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Farm Subsidies: a problem for Africa too

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The level of farm subsidies in rich countries is now a well-recognized barrier to Africa's development. But are Africa's own farm subsidies also a barrier to development?

There are some parallels with the debate on European Union subsidies and state support for farming. For some farm industries, in both Europe and Africa, subsidy policies perpetuate inefficiency and discourage competitiveness. For others, they represent the only means of staying in business. The difference is that staying in business in Europe means maintaining 'the rural way of life'. In Africa, it means keeping millions out of endless famine relief.

Subsidies are a major bone of contention between African governments intent on maintaining market control and donor agencies intent on policy reform, but a more selective and flexible approach is essential if agriculture is to help in reducing poverty.

The Problem of Subsidies

During the years when 'structural adjustment' was in vogue, there was little dispute that government policies were holding back farmers and traders – by maintaining exchange rates that discouraged farm exports and encouraged food imports, and by stunting growth through maintaining government control over input and output prices and by direct state engagement in produce markets. Although ostensibly 'pro-farming' because it guaranteed prices and lowered input costs, the latter policy was believed to have held back the emergence of private traders and service providers and possibly stifled innovation at the farm level.

The counter-reaction to structural adjustment is largely over the private sector response to deregulation. Exchange rate policies are now generally pro-agriculture, but there is much less confidence in privatisation. Instead of introducing competition and improved services, the 'private sector' can mean one local trader pushing up input prices, buying as low as possible and unwilling to go to areas routinely visited by government employees in the past. The continued defence of public provision is often dismissed as a reluctance to put aside the 'rent seeking' activities that gave marketing boards and government input supply and credit agencies such a bad name in the first place.

But there is a major policy dilemma here – and its roots lie in the familiar error of collapsing the challenges of African agriculture into one set of policy prescriptions.

Two Agricultures

There are, in policy terms, two 'African agricultures'. For those farmers in a position to produce for the market, productivity and international competitiveness are now the watchwords – whether the 'farmer' is a large estate producing export standard fruit or a small plot holder producing vegetables for the local market.

Both NEPAD and the Commission for Africa, for example, prioritise private sector engagement in marketing and processing. In return for public investment in irrigation, market-related infrastructure of all kinds (from farm to port to telecommunications), technology, trade facilitation and so on, agriculture is expected to become more specialized, more standards-compliant and with greater value-addition. For this agriculture, direct market and price intervention is only exceptionally the way forward.

However, there is another African agriculture. Here rural families partly rely on their crops and animals to keep themselves from poverty, with only tiny and occasional market sales. For this agriculture, the priority is to support families to reduce drudgery and strain in farm work, to increase crop yields and animal reproduction rates, and to reduce the risks of crop failure and animal mortality - but, in doing so, recognizing that very few have the resources or will to become commercial farmers.

Unlike the other agriculture, this one does require direct subsidization (of, for example, seed packs, veterinary treatments, or fertilizer) in order to encourage on-farm improvement and reverse what is often the declining productivity of land. It may also require credit subsidies where high transaction costs and risks deter commercial lending.

So, on the one hand, agricultural policy should promote increased competitiveness and, in doing so, avoid giving the wrong signals to the market (in other words, stick to research, infrastructure, and trade policy); on the other hand, agricultural policy should contribute to rural welfare policy by subsidizing the poor in ways that reduce their

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vulnerability (in other words, direct incentives to increase production).

Getting Policies Right

The problems of targeting subsidies, and subsidy misuse, are well known: but the issue here is not farm subsidies – it is subsidies to the rural poor. And it has to be seen in policy terms as an alternative to, say, public works programmes, welfare grants, food aid, cash transfers etc. As with farm subsidies, all of these have major problems of design and cost-effectiveness.

From a Ministry of Agriculture perspective, adjusting to these two different policy objectives do not always provide the challenge it should. There are still many officials who are happy to promote the building of 'strategic' food depots to buy up unwanted produce, distribute improved breeding stock free of charge etc and have no difficulty arguing that such steps promote both competitiveness and household food security. The argument that one set of policies can serve to undermine the other is not always welcome.

But affordability is driving a more considered approach to the rationing of subsided inputs and services, and Ministries are now more open to experimenting with private sector alternatives in commercially-oriented areas or with specific commodities where public provision can be withdrawn with beneficial results. There is also interest in 'smart subsidies', which are essentially subsidies on services and products only the poor are likely to benefit from. This includes foot-driven irrigation pumps and small seed and fertilizer packages and, in the case of services, veterinary treatments administered at communal water points, and exchange of unproductive animals in small herds.

Donors wanting to move towards budgetary support to Ministries of Agriculture in return for agreed policy reforms often find such contradictions in policy difficult to accommodate, especially where they appear to be a pretext for obstructing change. However, in agriculture, a more permissive approach to policy conditions may more be necessary than, for example, in health or education sector support.

In any event 'agriculture' consists of very different industries, and appropriate support policies for the long-established grain or red meat markets are unlikely to be of much relevance to, say, essential oils or cut flowers. But it is the different, and often contradictory, agricultural policy objectives that should allow scope for flexibility and experimentation – in subsidy provision above all.

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