

**Institutions and their
Impact in Addressing
Rural Poverty in Africa**

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The last century has witnessed phenomenal advances in science, technology and wealth creation. Today, more people are richer, live longer and are in better health than at any other time in recorded history. Despite this, poverty in all its manifestations remains deep, pervasive, and intractable. Its eradication is, therefore, the primary challenge facing the development community today. It is therefore a great honour for me to be invited this morning to be with this distinguished group of eminent persons dedicated to eradicate poverty around the globe, and I am most grateful to President Fawzi Al-Sultan for extending this invitation to me. I am equally delighted that he gave me a free hand to choose the subject for the lecture. I have chosen, as my topic: Institutions and their Impact in Addressing Rural Poverty in Africa.

Poverty is widespread in developing countries. Although major gains in its eradication were made during the closing decades of the last century, particularly in East and South East Asia, the magnitude and intensity of poverty still remains unacceptably high. Today, more than 1.2 billion people in Africa, Asia, and Latin America live in absolute poverty, subsisting on less than \$1 a day. Indications are that their numbers are increasing. But poverty is not just a statistic. It is about misery, under-nourishment, ill health, lack of education and other basic needs for decent living, shortened life expectancy, and lack of hope. It is about people's inability to achieve their full potential. It is about missed opportunities. It is a negation of humanity.

Of all regions of the world, poverty is most intractable in Africa. Fully one half of its population, some 300 million people, lives on less than \$0.65 per day. Income inequality is also high. The Gini index (a measure of income inequality) at 45.9, is only exceeded by that of Latin America at 51. Food insecurity is high, and increasing. Food availability on a per capita basis has decreased between 1960 and 1990, and by all indications, it will get worse. According to the World Bank projections, Africa will have a food shortage of 250 million tons by 2020. Low and highly skewed incomes and inadequate nutrition have had major negative impacts on the health status of the population. The burden of disease is a daunting challenge. The incidence of tropical diseases is very high. There are 2 million deaths from malaria reported every year. An equal number of people are dying every year from HIV/AIDS. Other diseases, including TB, diarrhoeal diseases and measles are similarly pandemic. The costs of ill health in terms of medical costs, opportunity cost of labour, physical impairment and poor schooling, and therefore in terms of future development prospects for the region, are very high indeed.

Beyond income, nutrition and education, poverty has other dimensions. The poor are excluded and isolated from mainstream development activities. They are also particularly vulnerable to insecurity. And in Africa, insecurity is a major problem. Fully one fifth of the population of Africa lives in countries severely disrupted by conflict. More than one third of all African countries have experienced at least one period of strife in the last 40 years.

Poverty in Africa cuts across all sections of the population. But in terms of numbers and severity, African poverty is first and foremost a rural phenomenon. More than 70 per cent of the African population is rural, and, of these, an overwhelming majority are smallholders. The underperformance of agriculture during the last 40 years has increased the numbers, and exacerbated the plight, of the rural poor. Poverty reduction strategies in Africa must therefore address the rural population, and especially the rural poor.

Causes of deepening poverty in Africa

The causes of increasing poverty have been analysed extensively by the World Bank, by IFAD itself, and by other organizations. Within Africa itself, a growing number of African researchers have come forward with an increasing body of research diagnosing the nature, magnitude and causes of poverty in the region. A particularly useful reference is the recently published book: *Can Africa Claim the 21st Century?* At the centre of the causes of African poverty are underperforming economies. There has been a secular decline in Africa's GDP per capita, and today it is lower than it was in 1960.

The causes of this economic underperformance are many and varied. The levels of investments have been low and declining. Efficiency of capital, as measured by incremental capital output ratios, (ICORs) has been low. The low-efficiency rates of capital, in turn, have been caused by poor infrastructure, inappropriate policies, weak institutions and poor governance.

Inappropriate policies, in particular, have had a major impact on poor economic performance. For many years after independence, the majority of African countries pursued import, substituting industrial policies, which impacted negatively on domestic terms of trade for agriculture. Furthermore, agriculture was subjected to direct taxation in the form of export taxes, commodity cesses, etc. This was in contrast to practices in the industrial countries where the reverse is the case, and agriculture enjoys an annual subsidy of \$300 billion - equivalent to total Africa's GDP. Finally, there was public underinvestment in agriculture. In most of the African countries, public expenditures on agriculture, both capital and recurrent, amount to less than 10 per cent of total government budget. This is a low rate of investment considering that for the majority of countries, agriculture accounts for more than one third of GDP.

Globally, the international environment was not conducive. As primary commodity exporters, African countries experienced secular and substantial decline in their terms of trade. Foreign direct investment is negligible. Official development assistance (ODA) which reached its peak in the late eighties and early nineties, has been declining. Net ODA transfers per capita to Africa have fallen by more than 40 per cent, from \$32 in 1990 to \$19 in 1998. And in response to poor economic performance and insecurity, there has been substantial capital flight, together with unmanageable external debt over-hang which currently is equal to 80 per cent of Africa's GDP.

What has been done?

In response to deepening economic crisis, African governments have taken several measures to address the problem. There have been major efforts to promote regional economic integrals, partly in response to globalizing economy, but also to increase the size of domestic market and gain advantages of economies of scale. Through sub-regional organizations, like the Southern African Development Conference (SADC), the Economic Community of West African States (ECOWAS), and through the Organisation of African Unity, efforts have been undertaken to contain, resolve, and prevent internal strife and cross-border wars. But the most important task undertaken was on economic reforms. During the last fifteen years, the majority of African countries have undertaken far-reaching economic reforms whose aim was to stabilise the economies, remove price distortions through economic liberalization, improve economic efficiency, and foster economic growth. During the last few years, the reform process has been taken a step further, with poverty reduction as the central objective of the exercise.

The results of the effort have been mixed. For the Africa region as a whole, there has been a modest economic recovery since the mid

1990's. For a few countries, like Botswana, the growth rate of the economy has been spectacular, and has been sustained for a long time. In agriculture, there are also a few cases of a remarkable rebound in growth. Mozambique has enjoyed an agricultural growth rate of 9 per cent in recent years, and Uganda's agricultural sector grew by 14 per cent last year. But these examples are few and far between. The overall picture of the region is that of underperforming economies, weak agricultural sectors, and deep and increasing poverty.

Lessons learnt

The last fifteen years have taught us several important lessons. Perhaps the most important, and obvious, lesson is that, to eradicate poverty, per capita GDP must increase, and increase substantially, over long periods of time. The growth itself must be widespread and shared equitably by the population as a whole. Equitable and sustained growth increases the coefficient of growth elasticity of poverty. Generally, stagnant or declining growth affects the poor disproportionately. Given the rural/urban population distribution in Africa, a successful poverty eradication strategy must give priority to smallholder agriculture.

We have learnt that the most important determinants of economic growth and poverty reduction are outside the arena of economic management. As alluded earlier, civil strife alone accounts for a substantial reduction in Africa's per capita GDP. The number is even more striking for agriculture, where IFPRI studies have shown that African countries in conflict produce 12.4 per cent less food per capita in war years compared to production during peace time, and that, for the region as a whole, Africa's food production would have been 2 to 5 per cent higher if there were no conflicts.

Governance, both political and economic, is therefore crucial. Good governance enhances participation and a sense of ownership. It reduces conflicts, and in general, it should facilitate economic growth with equity.

Equally, we have learnt that sound macroeconomic policies are important. Policies which are biased against agriculture, distort relative prices, generate budget deficits, and fuel inflation are counter-productive to sustained growth and equity. But we have also learnt that sound macroeconomic policies, though important, are not sufficient to elicit sustained growth with equity. The majority of African countries have been pursuing macroeconomic reforms for the last 15 years. Yet per capita incomes have continued to deteriorate. Worse yet, one of the outcomes of the reforms has been worsening income inequalities between the rich and the poor, and between urban and rural areas. Other reform measures, especially those related to the reduction of budget deficit, have reduced budget provisions for agriculture, rural development in general, and health and education.

Looking to the future, the shortcomings just identified and the lessons learnt must be brought to bear in devising strategies for poverty eradication. Beyond conflict prevention and better governance, African governments and other development stakeholders must devise strategies, policies, and procedures to improve economic performance, foster economic growth with equity, and reduce poverty. Such a development strategy must be holistic and take into account the political, social, and economic dimensions of development. Besides improving the levels of domestic resource mobilization, enhancing economic efficiency, attracting external resources, both official and private, the strategy must focus on poverty. And, as stated earlier, the strategy must give priority to the resumption of sustained smallholder agricultural growth.

To revise the downward spiral in agricultural growth, several things will need to be done. Public investment in agriculture, in rural

infrastructure, better incentives to farmers, sound economic policies, and higher on-farm private investments will be called for.

More importantly, better farming technologies will need to be introduced. In his seminal study on peasant agriculture, “Transforming Traditional Agriculture”, T W Shultz showed that allocative efficiency in peasant agriculture is very high, and that increased productivity can only come from introduction of new technology and farming practices. Similarly, Hayami and Ruttan (1971) showed that it is technological change which drives the shape of agriculture. Within Africa, recent studies have shown that the median internal rate of return in agricultural research is 37 per cent.

The key then to increased agricultural productivity and growth is research and new technology. The research findings themselves must be understood, accepted, and internalised by the farmers. Mechanisms must be put in place to transmit the findings to the farmers and to make available the inputs which go along with the new technology. Structures and organizations must be put in place to market the output surplus to the consumers, either domestically, or internationally. Many players must collaborate in this effort, the government (both central and local), the private sector, the non-governmental organizations, the farmers groups, and the donors. A particularly important group is the women, who in Africa are the most significant players in agriculture. They are also the most disadvantaged. Successful agricultural development strategy in Africa therefore calls for the strengthening and creation of organizations and institutions to serve the farming community.

In the past, organizations and institutions for agricultural development were given low priority. Focus, both by governments and donors, was on investments, on credit and on policies. But without efficient organizations and institutions, the impact of the investments and policies is minimised. It is the absence of effective organizations and institutions that explains, more than anything else,

the low rate of return in agricultural investments in Africa, and the poor performance of the sector.

Institutions : Definition and Concepts

Institutions, as a concept and phenomenon, are difficult to come to grips with. They are diffuse and abstract, and cover all aspects of behaviour and social networking, including political, economic, and legal. Hierarchically, institutions extend from the family, the community, the nation, and beyond. It is because of their complexity that institutions and institutional dimensions of development are often overlooked in designing agricultural and other development strategies.

And yet, in Africa's context, institutions are critical. An attempt therefore needs to be made to come up with a working definition of institutions. Broadly, institutions can be defined as societal norms. They are stable, recurring patterns of behaviour that help define the choices that a society, and individuals within it make; and how those choices are executed. Institutions can be modern or traditional; formal or informal.

Organizations, on the other hand, are structured entities that operationalize institutions. They have clearly defined structures, functions, rules, regulations, procedures, and chains of command. Thus, a church or a mosque is an organization. Religion is an institution. In economics, a firm is an organization. Markets are an institution

A properly functioning organization is one whose laws, regulations, procedures and practices are in harmony with its underlying institution. When organizations evolve from institutions they are universally understood and accepted, and the transaction costs of compliance are minimal. However, in the majority of cases, organizations are created to serve a particular objective, for example, to provide credit or marketing services. Such organizations may or may not be in harmony with the societal norms. For them to function effectively, laws, regulations, and enforcement mechanisms including

sanctions are put in place. Typically, the transaction costs for enforcing compliance are high.

Efficacy of Institutions Serving African Agriculture

In the context of renewed agricultural growth for poverty eradication in Africa, six sets of institutions and their related organizational structures are relevant: the phenomenon of globalization and its related organizations; the Official Development Assistance organizations, both bilateral and multilateral; the state as an institution and its organizational structures; the market as an institution; civil society; and community- level institutions.

Globalization is not a new phenomenon. Looked at in terms of the ratio of international trade to world output, globalization was in fact more intense in the last quarter of the 19th Century than it is today. What is new in today's globalization is its technologically driven character by new information and communication technology. In theory, globalization intermediation of the World Trade Organization, can have a positive impact on agricultural growth. In practice, globalization benefits those with technology, resources, contacts, information, and access to markets. It has a negative impact on the poor. For Africa, its place in the global economy has been eroded, with declining export shares and little diversification into new lines of business. Africa's share of world trade has declined from 3 per cent forty years ago to 2 per cent. Excluding South Africa, the share is 1.2 per cent.

Two aspects of globalization with a potentially deleterous impact on African agriculture are technology availability and rural finance. Increasingly, agricultural research is under the domain of the private sector. Research in new seed varieties, and therefore future seed supply, is controlled by a few conglomerates. This will have serious implications on seed availability to the poor. Similarly, in

finance and banking, the trend is on mergers, risk and cost reduction, and the closure of rural banks. This has reduced credit availability and rural finance services to the farmers, both rich and poor.

To counteract the negative impacts of globalization in Africa, Official Development Assistance has a major role to play. First, as the flow of direct foreign investment to Africa is modest, ODA is a very important source of finance. Second, it is an important source of technology. Typically, ODA directly funds some 40 per cent of agricultural research in Africa, and indirectly through the Consultative Group on International Agricultural Research. Third, although it has diminished in the last few years, ODA still represents 10 per cent of Africa's GDP.

However, the organizational challenges confronting developing assistance are daunting. There is a multiplicity of donors, each with its own aid terms, conditions, and procedures. Second, the donors do not have complete understanding of the recipient countries' institutional and organizational structures. Third, the donors typically channel their aid through government organizations which, in many cases, have severe organizational problems of their own. Finally, for the rural sector, there are complex institutional and organizational issues which neither the governments nor the donors fully take into account in project and programme design. The poor performance of public investments in African agriculture, both by the donors and governments, can be explained primarily by the problems of organizational complexities of aid delivery.

Besides acting as a channel for delivering assistance for development purposes, the state is a central institution for fostering agricultural growth. It is the only institution which can maintain peace and avert conflict; and as was shown earlier, conflict avoidance is very important for economic growth and poverty eradication. Furthermore, there is no conclusive evidence to demonstrate that the African state is too big. On the contrary, there is evidence that in

terms of service delivery, most of rural Africa is undergoverned. Additionally, it has been shown that the state has been able to promote many successful agricultural development programmes. The 1988 World Bank study in *Managing Agricultural Development in Africa* showed conclusively that African governments with donor assistance were able to undertake successful projects in smallholder tea and dairy in Kenya, tobacco in Malawi, and cotton in West Africa.

But for the state to effectively promote development, it must have legitimacy, which is to say, it must be democratic. It must be responsive to its citizens through the application of rule of law. The law itself must derive its efficacy from the vibrancy of the institutions underlying it. If existing laws are to be amended or new ones legislated, care must be taken to ensure that they are acceptable to the people. Furthermore, to legislate a law is fairly easy. To create an organization to enforce the law is more complex and time consuming.

The principal cause of policy failure in Africa, both in agriculture and the rest of economy, has been the assumption that change of policy and its supporting legislation will be adequate to ensure a successful outcome of the reforms. No adequate attention has been given to the acceptance of the reforms by the stakeholders, the organizational requirements for the reform execution, and the time needed to implement the reforms.

In the context of the current development paradigm, markets, as an institution, are important. Although governments must play an important role in promoting agriculture through provision of policy environment, services, and in some cases through direct promotion of production activities, markets must play a central role in modernizing African agriculture. But markets take time to evolve. The principal reason why African governments got involved in productive and commercial activities was that markets were underdeveloped or non-existent. The retreat by governments from these activities, either because of budgetary pressures or as part of aid

conditionalities, has created a vacuum. In Kenya, for example, production of maize, dairy products and beef has fallen drastically with the withdrawal of government from the marketing of those commodities. The lesson learnt is that, before an organization is dismantled, there should be another one to replace it.

Another set of important institutions for agriculture is the civil society. In Africa, this is typically represented by non-governmental organizations, many of them externally funded. The NGOs are usually established to undertake a specific activity. They rarely evolve from the local setting. As such, they are not, strictly speaking, institutions. They are organizations, and many of them disappear with the end of their funding. Nevertheless, they are useful because of their flexibility, and some have been quite successful, especially in providing credit and in technology transfer.

The last set of institutions are community level ones. These come closest to our definition of institutions. They are home-grown, represent a community's norms, and have, over time, evolved organizational structures. They are particularly important in establishing rules on land ownership and management, particularly, in the management of common property resources. In Africa, the vast majority of farmers still hold their land under indigenous, customary land tenure systems. Several studies have shown that there is no marked difference in agricultural productivity between customary and individual land tenure systems. Community level institutions can therefore be used as important vehicles for agricultural development and poverty eradication. However, not all community level institutions are developmental, and some in fact promote inequalities. This is particularly so in gender issues. Interventions to promote agricultural growth should therefore carefully assess the appropriateness of institutions, especially with regard to equity.

To sum up, institutions and organizations are important for agricultural growth and poverty eradication. Many organizations set up by African governments and by donors have proven inadequate to

the tasks at hand; and the hasty dismantling of many public organizations has proven counterproductive. There is, however, an increasing awareness by governments, and donors, on the importance of organizations. Many African governments are becoming more open to the will of the people, and therefore more accountable to their institutions. Transparency and accountability of public organizations is increasing. And there are efforts to require public organizations to serve their clients more effectively.

Among donors, there is increasing appreciation of the importance of institutions. This is best illustrated by the calls by donors for participation and ownership of development agenda by the people and their governments. In agriculture and rural development, there are efforts to move away from the traditional project cycle, where project design is undertaken by government or donors, to the new project cycle, when the beneficiaries and local communities design and implement their projects. Similarly, on policy, there are efforts to move away from policy conditionalities to policy formulation by recipient governments and other stakeholders. These moves will make development initiatives more consistent with people's wishes, and therefore their institutions and organizations.

IFAD and Institutions

IFAD can look back on its 22 years history with a lot of satisfaction. Throughout those years, the Fund has remained steady in its mission to eradicate poverty. Development fashions, from industry-led growth to structural adjustment growth have come and gone. Now we are back to poverty eradication, as mandated by the Copenhagen Summit on Social Development of 1995.

Equally, the Fund has always focussed on beneficiary participation as the central element in designing its interventions. What is now popularly called ownership is something IFAD has

always practised. And the Fund always takes great care in assessing the status and viability of institutions and organizations by appraising, supervising, monitoring and evaluating the project and programmes it supports. In fact, the theme of its first seminar for African Ministers for Agriculture under its Special Programme for Africa in 1989 was on rural organizations. In the process, the Fund has acquired a wealth of knowledge on rural institutions from which the African governments and the rest of development community can benefit.

Learning is, of course, a never-ending process. There is still more IFAD can learn on the role of institutions and organizations in rural poverty eradication. And, there is much more the Fund can do in terms of strengthening rural organizations and being more sensitive to the dictates of institutions. For this, the Fund will require more resources, and time. Participatory planning, assessment of institutions, strengthening of organizations and their incorporation in project and programme design is costly. It is also time consuming. But this is a worthwhile cost if it leads to more effective project and programme design for rural poverty eradication.