of labour-saving crops. In addition, supporting existing investments (such as small tea and coffee plantations) by letting out land on a tenancy basis can also deliver cash benefits to smallholders. **We conclude that it is vital that any agricultural strategy considers emerging evidence about the devastating demographic and socio-economic effects of the AIDS pandemic.**

Practical solutions

36. During the course of the inquiry we heard suggestions for practical solutions. Not all of them will provide long-term remedies but many can deliver quick results while the long-term policy is being formulated. We were told of interventions to deal with problems of access to inputs and finance. **For example, the DFID-supported inputs for work programmes in Malawi are promising, and in our view warrant continuing support on an increased scale.**^{lxx} Animal loan schemes (such as those for goats supported by Farm Africa in Kenya) can be very helpful in building up household assets, especially those under the control of women. Practice-based research into creating warehouse receipts systems, also DFID-supported, could develop the infrastructure of local commodity trade, thereby improving the competitiveness of local agriculture, and also provide farmers with tradable instruments which can pay for inputs.^{lxxi} The World Bank and the FAO are currently researching ways of providing crop insurance to smallholders and of making forward markets available as a means of reducing risks to producers and consumers.

37. Pest management can contribute to raising farmers' incomes, particularly if techniques require a low level of inputs.^{lxxii} Integrated pest management systems and use of biological controls have significant potential.^{lxxiii} Witnesses also emphasised the role of publicly financed plant breeding, which has to be followed through with effective seed production and distribution. Crops must be adapted to local environments and to the particular needs of smallholders rather than solely focused on the requirements of commercial farms. This will not occur without government support. Smallholders need traits in plants such as drought and weed-resistance, good storage and on-farm consumption characteristics, as well as higher yields.^{lxxiv} Developing these traits will need to be done while minimising financial outlay. **None of the practical solutions mentioned here are panaceas, but they will prove helpful to different segments of the smallholder population, and are examples of the kinds of innovation, which should be strongly encouraged by DFID and other agencies.**

3 THE KEY ACTORS AND THEIR ROLES

The balance between state and private sector involvement

GOVERNANCE ISSUES

38. During the period of structural adjustment programmes in the 1980s and 1990s, the role of the state in delivering agricultural services was cut back severely. The motivation for this came largely from the perception that government agencies were highly inefficient and unable to do the cope with the task in hand.^{lxxv} In particular, Ministries of Agriculture have performed badly suffering from "over-centralisation in relation to the capacity of government to run a centralised system".^{lxxvi} Lack of resources has also been an issue, as has the tendency for Ministries of Agriculture to be bound up with the distribution of patronage. In some cases 80-90% of budgets are spent on staff salaries.^{lxxvii} Although the rationalisation of agricultural ministries has not really been effectively tackled in any African state, the current trend towards de-centralisation holds promise.^{lxxviii}

39. However, excessive de-centralisation can itself lead to problems. Local politics come into play and there is a lack of support for, or development of, professionals working in the local context. Such de-centralisation has sometimes discouraged high-calibre national professionals from taking up employment in the public sector. De-centralisation will also have to be planned carefully, with due regard to the limited capacity of local government. Even so, some level of de-centralisation is needed to ensure that services being delivered are responsive to local needs. Christie Peacock put a strong case for an increased role for Ministries of Agriculture, particularly in encouraging information exchange, coordination and agricultural planning: "What is lacking very often, however, is a really coherent local level strategy that co-ordinates people and I think the Ministry of Agriculture could play an important role in that".^{lxxix}

40. Many witnesses also drew attention to the link between low productivity and policies, which promoted the rolling back of the state on the basis of a mistaken belief that the private sector would take over its role. Christie Peacock told us that:

"you could point to probably the late 1980s as a point when there was a lot of structural adjustment being imposed often on a lot of African economies. There was a strong pressure to retrench staff and reduce the role of the state. A lot of this was down to the belief that if the state withdrew the private sector would somehow miraculously come into the vacuum. In our experience in east Africa this has simply not happened."^{lxxx}

Peter Hazell pointed out that current thinking is that there should be a reintroduction of a role for the state, but that this should be limited to the creation of an enabling environment:

"It should ensure that contracts are in force, that we have quality standards, food safety and things like that. The private sector is supposed to take care of everything. There is not a single country in this world that has developed its agriculture on that model. Even this country still has a great deal of government intervention in services for agriculture..."^{lxxxi}

41. One of the consequences of the model of declining state involvement in Africa is that most small farmers have access neither to basic services, nor to many markets or credit. As a

result, they cannot purchase adequate quantities of improved seeds and fertilisers—all the keys needed to unlock agriculture's potential.^{lxxxii} The private sector has simply not filled the role previously played by the state. In present-day Africa, the lack of agricultural services, whether provided by the state or others, has caused a crisis in agriculture—or at the very least a stagnation and failure to increase productivity to meet growing needs. Some level of state involvement seems necessary. To allow this to happen, better governance is crucial.

42. But it is not true to say that in every case the private sector has failed to fill the gaps left by state withdrawal. Research findings show that the liberalisation of agriculture in developing countries, which gathered pace about 15 years ago, has in some cases created an enabling environment for the private sector to support smallholder production of cash crops. Smallholder cotton in Mozambique and Zambia provides an example. Private companies are advancing inputs and purchasing cotton and giving farmers a better service than the former parastatals, albeit under conditions of effective local monopoly. Conversely, in the case of staple food crops, smallholders in liberalised markets have generally not proven to be an interesting market for private sector service providers. Colin Poulton further illuminated the distinction between cash and food crops in terms of successful private sector involvement:

"In countries like Uganda reductions in poverty in the 1990s have been closely linked to expansions in cash crops after the liberalisation of the cash crop sector, say coffee, for example. In food crops the picture has been much more mixed. You have informal market systems. You do not have very large quantities of private capital going in there. You have these fiercely competitive markets with lots of small players where private players do not have the same incentive to assist the producers in their production activities, whereas in the cash crop sectors they are often assisted by buying companies. Coffee processors might also assist in investing in a farm's production. They will give them credit, they will give them technical advice, etc. That does not really happen in the food crop sector".^{lxxxiii}

43. We recommend that DFID urgently address the damaging gap in agricultural service provision. A greater role for government in funding agricultural services, despite its well-known drawbacks, may be unavoidable. We are convinced of the need for state involvement in service provision.^{lxxxiv} The World Bank is usually the lead agency in discussion with governments about the broader policy environment and, as such, we urge DFID to exert pressure on the World Bank to alter its policies. DFID should encourage national governments to reform their Ministries of Agriculture and to develop strategies for agricultural development following consultation with key stakeholders. DFID is in a very strong position to achieve this within the Poverty Reduction Strategy framework and in the light of increasing levels of budgetary support.^{lxxxv}

CDC AND VENTURE CAPITAL

44. Venture capital is in very short supply in the poor countries. It has the potential to create highly beneficial development results, such as the strong focus on growing value in business,

enabling high returns to be achieved, and the use of equity rather than debt as the investment instrument. In theory, CDC Group plc (formerly the Commonwealth Development Corporation) investments will be followed by substantial private sector investment motivated by the high returns achieved by CDC capital. Within the agricultural sector of poor countries, however, there are relatively few attractive opportunities for venture capital investment. On the whole the sector requires more "patient capital".^{lxxxvi} Nevertheless, there are a surprising number of occasions where businesses financed by venture capital have worked with smallholder farmers. An example is the company Flamingo Holdings, of which CDC Group plc holds a 14% share. Flamingo owns a number of companies in Britain and Africa bringing together a major Kenyan supply base with distributors in Britain. Kenyan suppliers provide pre-packed and prepared vegetables and cut flowers to major supermarkets such as Marks & Spencer, Sainsbury's, Safeway and Tesco. The group employs 7,000 staff worldwide and in 2002-03 had a turnover of £160 million.^{lxxxvii}

45. CDC told us that investment in the agricultural sector in the developing world can be attractive under some circumstances, but is hindered by market distortions if producers have to compete with producers in the developed world.^{lxxxviii} Structural weaknesses are also seen as an obstacle: these include inefficiencies where products are marketed through parastatal bodies and the high ancillary cost of primary production.^{lxxxix} **While venture capital is not likely to be an instrument that will drive agricultural development, it has the potential to work in some areas. Much of agricultural development will need to be supported by other instruments, which demand lower returns.**

The role of NGOs

46. NGOs play a key role in smallholder agricultural development. The sector is able to be flexible and experimental, and can harness the energy of committed individuals. NGOs undertake a variety of roles: local NGOs and international NGOs based in developing countries provide services to farmers including loans for, and access to, inputs and extension advice, taking on roles previously undertaken by the public sector; international NGOs are intermediaries between the local NGO and the aid agencies and also provide capacity development and technical advice; and local and international NGOs undertake advocacy work.

47. In a climate of the increasing use of budget support, NGOs have felt that their funding is threatened. In the past the Committee has strongly supported the argument made by DFID's Permanent Secretary, that NGOs need to demonstrate to national governments that they are an effective channel for delivering services through contracts with government.^{xc} The political reality is that national governments tend to operate within a culture of patronage and, as a consequence, persuading them to deliver services via NGOs is difficult. **We encourage DFID to renew its efforts to make national governments understand the potential of NGOs. DFID should also ensure that its increasing use of budget support is not a barrier to smallholders benefiting from the way that NGOs work. It also appears that, relative to their importance in agricultural development, the NGO sector may be under-investing in lesson-learning and knowledge management. We recommend that DFID**

continue to support NGO activity in this area. This will require particular attention to strengthening NGO capacity.

New technology and research

48. The critical role of research into agricultural technologies was stressed by witnesses to the inquiry. Hybrid seeds, adapted over successive rounds of breeding to local conditions, were an indispensable component of the Green Revolutions. Yet support for the international public research programme (such as the Consultative Group on International Agricultural Research—CGIAR) has been in decline, while in many poor countries national agricultural research systems are in an unsatisfactory state: "In the rich countries, public investment grew just 0.2% annually between 1991 and 1996, compared with 2.2% per year during the 1980s. In Africa, there was no growth at all..."^{xcvi} Michael Lipton stressed in evidence: "it is very important that a system of agricultural research support should be that: support, and not doing it instead of the countries concerned".^{xcvii} George Rothschild made a convincing argument about the need to further develop partnerships with low capacity National Agricultural Research Organisations (NAROs) in developing countries:

"Capacity building through partnerships, that is one of the best ways of achieving that [development of national institutions]. That may well mean either south-to-south partnerships or north-to-south partnerships and that is where we are seeing a major attrition of capacity, not least in this country, of institutions which still have the capacity to be able to do that".^{xcviii}

49. Private research into agricultural technology now accounts for more of the total than public research does and is inevitably focused on the needs of richer farmers, mainly in high and middle income countries.^{xcix} Private investment in agricultural research in 1981 was US\$4 billion, rising to over US\$7 billion by 1993.^{xcv} It is estimated that less than 6% of private sector agricultural research is carried out in developing countries, and of this nearly half is by multinational company affiliates (the "big five" multinational agribusinesses: Bayer/Aventis, Dow Agro, Du Pont, Monsanto and Syngenta). Figures cited in 2002 indicate spending of US\$10.8 billion in private research in the developed world, compared with US\$0.7 billion in the developing countries.^{xcvi} We have already mentioned in our discussion of practical solutions the need for crop research to tackle the needs of poor farmers.^{xcvii} Furthermore, in private breeding programmes for commercial agriculture, saving labour is a key objective, but this could be damaging to the employment-generating effects of smallholder agriculture.

50. DFID has been in the forefront of encouraging new methods of funding agricultural science in poor countries, based on competitive bidding and peer review.^{xcviii} We commend DFID's renewed commitment to agricultural research and offer the following observations for DFID to consider when formulating its policy:

- **The importance of finding the right balance between funding the international public systems (CGIAR), the national agricultural research systems (those that are pure public and those which are industry-controlled); and the development science capacity of the UK.**

- **The need for CGIAR to build alliances with research centres in developed countries. The UK science base has a major role to play in supporting CGIAR, which lacks scientific capacity in many areas. Additionally, DFID should continue to use the UK science base to support National Agricultural Research Organisations which seriously lack capacity.^{xcix}**
- **The need to understand the reasons why DFID's Rural Enterprise Technology Facility initiative has been slow to bear results in terms of public-private partnerships to develop technology for the poor.^c**
- **The need to determine how best to organise publicly-funded agricultural research to ensure that it is demand-led and relevant to the needs of smallholders.**

4 CONCLUSIONS FOR DFID'S STRATEGY

51. The Green Revolutions in Asia delivered dramatic increases in agricultural productivity and transformed the continent's agriculture. But the context of agricultural development in Asia and in Africa could not be more different. In Africa, population density varies widely and agriculture is diverse both in what it produces and the methods, which it uses. We have discussed the respective roles of small and large-scale farming in the future of agriculture and we believe that agriculture needs to be understood as a process in which small-scale farming will ultimately give way to medium- and large-scale commercial agriculture. In much of Africa, the immediate emphasis will need to be on smallholder farming, which can be both efficient and operate commercially.

52. DFID's strategy should not contain blanket prescriptions. DFID's policy needs to be sensitive to context and will require differing approaches in different areas. DFID's strategy should be a mixed one, incorporating roles for small, medium and large-scale agriculture as is regionally appropriate. The strategy should help smallholders build capacity to access and take advantage of markets, but it should also work on developing markets. At the same time, it is vitally important that DFID commits itself to finding sustainable solutions to the recurring problems faced by smallholders. One of the fundamental problems is that of agricultural finance. DFID needs to learn from the impact of past policies and take in the best elements of earlier and more recent models of agricultural development.

53. We see a stronger role for African national governments paying for and coordinating the delivery of some agricultural services, beyond the already widely accepted role of funding research. The relative strengths of the public and private sectors need to be recognised, and here the distinction between cash and food crops is particularly helpful. But while accepting that agriculture cannot function without some state involvement, the continuing weaknesses of national governments and, in particular, Ministries of Agriculture must also be acknowledged. And it is here that we see a major role for DFID.

54. DFID has a comparative advantage in technical assistance, capacity building and institutional reform and development. DFID has built a strong relationship with many African

governments and needs to use the leverage it acquires through budget support to prioritise agriculture. The Poverty Reduction Strategy model and use of Memoranda of Understanding allow DFID to encourage public expenditure in developing countries to focus on pro-poor agricultural policies and reform of Ministries of Agriculture. Streamlining staffing and some de-centralisation is likely to help agricultural ministries work more effectively and deliver responsive services. DFID should offer national governments assistance in handling what can amount to transitions in political economy. DFID has a role to play in advocacy with the World Bank and other financial institutions, which need persuading of the need to re-integrate the state in delivering agricultural services.

55. Trade reform has been another area of strength for DFID and one to which the Committee has given significant attention. We endorse and welcome DFID's work on international trade issues. But we recognise that international trade reform will not help the poorest, small-scale farmers, if they are unable to take advantage of new opportunities because of a lack of capacity, or access to key services. In the short- and medium-term, regional trade is more likely to deliver benefits to the poor in Africa. We call on DFID to use its expertise to support agriculture in Africa through developing regional trade.

56. As we have indicated within the report, we believe that agricultural research plays a significant role in agricultural development. We emphasise the need for research to be targeted towards, and to produce, affordable solutions to the challenges faced by smallholders. Research must not be used to create expensive new inputs which smallholders will have difficulty accessing and which will further disadvantage them in the market place. National Agricultural Research Organisations (NAROs) could benefit more from UK and international expertise. CGIAR should develop a closer supportive relationship with NAROs. DFID should give bilateral aid to NAROs and DFID country teams need, as a matter of urgency, to examine the relationships they can develop with these institutions.

CONCLUSIONS AND RECOMMENDATIONS

1. The creation of an enabling environment for agriculture is essential, but by itself it will not succeed unless services are also provided to farmers (by the private sector or the government). Farmers have to be able to take up the market opportunities, which the enabling environment aims to create. In its policy paper, DFID have finally recognised the need to move beyond the mere creation of an enabling environment. (Paragraph 13)
2. Some commentators may have a romantic attachment to smallholder farming: if so, we do not share it. We are convinced that the process of economic development necessitates an eventual reduction in the role of agriculture, particularly small-scale agriculture. But the central issue is one of timing and circumstance. (Paragraph 17)
3. Where there is a decline in agricultural activity (or where it becomes less labour-intensive), policies should allow people to make what might be termed "good exits" from farming. (Paragraph 18)

4. Aid agencies and national governments must re-emphasise the short- to medium-term strategic importance of labour-intensive agriculture and devise new strategies which take account of lessons learned and trends in the global economy. The role of smallholder agriculture has to be understood as part of a process of development in which small-scale agriculture plays a key role at the initial stages, but will ultimately evolve into medium- and large-scale farming. An approach that recognises this will also need to consider the way in which people make their exits from agriculture. (Paragraph 23)
5. It is essential that agricultural strategies tap into the potential of the African domestic market, which in the short- to medium-term holds greater potential than the broader global market. (Paragraph 25)
6. New strategies for agriculture in the poorest countries must focus on the needs of smallholders. (Paragraph 26)
7. Much more support is needed to enable small farmers to engage in the transactions, which would be normal for most other businesses. What is needed is support for practice-based research across a broad front: from the practical difficulties faced by farmers, to working out how national and regional agricultural policies may be developed to reduce risk and provide incentives to farmers, at acceptable fiscal cost. We cannot emphasise strongly enough the need to bring sustainable solutions to the financial needs of smallholders. (Paragraph 27)
8. We conclude that DFID's strategy for agriculture must include the promotion of mechanisms to increase smallholder access to inputs. In particular, smallholder access to fertiliser and seed is vital to increasing agricultural productivity in the majority of cases. (Paragraph 29)
9. Micro-finance lending is usually provided on the basis of borrowers' track record and consists, at least initially, of very small loans with short maturity periods. To make a difference, agricultural loans have to be larger and longer than those typically offered to micro-finance starter-borrowers. Such services are generally not viable for commercial banks but there may be potential for state involvement in the provision of low interest, somewhat longer-term loans. There is a role for donors and international agencies (World Bank/IMF) to play here. (Paragraph 30)
10. DFID has reduced its focus on land in recent years and should now seek to regain lost expertise. Detailed analysis of land issues need to be incorporated into agricultural and other development policies. (Paragraph 32)
11. We recommend DFID scale-up its work on water technology and policy, as it is vital to helping smallholders raise productivity. (Paragraph 33)
12. We support DFID's focus on creating an enabling environment through infrastructure development, but there is now a pressing need for the policy to move beyond this. (Paragraph 34)

13. This is vital that any agricultural strategy considers emerging evidence about the devastating demographic and socio-economic effects of the AIDS pandemic. (Paragraph 35)
14. The DFID-supported inputs for work programmes in Malawi are promising, and in our view warrant continuing support on an increased scale. Animal loan schemes (such as those for goats supported by Farm Africa in Kenya) can be very helpful in building up household assets, especially those under the control of women. Practice-based research into creating warehouse receipts systems, also DFID-supported, could develop the infrastructure of local commodity trade, thereby improving the competitiveness of local agriculture, and also provide farmers with tradable instruments which can pay for inputs. (Paragraph 36)
15. None of the practical solutions mentioned are panaceas, but they will prove helpful to different segments of the smallholder population, and are examples of the kinds of innovation, which should be strongly encouraged by DFID and other agencies. (Paragraph 37)
16. We recommend that DFID urgently address the damaging gap in agricultural service provision. A greater role for government in funding agricultural services, despite its well-known drawbacks, may be unavoidable. We are convinced of the need for state involvement in service provision.^{ci} The World Bank is usually the lead agency in discussion with governments about the broader policy environment and, as such, we urge DFID to exert pressure on the World Bank to alter its policies. DFID should encourage national governments to reform their Ministries of Agriculture and to develop strategies for agricultural development following consultation with key stakeholders. DFID is in a very strong position to achieve this within the Poverty Reduction Strategy framework and in the light of increasing levels of budgetary support. (Paragraph 43)
17. While venture capital is not likely to be an instrument that will drive agricultural development, it has the potential to work in some areas. Much of agricultural development will need to be supported by other instruments, which demand lower returns. (Paragraph 45)
18. We encourage DFID to renew its efforts to make national governments understand the potential of NGOs. DFID should also ensure that its increasing use of budget support is not a barrier to smallholders benefiting from the way that NGOs work. It also appears that, relative to their importance in agricultural development, the NGO sector may be under-investing in lesson-learning and knowledge management. We recommend that DFID continue to support NGO activity in this area. This will require particular attention to strengthening NGO capacity. (Paragraph 47)
19. DFID has been in the forefront of encouraging new methods of funding agricultural science in poor countries, based on competitive bidding and peer review. We commend DFID's renewed commitment to agricultural research and offer the following observations for DFID to consider when formulating its policy:

- **The importance of finding the right balance between funding the international public systems (CGIAR), the national agricultural research systems (those that are pure public and those which are industry-controlled); and the development science capacity of the UK.**
- **The need for CGIAR to build alliances with research centres in developed countries. The UK science base has a major role to play in supporting CGIAR, which lacks scientific capacity in many areas. Additionally, DFID should continue to use the UK science base to support National Agricultural Research Organisations, which seriously lack capacity.**
- **The need to understand the reasons why DFID's Rural Enterprise Technology Facility initiative has been slow to bear results in terms of public-private partnerships to develop technology for the poor.**
- **The need to determine how best to organise publicly-funded agricultural research to ensure that it is demand-led and relevant to the needs of smallholders. (Paragraph 50)**

FORMAL MINUTES

Tuesday 7 September 2004

Members present:
Tony Baldry, in the Chair

Mr John Battle	Mr Andrew Robathan
Mr Tony Colman	Tony Worthington
Ann Clwyd	

The Committee deliberated.

Draft Report (DFID's Agriculture Policy), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs entitled 'Background and acknowledgements' read and agreed to.

Paragraphs entitled 'Summary' read and postponed.

Paragraphs 1 to 56 read and agreed to.

Postponed paragraphs entitled 'Summary' read again and agreed to.

Resolved, that the Report be the Seventh Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order 134 (Select committee's (reports)) be applied to the Report.

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

Several papers were ordered to be reported to the House.

LIST OF WITNESSES

Wednesday 12 May 2004	Page
Dr Lea Borkenhagen , Livelihoods Programme Development Manager, Oxfam, Mr Andrew Jowett , Director, Harvest Help, Dr Christie Peacock , Chief Executive, FARM-Africa, and Mr Colin Williams OBE , Director, International Development Enterprises	Ev 1
Dr Peter Hazell , Director of the Development Strategy and Governance Division of the International Food Policy Research Institute, Washington, Dr Michael Hubbard , International Development Department, University of Birmingham, Mr Colin Poulton , Research Fellow, Department of Agricultural Sciences, Imperial College London, and Dr Steve Wiggins , Overseas Development Institute	Ev 11
Tuesday 25 May 2004	
Mr Stephen Carr OBE , an independent expert on African agriculture, and Mr Jonathan Coulter , Natural Resources Institute, University of Greenwich	Ev 21
Dr Michael Lipton CMG , Research Professor of Economics, Poverty Research Unit, Sussex University, Professor John Mumford , Professor of Natural Resource Management, Imperial College London, Professor George Rothschild , Co-ordinator, Independent Advisory Committee of DFID's Renewable Natural Resources Research Strategy Programmes (RNRRS), and Dr Colin Thirtle , Professor of Agricultural Economics, Imperial College London	Ev 29

LIST OF WRITTEN EVIDENCE

Written evidence, from those who have also given oral evidence:

1	Mr Stephen Carr OBE	Ev 37
2	Mr Jonathan Coulter	Ev 37; Ev 38; Ev 41
3	Oxfam	Ev 42; Ev 47
4	Joint memorandum: FARM-Africa, Harvest Help and Oxfam	Ev 50
5	Professor George Rothschild ^{cii}	Ev 51

Other written evidence:

6	CDC Group/Actis	Ev 56
7	Department for International Development	Ev 57
8	Mr A P Jones	Ev 61
9	Natural Environment Research Council	Ev 62
10	Nuffield Council on Bioethics	Ev 63
11	Professor John Perfect	Ev 64

LIST OF UNPRINTED WRITTEN EVIDENCE

Additional papers have been received from the following and have been reported to the House, but to save printing costs they have not been printed and copies have been placed in the House of Commons Library, where they may be inspected by Members. Other copies are in the Record Office, House of Lords and are available to the public for inspection. Requests for inspection should be addressed to the Record Office, House of Lords, London SW1, (Tel 020 7219 3074). Hours of inspection are from 9:30am to 5:00pm on Mondays to Fridays.

Specimen warehouse receipts, submitted by Mr Jonathan Coulter

Forthcoming article, 2004, Development Policy Review, 'The Emergence of Supermarkets with Chinese Characteristics: Challenges and Opportunities for China's Agricultural Development', Dinghuan Hu, Reardon, T., Rozelle, S., Timmer, P. and Honglin Wang

REPORTS FROM THE INTERNATIONAL DEVELOPMENT COMMITTEE SINCE 2001

The Government Responses to International Development Committee reports are listed here in brackets by the HC (or Cm) No. after the report they relate to.

Session 2003-04

First Report	Trade and Development at the WTO: Learning the lessons of Cancún to revive a genuine development round	HC 92-I and II (<i>HC 452</i>)
Second Report	Development Assistance and the Occupied Palestinian Territories	HC 230-I and II (<i>HC 487</i>)
Third Report	International Development Committee: Annual Report 2003	HC 312
Fourth Report	Kenya: DFID's Country Assistance Plan 2004-07 and Progress Towards the Millennium Development Goals	HC 494 (<i>HC 857</i>)
Fifth Report (First Joint Report)	Strategic Export Controls Annual Report for 2002, Licensing Policy and Parliamentary Scrutiny	HC 390
Sixth Report	Migration and Development: How to make migration work for poverty reduction	HC 79

Session 2002-03

First Report	Afghanistan: the transition from humanitarian relief to reconstruction and development assistance	HC 84 (<i>HC 621</i>)
Second Report	International Development Committee: Annual Report 2002	HC 331
Third Report	The humanitarian crisis in southern Africa	HC 116-I and -II (<i>HC 690</i>)
Fourth Report	Preparing for the humanitarian consequences of possible military action against Iraq	HC 444-I and -II (<i>HC 561</i>)
Fifth Report (First Joint Report)	The Government's proposals for secondary legislation under the Export Control Act	HC 620 (<i>Cm 5988</i>)
Sixth Report (Second Joint Report)	Strategic Export Controls Annual Report for 2001,	HC 474 (<i>Cm 5943</i>)

	Licensing Policy and Parliamentary Scrutiny	
Seventh Report	Trade and Development at the WTO: Issues for Cancún	HC 400-I and II (<i>HC 1093</i>)
Eighth Report	DFID Departmental Report 2003	HC 825 (<i>HC 231, Session 2003-04</i>)

Session 2001-02

First Report	The humanitarian crisis in Afghanistan and the Surrounding Region	HC 300-I and -II (<i>HC 633</i>)
Second Report	The Effectiveness of the Reforms of European Development Assistance	HC 417-I and -II (<i>HC 1027</i>)
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Fifth Report	Financing for Development: Finding the Money to Eliminate World Poverty	HC 785-I and -II (<i>HC 1269</i>)
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INTERNATIONAL DEVELOPMENT - MINUTES OF EVIDENCE

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Taken before the International Development Committee

WEDNESDAY 12 MAY 2004

Members present:

Tony Baldry, in the Chair

John Barrett

Chris McCafferty

Mr John Battle

Mr Andrew Robathan

Mr Quentin Davies

Tony Worthington

Mr Piara S Khabra

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Examination of Witnesses

Witnesses: **Dr Lea Borkenhagen**, Livelihoods Programme Development Manager, Oxfam, **Mr Andrew Jowett**, Director, Harvest Help, **Dr Christie Peacock**, CEO, FARM-Africa, and **Mr Colin Williams OBE**, Director, International Development Enterprises, examined.

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Examination of Witnesses

Witnesses: **Dr Peter Hazell**, Director of the Development Strategy and Governance Division of the International Food Policy Research Institute, Washington, **Dr Michael Hubbard**, International Development Department, University of Birmingham, **Mr Colin Poulton**, Research Fellow, Department of Agricultural Sciences, Imperial College London, and **Dr Steve Wiggins**, Overseas Development Institute, examined.

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Here you can browse the Minutes of Evidence which were ordered by the House of Commons to be printed 7 September 2004.

Taken before the International Development Committee

TUESDAY 25 MAY 2004

Members present:

Tony Baldry, in the Chair
John Barrett Mr Tony Colman
Mr John Battle Mr Piara S Khabra
Ann Clwyd Tony Worthington

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Examination of Witnesses

Witnesses: **Mr Stephen Carr OBE**, an independent expert on African agriculture, and **Mr Jonathan Coulter**, Natural Resources Institute, University of Greenwich, examined.

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Witnesses: **Dr Michael Lipton CMG**, Research Professor of Economics, Poverty Research Unit, Sussex University, **Professor John Mumford**, Professor of Natural Resource Management, Imperial College London, **Professor George Rothschild**, Co-ordinator, Independent Advisory Committee of DFID's Renewable Natural Resources Research Strategy Programmes (RNRRS), and **Dr Colin Thirtle**, Professor of Agricultural Economics, Imperial College London.

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Memorandum submitted by Mr Stephen Carr OBE, Malawi

Memorandum submitted by Mr Jonathan Coulter, Enterprise, Trade and Finance Group, Natural Resources Institute, University of Greenwich

Supplementary memorandum submitted by Mr Jonathan Coulter, Enterprise, Trade and Finance Group, Natural Resources Institute, University of Greenwich

Further supplementary memorandum submitted by Mr Jonathan Coulter, Enterprise, Trade and Finance Group, Natural Resources Institute, University of Greenwich

Memorandum submitted by Oxfam

Supplementary memorandum submitted by Oxfam

Supplementary joint memorandum submitted by FARM-Africa, Harvest Help and Oxfam

Memorandum submitted by Professor George Rothschild, on behalf of the Chairpersons of the Independent Advisory Committees of four of the DFID's Renewable Natural Resources Research Strategy programmes

Memorandum submitted by CDC Group/Actis

Memorandum submitted by the Department for International Development

Memorandum submitted by Mr A P Jones

Memorandum submitted by the Natural Environment Research Council (NERC)

Letter to the Chairman of the Committee from the Nuffield Council on Bioethics

Memorandum submitted by Professor John Perfect, Independent Chairman, DFID Plant Sciences Research Programme

ENDNOTES

- i *Rural Poverty Report 2001*, International Fund for Agricultural Development (IFAD), page 3.
- ii Cereal production in south Asia rose by 92% between 1969 and 1996 and doubled in east and southeast Asia (*Transforming the Rural Asian Economy: The Unfinished Revolution*, Rosegrant and Hazell, Asian Development Bank / Oxford University Press, 2000, Introduction, page xix).
- iii *Eliminating Hunger- Strategy for achieving the Millennium Development Goal on hunger*, DFID, May 2002 and *Better livelihoods for poor people: The role of Agriculture*, DFID, August 2002.
- iv *Rural Poverty Report 2001*, International Fund for Agricultural Development (IFAD), page 3.
- v *Better livelihoods for poor people: The role of Agriculture*, DFID, August 2002, page 15.
- vi The term Green Revolution is used to refer to a transformation in agriculture leading to increased productivity.
- vii *The State of Food and Agriculture*, 2003-04, Food and Agriculture Organization of the United Nations (FAO), page 109.
- viii International Development Committee, Eighth Report of Session 2002-03, Department for International Development: Departmental Report 2003, HC825, paras 55-62, and Third Report of Session 2002-03, Humanitarian Crisis in Southern Africa, HC 116-I, paras 106-110
- ix Q 2
- x *Aid to Agriculture*, OECD, December 2001: <http://www.oecd.org/dataoecd/40/43/2094403.pdf>
- xi Ev 59
- xii *Ibid*
- xiii Q 45
- xiv Q 46
- xv Q 45
- xvi Q 2
- xvii HC (2002-03) 116-I, para 36
- xviii Q48 - see Dr Wiggins discussion of the role of the Grain marketing Board in Zimbabwe in the early 80s.
- xix HC (2002-03) 116-I, paras 114-5
- xx *Ibid.*, para 40
- xxi *Ibid.*, para 106
- xxii Q 45
- xxiii Q 50
- xxiv *Ibid.*
- xxv *Reaching the poor - a call to action: Investment in smallholder agriculture in sub-Saharan Africa*, Farm Africa, Harvest Help and Imperial College London, Spring 2004
- xxvi *Agriculture and poverty reduction: unlocking the potential*, DFID, December 2003, page 2: <http://www.dfid.gov.uk/pubs/files/agripovertyreduction.pdf>
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- xxxii *Ibid*

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- xxxv Q 90. See also Rural Poverty Report 2001: the Challenge of Ending Rural Poverty, Rome: IFAD which states that even by 2020 60% of the world poor will still be living and working in rural areas, page 6
- xxxvi Q 40
- xxxvii Q 61
- xxxviii Q 49
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- xli Q 90
- xlii Q 49
- xlili Q 90. See also Reardon, T., Donron, J., Bush, L., Bingen, J. and Harris. C. (2001), 'Global change in agrifood grades and standards; agribusiness strategic responses in developing countries'. *International Food and Agribusiness Management Review* 2,3; Reardon, T., Berdgue, J., and Farrington, J. (2002), 'supermarkets and farming in Latin America: pointing directions for elsewhere?', *Perspectives*, 81 (December), London: Dept of International Development; Reardon, T., Timmer, P., Barrett, C. and Berdeque, J. (2003), 'the rise of supermarkets in Africa, Asia and Latin America'. *American Journal of Agricultural Economics*, 85, 5 (December), and Reardon, T., Rozelle, S., Timmer, P. and Honglin Wang (2004), 'Emergence of supermarkets with Chinese characteristics'. *Development Policy Review*, forthcoming
- xliv Q 49
- xlv Ibid.
- xlvi Q 72
- xlvii Q 63
- xlviii Qq 19, 20
- xliv Reaching the poor - a call to action: Investment in smallholder agriculture in sub-Saharan Africa, Farm Africa, Harvest Help and Imperial College London, Spring 2004, page 9
- ¹ Between 1991-1995, four countries (Ethiopia, Kenya, Nigeria and Zimbabwe) used 60% of all fertiliser used in sub-Saharan Africa, excluding south Africa. (*Macro trends and determinants of fertiliser use in sub-Saharan Africa*, A. Naseem and V. Kelly, Michigan State University, International Development Working Paper no. 73, 1999). Average fertiliser use in Kenya in the mid 1990s was 48kg per hectare, compared with 58kg per hectare in south Asia and 62kg per hectare in southeast Asia (Fertilizers to Support Agricultural Development in sub-Saharan Africa: What is Needed and Why, B.A. Larson and G.B. Frisvold, *Food Policy*, 21(1996): 509-525.)
- li Q 63
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- liv For example, we noted in our report on the humanitarian crisis in southern Africa that general maize subsidies in Malawi were not likely to strike the right balance between short-term relief and longer-term development, removed incentives for farmers to increase productivity and that the subsidy schemes were prone to corruption, including the diversion of maize across the borders to be sold in markets in neighbouring countries. HC (2002-03) 116-I, paras 114-116
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- lvi Ibid.

- lvii Agriculture and poverty reduction: unlocking the potential, DFID, December 2003: <http://www.dfid.gov.uk/pubs/files/agripovertyreduction.pdf>
- lviii *The Mystery of Capital*, H. De Soto, London, Sydney, Auckland and Parktown (S.Africa): Bantam Press; New York: Basic Books, 2000
- lix Q 78
- lx Ev 47
- lxi Q 16
- lxii Ev 47
- lxiii See para 15 of this report
- lxiv Qq 94, 95
- lxv Q 22
- lxvi Reaching the poor - a call to action: Investment in smallholder agriculture in sub-Saharan Africa, Farm Africa, Harvest Help and Imperial College London, Spring 2004, para 49. See also discussion in this report of the potential role of intermediaries/cooperatives and associations in helping smallholders engage in commercial agriculture (para 22 of this report)
- lxvii Q 22
- lxviii See written evidence on Orphans and Children made vulnerable by AIDS, International Development Committee, Session 2003-04, HC 573 (Ev 95)
- lxix Q 87
- lxx Q 63
- lxxi Ev 37 - 42
- lxxii Q 97
- lxxiii Q 98, 99
- lxxiv Q 96
- lxxv Q 51
- lxxvi Ibid.
- lxxvii Q 12
- lxxviii Q 15
- lxxix Ibid.
- lxxx Q 12
- lxxxi Q 51
- lxxxii Ibid.
- lxxxiii Q 51
- lxxxiv Evidence shows that, although state involvement may not be desirable in the long-term, it is needed at the early stages of agricultural development with the aim of kick starting markets rather than replacing them. Qq 12, 51. See also A Policy Agenda for Pro-Poor Agricultural Growth, Dorward A.; Kydd J.; Morrison J.; Urey I. *World Development*, January 2004, vol. 32, no. 1, pp. 73-89(17)
- lxxxv Q 105
- lxxxvi 'Patient capital' refers to a longer-term investment, which, whilst still requiring high returns, will not require them immediately
- lxxxvii See www.flamingoholdings.com/F-Holdings%20Public/flamingo_holdings_public.htm and Ev 56-7
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- xcI Slow Magic: Agricultural R&D a Century After Mendel, IFPRI, 2001
- xcii Q 102
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- xciv Slow Magic: Agricultural R&D a Century After Mendel, IFPRI, 2001, page 10
- xcv Changing Contexts for Agricultural Research and Development, in "Agricultural Science Policy: Changing Global Agendas" Edited by J.M.Alston, P.G.Pardey & M.J.Taylor. Published 2001 for the International Food Policy Research Institute by the John Hopkins University Press, Baltimore and London
- xcvi These figures are derived from the following report to DFID: Rural Enterprise Technology Facility (RETF) Supporting pro-poor private sector rural enterprise development, Scoping Study CNTR 01 2596. Final Report. March 2002. by N.M. Rothschild & Sons Ltd, Cambridge Economic Policy Associates Ltd, Overseas Development Institute, Natural Resources Institute
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- xcviii See for example: Strategies for pro-poor agricultural research, development, and technology transfer in Bolivia: An analysis of the options for future activities by DFID, Consultancy report: Anderson et al 2001 and Making demand-led research effective and pro-poor. A discussion note commissioned by RLD DFID, Simon Anderson, Imperial College
- xcix Qq 102, 103
- c See: <http://www.cepa.co.uk/docs/Rural%20Enterprise%20Technology%20Facility%20Summary.pdf>
- ci Evidence shows that, although state involvement may not be desirable in the long-term, it is needed at the early stages of agricultural development with the aim of kick starting markets rather than replacing them. Qq 12, 51. See also A Policy Agenda for Pro-Poor Agricultural Growth, Dorward A.; Kydd J.; Morrison J.; Urey I. *World Development*, January 2004, vol. 32, no. 1, pp. 73-89(17).
- cii (On behalf on behalf of the Chairpersons of the Independent Advisory Committees of four of the DFID's Renewable Natural Resources Research Strategy Programmes).