

Policy and Politics for Smallholder Agriculture*

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1. Introduction

More than 100 years ago, Karl Kautsky (1899) published *The Agrarian Question*. The question he analyzed in this book remains important today: Is there a need and justification for agricultural policies that specifically support smallholder agriculture? Kautsky argued that the peasant producers persisted due to self-exploitation and underconsumption, which were not deemed to be socially desirable situations. Kautsky was convinced of the technical superiority of the large farms and saw no justification for agricultural policies designed to support small farmers.¹ The experience of the 20th century tells a different story: Implementing policies to support the economic development of small farmers proved to be a particularly successful strategy to reduce rural poverty and to use agriculture as an engine of growth on the road to industrialization (Mellor 1976). Both Western industrialized countries and the fast-growing Asian economies document the success of this development strategy. As Lipton (2005) noted, there is virtually no example of mass poverty reduction in modern history that did not start with sharp rises in employment and self-employment income due to increased productivity among small family farms.

Nevertheless, the experience of the 20th century also shows that it is a major challenge to identify and implement agricultural policies that support small farmers in ways that lead to poverty reduction and economic development. Some Asian countries, most notably China, embarked on this strategy only after disastrous results with promoting large-scale farming. The political power of large-scale landowners made a development strategy focusing on small farmers politically difficult in many Latin American countries. In Sub-Saharan Africa, strategies to achieve poverty reduction and economic development by promoting small farmers either were not put in place or did not work well. The number of poor people in this region has almost doubled during the past two decades (Chen and Ravallion 2004). Hence, it is not surprising that the small farm controversy that reemerged at the beginning of the 21st century has a particular focus on Africa. In spite of the success stories of agriculture-led economic development in Western industrialized countries and in Asian economies, the “agrarian question” remains subject to academic and political debate: Can economic development in Africa be achieved by relying on agriculture as the engine of growth? And if so, should a pro-poor agricultural growth strategy rely on small farms?

The controversy over the future of small farms has also been fuelled by the processes of globalization and related fundamental changes in the global food system, characterized by the rise of supermarkets, the increasing importance of private standards and labels, and emerging concerns for ethical and environmental aspects of food production. How these developments influence the available opportunities for small farmers in different parts of the world remains unclear. Will they retain their comparative advantages under these changing circumstances? Will they be able to capture the potential benefits of these new developments? Should agricultural policies address this concern, and if so, which policies are most suitable?

This paper aims to contribute to the small farm controversy by focusing on the political dimension and the political feasibility of agricultural policies that seek to use agriculture as the engine of pro-poor growth by relying on small farms. The reason for this focus is twofold: First, economic

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¹ Karl Kautsky, the leading theorist of the German Social Democrat Party (SPD) at the time, debated this question because the southern branch of the SPD demanded the inclusion of agricultural policies to support smallholder agriculture in the party's program to attract the political support of small farmers and rural laborers. Unlike Lenin, Kautsky came to the conclusion that the peasantry may well persist in a capitalist system. However, he did not consider the peasantry as a progressive force that could play an active role in the envisaged socialist revolution.

theory has come a long way, especially in the second half of the 20th century, to better understand the role of agriculture in economic development. Major advances have been made by applying the concepts of induced innovation and new institutional economics, such as transaction costs economics, agency theory, and property rights analysis, and by taking into account specific material conditions in agriculture and the role of risk and uncertainty. As Binswanger (2004) noted, the economics of agricultural development is a mature field, and its major insights are well established. In contrast, the politics of agricultural policies in developing countries are less well understood. The classics in this field, such as de Janvry's (1981) *The Agrarian Question and Reformism in Latin America*, Bates's (1981) study on the political foundations of agricultural policies in Africa, and the study on the political economy of agricultural pricing policy by Krueger, Schiff, and Valdés (1991), were conducted in the 1970s and 1980s. Binswanger and Deininger (1997) extensively reviewed the state of knowledge in this field and observed that "we are a long way from being able to explain the differences" in the agricultural policies adopted by different countries. They concluded that "there is a great need to develop a more unified theory of a political economy of agriculture and agrarian relations that can be tested empirically" (p. 1999).

Second, not only does our knowledge of the politics of agricultural policies in developing countries remain limited, but also the major political frame conditions for agricultural policymaking have changed considerably since the classics in this field were written. The most notable change is the global wave of democratization during the past two decades. Diamond (2003) noted that since the "third wave" of democratization began in 1974, the number of democratic countries has grown threefold from 41 to 121 by 2002.² Although democracy is widely acknowledged to be a goal in its own right, the implications for agricultural policies and the future of small farms remain unclear. As the cases of China or Indonesia under Suharto show, countries that historically were successful in promoting economic development with agricultural policies supporting small farms were not necessarily democracies.

Another major change is a global trend toward decentralization. Although there have been several waves of decentralization during the past 50 years, more recent decentralization trends focus on political decentralization, which refers to the transfer of authority to locally elected bodies. A third major change is the rise of civil society. From the global to the local level, nongovernmental organizations (NGOs) have come to play an increasingly important role, so much so that they are now characterized as the "third sector," after the public and private sectors. A fourth change is the increasing relevance of participatory policy processes. For example, the poverty reduction strategy papers have become a major policy instrument that is supposedly based on a broad consultation of different stakeholders. As with the case of democratization, the implications of these developments for agricultural policymaking remain unclear.

Against this background, the major arguments presented in this paper can be summarized as follows:

1. The specific material conditions of the agricultural sector cause different types of externalities and market failures. Therefore, there is a need for policies that address these market failures and promote an agricultural-led development strategy that is pro-poor and centered around small farms. The requisite policies depend on the country-specific frame conditions and will change during the course of economic development.
2. The material and socioeconomic conditions of agriculture also influence the political process of agricultural policymaking. Together with a political rationale for low food prices, they lead to inherent problems regarding the political feasibility of policies that would be required to promote agricultural-led, pro-poor development. Policy instruments that would be useful to support small farm-based economic development, such as price stabilization measures, either are not put in place or are used to exploit, rather than to benefit, small farmers. Other policy instruments, such as input subsidies, often tend to benefit large farmers more than small farmers. Moreover, policy instruments to support

² Diamond (2003), however, added that these totals reflect electoral democracy rather than fully consolidated democracies.

agricultural development are difficult to remove, even if the market failures that justified their implementation disappear.

3. The major strategy to address these problems of policy intervention, especially during the 1980s, was to withdraw agricultural support policies and to reduce public sector involvement in agriculture. International development agencies played a leading role in promoting these policy reforms. The effects were mixed: Those farmers who were previously discriminated against by the respective agricultural policies benefited, but other farmers remained exposed to the lingering market failures that remained unaddressed after the withdrawal of public sector involvement.
4. Based on the experience of the policy reforms during the 1980s, there is an increasing recognition of the need for policies that promote pro-poor, agricultural development. There is also an increased donor interest in this field. However, given the changing political circumstances, it remains unclear to which extent such policies are politically feasible and how they can avoid the negative experiences that gave rise to the policy reforms of the 1980s. While the international debate is characterized by a strong focus on the private sector and NGOs to overcome these problems, this paper highlights the role of collective action among smallholders and the continuing, albeit changing, role of the public sector. The implications are that improvements are needed in public sector governance in order to achieve pro-poor, agricultural development.
5. Research can contribute in two major ways to meet the challenges involved in policies and politics for smallholder agriculture. One field of research is normative policy analysis, which aims at identifying “smart” policy instruments that fit into the country-specific frame conditions and that avoid the problems of market failure and government failure that proved to be inherent in agricultural development. Analytical concepts from institutional economics, organizational theory, and public sector management are useful in this regard. The second, and closely related, field of research is positive policy analysis, which aims at better understanding political processes and, thus, the political feasibility of policies supporting pro-poor agricultural development. This type of research will benefit from analytical perspectives that take into account both material interests and the role of ideas, ideology, and discourse in political decision making; that capture the nature and sequencing of political processes; and that address the politics of implementing policy reforms.

To elaborate on these arguments more fully, the paper is organized as follows: Section 2 summarizes the state of knowledge on those agricultural policies that are conducive to generating pro-poor agricultural growth by relying on small farms. Section 3 reviews the various analytical approaches used to explain the political factors and processes that favor or discourage the adoption of these policies. Considering the focus on Africa in contemporary debates on the future of small farms, section 4 highlights the challenges facing African smallholders today across various subsectors and examines unresolved issues regarding the appropriate roles of the public, private, and third sectors. Given the dearth of recent research on the politics and policy processes surrounding the agricultural sector, section 5 proposes some possible approaches for narrowing key knowledge gaps in this area, while section 6 concludes.

2. Policies for Pro-poor Agricultural Growth: Rationale and Phases

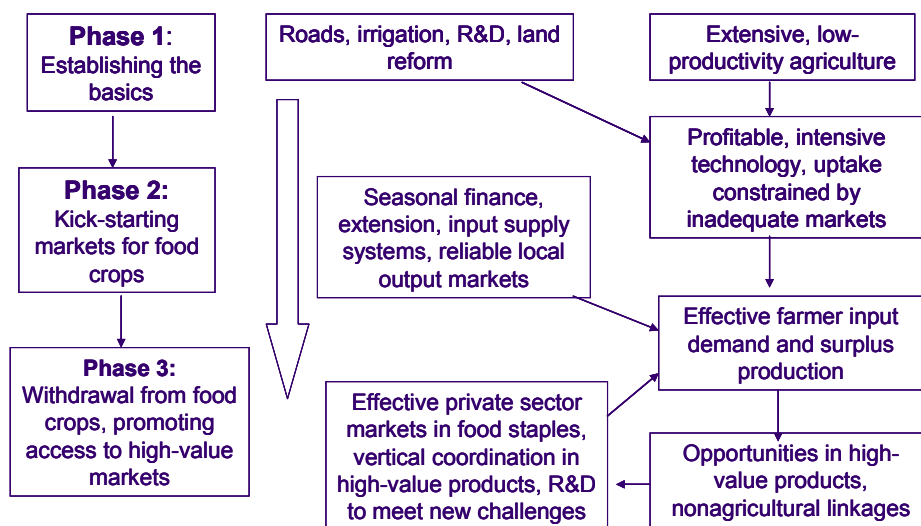
Insights from applying transaction costs economics and principal-agent theory to agricultural production suggest that, due to the specific material conditions of agriculture, family labor has a comparative advantage over hired labor in most farming systems (Pollack 1985; Schmitt 1991; Binswanger, Deininger and Feder 1996; Birner 1999; Lipton 2005). The transaction costs of hired labor in agriculture are typically higher than in the industrial sector due to the spatial dimension of agricultural production, the dependence on biological processes and weather conditions, the role of idiosyncratic knowledge, and the care intensity of agricultural activities. Plantation crops, such as tea

and sugarcane, which can be grown in monoculture and with group labor, as well as livestock operations that do not depend on land, such as intensive poultry production, are exceptions to this pattern.³

If small farms indeed have a comparative advantage over large farms, then why is there a need for explicit public policies to support them? One could argue that the removal of policies that discriminate against them would be sufficient to support agricultural growth led by small farms. The rationale for public policies that support small farmers is based on the insight that the material determinants of the production relations in agriculture give rise to different types of market failures (Binswanger and McIntire 1987; Binswanger and Rosenzweig 1986; Schmitt 1991; Binswanger and Deininger 1997). Apart from the conditions mentioned above, particular problems are caused by large variations in weather and prices, which lead to covariance of risk. Petit (1995) summarized the market failures in agriculture as based on externalities, public goods, moral hazard problems, market monopolies, and infant industries. Policy intervention is also justified if the market fails to produce socially desired outcomes due to other reasons. Examples are social safety nets, redistributive policies, and affirmative action policies for disadvantaged groups.

Andrew Dorward et al. (2004) recently reviewed the institutions and policies for pro-poor agricultural growth based on theoretical arguments, historical evidence, and economic modeling. Because the types of market failures change in the course of development, the authors suggested that it is useful to distinguish three policy phases in supporting the agricultural transformation. This approach, which necessarily has to rely on stylized facts, is presented in Figure 1.

Figure 1. Policy phases in supporting agricultural transformation



Source: Adapted from Dorward et al. (2004)

Phase 1 characterizes extensive, low-productivity agriculture in a low-income economy, which is typical of the pre-Green Revolution era in Asia and for many countries and regions in Africa today. As Dorward et al. (2004) show, policies in this first phase need to focus on the interventions that are necessary to create the basic conditions for improving the productivity in food crop

³ Economic theory also suggests that family farms allocate labor according to the average, rather than the marginal, value product. This is an advantage in situations characterized by underemployment and scarcity of capital, as is typical for developing countries. Of course, it is also the mechanism behind the self-exploitation and underconsumption described by Kautsky (1899).

production. Investments in agricultural research, in roads, and, where appropriate, in irrigation infrastructure are essential. If access to land is highly unequal, land reform is another important policy intervention for creating the conditions for pro-poor agricultural growth. Broad-based agricultural growth remains difficult to achieve in countries that have a persistent unequal land distribution, as demonstrated in large parts of Latin America.

Once the basic conditions are in place, the uptake of productivity-increasing technologies is, however, likely to be limited to farm households that have better access to seasonal finance and to input and output markets. In this phase 2, the development of markets is seriously affected by the material conditions of agriculture, such as the spatial distribution of agricultural production and its inherent risks. As long as the transaction volumes remain low, these conditions lead to market failures. Therefore policies can play an important role in kick-starting markets (Dorward et al. 2004).

To make poverty reducing broad-based agricultural growth possible, it is important to invest in institutions that provide agricultural services (especially extension and rural finance) and in the development of input supply systems and reliable local output markets. Creating an environment that enables collective action among farm households in the form of credit groups and producer associations is also important to address these market failures more effectively.

When agricultural production takes off, the transaction volumes for inputs, outputs, and services increase, and farmers learn how to use and adapt new technologies. Hence, the reasons that gave rise to market failures in the food staple sector are less relevant, and state intervention in these areas should be withdrawn (phase 3).

When applying this framework to better understand policies and politics for smallholder agriculture, it is useful to distinguish among the economic characteristics of staple food crops, traditional export crops, and nontraditional and high-value crops.

1. Figure 1 suggests a sequence in which the development of food staple crops precedes the development of the high-value and nontraditional crops, based on evidence that, depending on the country-specific conditions, this phasing will have a higher impact on poverty (Diao and Hazell 2004). Obviously, the model displayed in Figure 1 is highly stylized and needs to be adjusted for the specific conditions of each country. Importantly, geographic conditions play a central role; depending on their location, some regions of a country will develop faster and reach the different phases earlier than other regions do. Hence, different types of policies may be required for different regions and different subsectors within the same country.
2. Traditional export crops play an important role in many developing countries. While one can, in principle, distinguish the same three phases of policy support for these crops, they were often already introduced during colonial times, together with the basic infrastructure and institutions needed for input supply, marketing, and price stabilization. As discussed below, these crops differ from food crops with regard to the interest of and the possibilities for governments to control this sector. Moreover, these crops are typically plantation crops and therefore not necessarily dominated by small-scale producers, as indicated above.
3. Economic growth in the nonagricultural sector, rising per capita income, and the integration of global markets change the structure of the demand for agricultural products. This creates opportunities for high-value products, such as milk and animal livestock products, fruits, vegetables, and flowers. Pro-poor agricultural policies in this sector need to focus on enabling small farmers to make use of these opportunities, which are also subject to market failures due to the perishable nature of these products and subsequent “hold-up” problems.⁴ Different forms of vertical integration, ranging from

⁴ This term is used in transaction costs economics (Williamson 1985). It refers to situations where one contracting party can take advantage of the other—for example, because the other party has no alternatives. While Williamson deals with specificity

cooperatives to contract farming, can address these problems, but the options that contribute most to promote pro-poor growth depend on the sector and the frame conditions. Changes in the global food system, such as the rise of supermarkets and rising private standards, create additional challenges, especially for small farmers. Agricultural research, extension, and education need to focus on these new challenges, and this typically requires collaboration with various actors along the value chain and a greater role for the private sector.

4. Since the agricultural transformation is associated with different types of negative externalities, policies are also needed to address these externalities. The expansion of agricultural production into range lands and forested areas, which is characteristic for the earlier phases of agricultural development, requires institutions to mediate conflicting interests in land use that may arise between different groups of users (e.g., pastoralists versus crop farmers) or between land users and the society at large (e.g., in the case of forest conservation). With the intensification of agriculture, policies and regulation that prevent potential environmental or food safety hazards are required, as in the case of pesticides or genetically modified crops.
5. Throughout the agricultural transformation process, there is also a need for institutions that protect particularly vulnerable groups and that mitigate against shocks. In this regard, social safety nets that contribute to pro-poor growth are an important public policy.

3. Explaining Agricultural Policy Choices

The need to deal with the various market failures discussed in the previous section calls for agricultural policies that effectively address these failures in order to achieve pro-poor agricultural development. However, as indicated in the introduction, the experience of the 20th century shows that only a few countries were indeed able to implement such policies. Therefore, it is essential to analyze the political economy of agricultural policy choices. In explaining the adoption of past agricultural policies in developing countries, researchers have often placed emphasis on a particular theoretical perspective (see Binswanger and Deininger [1997] for a review). Methodologically, qualitative ex post interpretations of empirically observed patterns are a dominant approach in this literature.⁵

The Role of Interest Groups

Interest group, or society-centered, explanations of policy outcomes often focus on the ability of different rural and urban groups in society to overcome collective action problems, organize themselves as political interest groups, and exercise political pressure to the extent possible under the prevailing political regime. As a large, spatially dispersed group with heterogeneous interests and limited access to education and to communication and transportation infrastructure, small farmers in developing countries face numerous obstacles to engage in collective action and defend their interests. Their incentives to engage in political action are often limited by their poverty, which results in short time horizons and high risk aversion. Large farmers and other members of the rural elite are in a better position to overcome these obstacles and become effective political interest groups. Compared with small farmers, urban dwellers—particularly commercial, industrial, and bureaucratic elites—have the advantage of spatial concentration and can exercise political pressure in the form of demonstrations and revolts without major organizational requirements. According to this approach, the coalitions of interest groups that dominate the state determine the choice of agricultural policy

of investment as a reason for “hold-up” problems, farmers are obviously in a similar situation if products are perishable and high transport costs limit competition among traders and processes.

⁵ Quantitative public choice approaches to explain agricultural policies are more frequently found in the literature dealing with industrialized countries. For examples, please see Anderson and Hayami (1986); MacLaren (1992); and Swinnen, Banerjee, and de Gorter (2001).

instruments. Food prices have often been the nexus where conflicts between urban and rural interest groups occur.

This interest group approach, which is prevalent both in Marxist and neoclassical public choice approaches, helps explain why it has proved politically difficult to implement the agricultural policies that promote smallholder agriculture (Binswanger and Deininger 1997). The approach suggests that small-scale farmers in the food crop sector face particular difficulties in influencing agricultural policies, since these crops dominate production in the poorer and more remote areas where the capacity for collective action is low. Moreover, the political rationale to keep food prices low will affect, in particular, the farmers involved in food crop production. Therefore, one can expect that the agricultural policies needed in phases 1 and 2 from the model in Figure 1 are politically difficult to achieve. The interest group approach also suggests that policies implemented in these two phases are more likely to benefit large-scale farmers who are politically more powerful and who can be co-opted by such policies or compensated for the taxation of agriculture by agricultural pricing policies and macroeconomic policies. For the same reasons, policies that subsidize inputs that can be used individually by rural elites, such as credit and fertilizer, are more likely to be implemented than policies that provide public goods, such as roads. Accordingly, one can also expect a tendency to target the infrastructure investment needed to “establish the basics” (phase 1) according to political rather than economic considerations. The interest group approach also helps explain why one can expect political difficulties in withdrawing state support for agriculture in phase 3, when market failures that justified such interventions have been overcome.

In addition, the interest group approach implies that smallholders in the traditional, or cash crop, subsector share many of the same difficulties of those involved in food crops. However, due to the nature of their production, the former often have slightly better access to roads and output markets and a greater capacity for collective action around particular commodity-based organizations. As a major source of foreign exchange, this subsector cannot easily be ignored by policymakers. As such, it has been the recipient of both state predation, through overvalued exchange rates, marketing boards, and export taxes, and state beneficence, through subsidized inputs, assured output markets, and investments in agricultural research and technology.

Political economy arguments also offer some explanation of the historic variation in government treatment toward particular crops. For example, Leonard and Strauss (2003) claimed that the higher sunk cost of tree crops, such as cocoa and coffee, and the higher international prices those crops command relative to labor costs reduce incentives to switch to another crop and help explain why producers have historically been taxed. By incorporating a measure of politicians' discount rates, McMillan (2001) found that leaders with a higher probability of remaining in power tax less heavily. In addition, McMillan and Masters (2000) found that governments with a high discount rate tend not only to heavily tax those agricultural commodities with high fixed costs, such as tree crops, but also to invest less in agricultural research and development (R&D). Sarker, Meilke, and Hoy (1993) also employed a political economy model to understand the exploitation of wheat farmers in 13 developing countries between 1958 and 1987. They estimated the political weight of wheat farmers according to factor endowments, agriculture's share in employment, agriculture's share of gross domestic product (GDP), agriculture's international terms of trade, the extent to which imports are financed by agricultural exports, and the share of food in disposable income. They found that in developing countries, a high degree of the workforce is employed in wheat production, which makes collective action among farmers much more difficult. At the same time, wheat farmers enjoy high, international terms of trade, and therefore producers received little sympathy from the rest of society. Yet, the share of total imports financed by wheat exports is relatively low, which translates into a marginal influence over government policies.

The literature also highlights the fact that conflicts between urban and rural interest groups over agricultural policies can become manifested in a variety of ways. For instance, in *Weapons of the Weak*, Scott (1985) described various forms of everyday resistance to which relatively powerless groups in peasant societies may resort: foot-dragging, pilfering, slander, or sabotage. According to Bates (1981) and Binswanger, Deininger, and Feder (1996), more extreme forms of resistance by farmers have been met with state-sponsored violence under more oppressive political regimes.

The Role of Unintended Policy Consequences

Research on the political economy of agricultural policies has also revealed that the sequence of policy change in different countries can only be understood if the unintended consequences of policy instruments are taken into account (Bates 1981; Krueger, Schiff, and Valdés et al. 1991). This is a more state-centered explanatory approach that focuses on the political motives of governments, which may include political and social objectives, such as food self-sufficiency, low food prices for consumers, and fair prices to producers, as well as macroeconomic objectives, such as low inflation and foreign exchange earnings (Krueger, Schiff, and Valdés et al. 1991). Agricultural policies that are put in place to achieve these different goals may have unintended consequences that conflict with other goals and hence stimulate policy change. Unintended consequences include the creation of opportunities for rent-seeking, distortions in other sectors, unexpected difficulties in implementing and enforcing the respective policy instruments, and fiscal problems. Methodologically, however, it is difficult to determine to which extent the consequences of a policy instrument, such as greater capture by interest groups, were indeed unknown and unintended. In any case, there is considerable evidence that prior to the policy reform of the 1980s, policies implemented to correct previous policy failures only increased the complexity of agricultural policies and administration (Krueger, Schiff, and Valdés 1991). There is also evidence that the liberalization reforms of the 1980s led to unintended consequences (see section 4), especially for small farmers in the food staples sector, because they ignored the market failures discussed in section 2.

The Role of Ideas, Ideology, and Knowledge

Policies are driven not only by material interests but also by ideas, ideologies, and knowledge. Policies that taxed agriculture in order to finance rapid industrialization have been explained by the notion of “African socialism,” as well as dependency theory, both of which justified taxing agriculture to rapidly industrialize (Collier and Gunning 1999; Krueger, Schiff, and Valdés 1991). This policy also corresponded with mainstream economic thinking at that time. As Bates (1981) noted, many African leaders who had made great sacrifices in the struggle for independence had studied the leading development economists of their time and applied policies that taxed agriculture with the intention of promoting economic development. In the 1970s, research on the policy distortions against the agricultural sector and its negative impact on poverty and growth helped place policies in support of the agricultural sector on the international political agenda. Mirroring the general trend in development thinking, the “neoliberal counterrevolution” of the 1980s, which emphasized government failure and the “mantra of getting prices right” (Wolfensohn and Bourguignon 2004), advocated the withdrawal of public sector intervention in agriculture. Since the 1990s, international development thinking has been influenced by the failure of structural adjustment policies to reduce poverty. This experience fostered an emerging consensus in the international development community regarding the need to better understand the complementary roles of the state, the market, and the third sector and to “get institutions right” (see Section 5).

Paarlberg and Grindle (1991) are among the few authors who have analyzed how trends in international thinking influenced agricultural policies in developing countries. They contrasted the reform imperatives of the 1970s, which were production-oriented and sector-focused, with the reform imperatives of the 1980s, which had a macro- and cross-sectoral orientation. The authors showed that the actors involved, their concerns, and the implications for the implementation and sustainability of the reforms differed considerably between the two approaches.

The concept of ideas and ideology has been used in a rather broad sense in the literature on agricultural policies, referring not only to specific political ideologies, such as socialism, but also to more general trends in the international literature on economic development and corresponding policy prescriptions. Efforts to integrate arguments focused on interest groups with those focused on ideology remain scarce. This reflects the methodological difficulty of disentangling whether ideologies influenced agricultural policies directly or whether they were mainly used to legitimize the interests of powerful groups. As Binswanger and Deininger (1997) noted, “the impacts of ideas as generators and

facilitators of policy change” is “one of the areas where our knowledge is still very limited and poorly integrated across subfields and schools of social science” (p. 1999).

The Role of Donors and Type of Political Regime

In the literature on the politics of agricultural policies in developing countries, two interrelated factors have received less attention than the role of societal interest groups, unintended policy consequences, and ideologies: the role that donor agencies play and the way in which the type of political regime influences political choices. As described in the discussion about idea, ideology, and knowledge, international agencies play an important role in promoting changes in development thinking. Donor agencies, especially the international financial institutions, have also influenced political choices directly through conditionalities. This influence was rather direct during the structural adjustment period, but has since been replaced by an approach that focuses more on country ownership (Wolfensohn and Bourguignon 2004).⁶

There is evidence that the effect of donor intervention depends on the type of political regime, even though this issue has not been systematically analyzed for agricultural policies. Wane (2004) found that development aid is more effective if the recipient state has the capacity to negotiate the terms of assistance. In addition, aid can often undermine the institutional capacity of the recipient country by fostering corruption, reducing governments’ accountability to their citizens, and increasing administrative complexity in response to donors’ reporting requirements (Bauer 1991; Bates 2001; Easterly 2002; Herbst 2000). In analyzing the relationship between economic reforms and international development assistance, van de Walle (2001) criticized the dominance of society-centered interest group approaches to explain economic policies. In his perspective, these approaches assume a high degree of organizational capacity and mobilization among Africa’s population, which simply has not existed under the political regimes ruling in the post-colonial era. Rather, he advocates a state-centered approach that focuses on the problem of neopatrimonialism, which is characterized by presidentialism, clientelism, and the misuse of public resources. Perhaps motivated by the wave of democratization, there is also an increasing literature that applies concepts of constitutional public choice to examine how the type of political regime (especially presidential versus parliamentary types) influences economic policies (see, e.g., Keefer and Khemani 2003). Yet, while the interaction among donors, aid, and political regimes has been examined in terms of broad economic policies, future research would benefit from assessing its impact on agricultural policies as well.

4. The Politics of Agricultural Policies: Past Lessons and Current Circumstances

Agricultural Policies in the Pre-structural Adjustment Era: Magnitude of Intervention

The content and impact of agricultural policies during the pre-structural adjustment era have been widely analyzed. For the reasons discussed in the previous section, the agricultural policies prevailing in developing countries at that time typically discriminated against agriculture through both direct and indirect mechanisms. The degree of discrimination varied by country and by commodity. The comparative study by Krueger, Schiff, and Valdés (1991), which included 18 countries and analyzed the time period between 1960 and 1985, found that the indirect tax on agriculture from macroeconomic policies, such as overvalued exchange rates, was three times the direct tax on agriculture, such as export taxes. The study also uncovered another trend: Export crops tended to be discriminated against while import-competing crops were often protected.

In this study, Côte d’Ivoire, Ghana, and Zambia had the highest degree of discrimination against agriculture, with an average total nominal protection rate of –52. The fact that the dominant political party after independence in Ghana and Zambia had a strong urban base may have

⁶ For the World Bank, the introduction of the Comprehensive Development Framework in 1999 was instrumental for this change. The framework stresses country ownership, partnership, and the recognition of using a holistic, long-term vision of a country’s needs as basis for development assistance.

contributed to the strong bias against agriculture in these countries (Bates 1983, 1989; Collier and Gunning 1999; Krueger, Schiff, and Valdés 1991). Krueger noted that a similar pattern in which agricultural policy is influenced by the rural or urban origins of the ruling party also appeared in Sri Lanka, Pakistan, Malaysia, Argentina, and Chile. Of the 18 countries included, only Korea and Portugal had policies that were favorable to agriculture with mildly positive protection rates. The average rate of economic growth in these two countries was double that of the three countries with the highest discrimination against agriculture. In the other countries included in the study, protection rates varied from -44 to -8.⁷

A particularly interesting group of countries includes those that, following the earlier lead of Korea and Taiwan, reduced agricultural taxation in the 1970s and started to support smallholder agriculture through more favorable macroeconomic policies, social services, research and extension, and viable smallholder credit systems. As indicated in section 2, these policies are needed to “get the basics right” and “kick-start agricultural markets.” Countries in this group include Indonesia, Malaysia, and Thailand (Binswanger and Deininger 1997). The results have been impressive, most notably in China, where agricultural output grew by more than 6 percent per year in the first 15 years after the reform.

The explanatory approaches presented above cannot adequately explain why a policy change occurred in this group of countries in favor of supporting small farmers. They are all dominated by family farms rather than by a dualistic agrarian structure, which indicates that rural elites played a more limited role. However, this is not a sufficient explanation, since countries that discriminated heavily against agriculture, such as Ghana and Zambia, also had agrarian structures dominated by family farms (Binswanger and Deininger 1997). The case study on Malaysia in the project by Krueger, Schiff, and Valdés (1991) suggests that the political goal to reduce ethnic tensions played an important role in implementing policies that benefited small farmers, who were mostly Malay. Based on interviews with key figures of the agricultural reform process in China, including Du Runsheng, an ongoing study by Xiaobo Zhang⁸, Research Fellow at IFPRI, suggested that experimentation and learning from local initiatives, together with the experience of past hunger crises and the political imperative to avoid a new crisis, played an important role in the introduction of the household responsibility system, which restored the individual household as the main unit of production in rural areas.

Agricultural Policies in Contemporary Africa

In contrast to the literature on agricultural policymaking before the early 1990s, there exists less analysis of the politics of agricultural policy in the contemporary context. As discussed in the introduction, this is surprising given that both political systems and agricultural policies have changed quite substantially.

This section focuses on the current challenges and opportunities facing particular agricultural subsectors. It concentrates specifically on Sub-Saharan Africa, which is a major focus of the current smallholder controversy. What emerges is a recognition that many of the same market failures that promoted government intervention during the pre-structural adjustment period still exist today. Thus, it raises questions about how governments should react in order to help small farmers overcome these market failures, which types of government interventions are politically feasible, and how government intervention can avoid the mistakes commonly seen in the 1970s and 1980s.

⁷ The magnitude of discrimination revealed in this study has to be interpreted with some caution, since a later study that used general equilibrium modeling to determine the policy bias found that the magnitudes found by Krueger, Schiff, and Valdés may have been overstated (Jensen, Robinson, and Tarp 2002).

⁸ Personal communication, May 26, 2005.

Food Crop Sector

Prior to the 1980s, subsidized inputs and grain marketing boards were intended to encourage high food production and low prices, thereby appeasing potentially militant urban constituents (Bates 1981). As a result, this often led to a focus on commodities that were not appropriate for agro-ecological conditions or for the rural incomes of food crop producers. For example, during the 1970s and 1980s, Cameroon, Nigeria, and Senegal frequently subsidized rice production, even though most farmers were involved in the production of sorghum, millet, cassava, and yams (Lele 1989). In Zambia, the government's subsidization of maize production until the 1990s resulted in the production of this drought-prone commodity in areas where the productivity of other staples crops would have been more appropriate (Thurlow and Wobst 2004). Nonetheless, there were important variations to this trend. If elites were involved in the production of a food crop, they were less likely to use policies to depress prices. Bates (1981) also pointed to enforcement problems in the policies applied to food crops. Local administrators in some countries smuggled food crops across borders to take advantage of low domestic and high world market prices.

While the liberalization policies of the 1980s removed some of these distortions, there is some evidence that they often left food crop smallholders disadvantaged vis-à-vis those in other subsectors. For instance, as of 1998, 59 percent of Ghanaian food crop farmers remained in poverty, compared with 68 percent in 1992. On the other hand, export crop farmers, particularly those involved in cocoa, experienced a decline in poverty from 64 to 38.7 percent over the same period (McKay and Aryeetey 2004). Likewise, in Burkina Faso, cotton farmers witnessed a 15 percent reduction in poverty between 1994 and 2003, compared with a 7 percent reduction among food crop farmers (Grimm and Günther 2004).

These observations are in line with the considerations presented in section 2, which suggest that market failures require public sector support in food staple crops. Indeed, Pletcher (2000) explains that in Zambia, the lack of benefits for the private sector played a key role in the sequencing of maize market liberalization. While truckers, traders, and processors all lobbied for the liberalization of maize output markets, no such coalition existed for input markets. Often, the private sector in this subsector has been dominated by petty traders who cannot make bulk purchases and cannot facilitate the transfer of food production between surplus and deficit areas. It is now widely recognized that governments are responsible for the provision of those public goods, such as infrastructure, that would enhance smallholders' access to markets and increase incentives for the private sector (World Bank and Department for International Development 2005; Dorward et al. 2004).

In regard to market intervention, however, considerable debate remains about the public sector's role and what form this intervention, if any, should take. Even if governments recognize that there is little viable alternative to their intervention, it is unclear whether low-income African governments can afford this intervention and how it should be prioritized over other crucial investments for smallholders. Donors can help provide some of the critical financial gaps, but this solution often leads smallholders vulnerable to the vagaries of donor priorities and could potentially further divorce government responsibility for this subsector. One possibility is, for those countries that are eligible, the targeting of funding under the highly indebted poor countries (HIPC) initiative for agricultural inputs. This has been the tactic of the Burkinabé government, which in the HIPC framework has distributed free seeds and fertilizers to the poorest provinces. Consequently, the proportion of cereal-producing households using fertilizers has increased from 19 to 57 percent between 1998 and 2003, even though only 4 percent of these households have access to credit (Grimm and Günther 2004).

Besides threatening macroeconomic stability, public sector support remains controversial because of its potential to lead to unintended consequences. As the experience of the 1960s and 1970s discussed above shows, the ability to ensure that smallholders benefit from interventions in the input markets requires not only strong managerial capacity but also the ability of the state to insulate itself from pressures levied by commercial producers in this subsector. The extent to which the problems experienced earlier can be avoided thus depends, among other things, on the relation

between state capacity on the one hand and the dominance of large-scale farmers in the food crop sector and rural-urban power dynamics on the other hand.

There is also some evidence that the rise of democracy in Africa can create incentives for governments to support small-scale farmers in the food crop sector to ensure political support. For example, to quickly ensure its legitimacy after Malawi's first multiparty elections in 1994, the United Democratic Front government of President Bakili Muluzi engaged in an interventionist strategy in the agricultural sector that was scaled up by 1998 to a Starter Pack Program of free seeds, fertilizer, and extension services for maize producers (Harrigan 2003).

The considerations presented in section 2 also draw attention to the question of how and when such intervention should ultimately be removed (phase 3). The justification for public sector support is based on the rationale that the measure is temporary and should be removed as economic growth takes off and a virtuous cycle of investment and entrepreneurship emerges. However, there is a danger of such a cycle failing to emerge, causing an expansion of support and in turn increasing the difficulty of removal. This emphasizes Harrigan's (2003) observation that "the synchronization of state retreat from agriculture with the development of a private sector capacity remains a key policy issue throughout much of the Sub-Saharan region" (p. 859). The growing presence of democracy in Africa requires governments to balance the needs of multiple constituencies and the removal of subsidies may not be as politically feasible as under authoritarian regimes. In fact, the successive intervention into Zambia's maize input markets generated heated opposition when the ruling Movement for Multiparty Democracy government eventually wanted to liberalize. Pletcher (2000) claimed that "proceedings became unruly" in Zambia's parliament when opposition MPs introduced a motion that would require the government to play a more active role in the provision of inputs (p. 139).

Traditional Export Crop Sector

As a major source of foreign exchange and government revenue, especially in countries lacking mineral resources, the traditional export sector was usually the main target of discriminatory agricultural policies (Krueger, Schiff, and Valdés 1991). Marketing boards may have protected producers in this subsector from world price volatility, but they also provided the resources for investing in large-scale infrastructure and industrialization projects that were disproportionately concentrated in urban areas (Bates 1981). Once again, however, political motives supplemented economic incentives. In Sri Lanka and Malaysia, political parties relied on small-scale food crop farmers for support, and they therefore preferred to tax large-scale traditional export farmers who were less politically active. Moreover, in countries where traditional export crops were a crucial input into domestic manufacturing industries, manufacturers used political leverage to lobby for the continuation of such taxes and thereby to ensure cheaper inputs (Krueger, Schiff, and Valdés 1991).

In African countries where the export crop sector was heavily taxed, the reforms of the 1980s and 1990s that abolished such policies can be expected to have favored small farmers. However, to the extent that farmers benefited from price stabilization, the removal of this policy can be expected to increase their vulnerability. The different practices in this subsector across countries provide greater insight into the circumstances under which liberalization proved disadvantageous.

For instance, in Burkina Faso, the government favors the production of cotton, which comprises almost 60 percent of total exports. Cotton production increased steadily after the 1994 CFA Franc devaluation, and this development, combined with the price support offered by the government marketing board, SOFITEX, allowed the cotton sector to experience growth of 250 percent between 1994 and 2003 (Grimm and Günther 2004). In Ghana, agricultural reforms implemented at the end of the 1980s resulted in priority attention for the cocoa sector relative to food crops, and although the international price for cocoa fluctuated throughout the 1990s, cocoa producers continue to receive a guaranteed price from Ghana's Cocoa Board (Cocobod). Stable prices helped the sector grow and enabled cocoa exporters to experience some of the largest decreases in the incidence of poverty, from 64 percent in 1991–1992 to 39 percent six years later (McKay and Aryeetey 2004).

In Uganda, however, the coffee sector was liberalized and the Coffee Marketing Board was dismantled in 1991. Consequently, coffee producers were able to benefit from the world price of coffee, which peaked during the 1994–1995 growing season. Indeed, households located in Uganda's coffee districts experienced more than a 50 percent decline in poverty between 1992 and 1999 (Kappel, Lay, and Steiner 2004). However, the plummet of world coffee prices in 1998, which reached its nadir in 2001–2002 and has yet to fully recover, played a direct role in the subsequent rise in rural poverty between 1999 and 2003, particularly in the coffee districts and among broader crop agriculture (Okidi et al. 2004; Kappel, Lay, and Steiner 2004).

Based on these divergent experiences, it appears that the public sector may still have an important role to play. Indeed, the volatility of commodity prices for traditional crops may necessitate some form of government price support. This may be particularly true for those commodities that are highly subsidized by industrialized countries, such as for cotton. Through SOFITEX, the Burkina Faso government can at least ensure a stable income for cotton smallholders in the face of the \$3 billion in subsidies bestowed upon producers in the United States, the European Union, and China by their respective governments. Indeed, this highlights an additional advocacy role for the public sector, such as promoting fair access to world markets. The Cotton Initiative submitted jointly to the World Trade Organization by Benin, Burkina Faso, Chad, and Mali highlights the value of collective support by regional African governments for particular commodities critical to those countries' economic growth.

On the other hand, price volatility is a good indicator of the inevitable vulnerability of the traditional crop subsector and those employed within it. Without price support, this may, over the long term, encourage greater diversification into higher value-added processed products, such as textiles and chocolate. In Uganda, the fall in coffee prices has also led the governments to place greater emphasis on nontraditional exports that have a high level of smallholder participation, such as vanilla and fish (Kappel, Lay, and Steiner 2004).

Due to greater reliability of profits in this subsector compared with food crops, private sector participation is generally higher. The difficulty, however, is ensuring that smallholders benefit as much as commercial farmers do from private sector intervention. Beyond ensuring a favorable investment climate in terms of both infrastructure and policies, governments could also encourage private sector intervention in areas that would create spillovers advantageous for smallholders. This includes agricultural R&D, innovative technologies for reducing information asymmetries, and financing arrangements that improve credit availability.

In this subsector, determining where synergies exist between the private and public sectors is crucial, but governments will remain primarily responsible for ensuring that smallholders, particularly the poorest among them, are not left behind (see section 5). Politically, this may prove more important in those countries where key export commodities are produced by smallholders, such as cocoa in Ghana or groundnuts in Senegal, than where traditional crops have been the preserve of commercial farmers, such as tobacco in Malawi.

Nontraditional Export Crop Sector

Increased demand from European consumers combined with the growth of supermarkets in Africa as well as the emphasis by donors and governments alike on agricultural diversification, has led to a surge in nontraditional exports, particularly horticulture. For example, as of 2000, horticulture in the form of specialty vegetables and roses accounted for 38 percent of Zambia's agricultural exports, and export earnings in this sector increased from US\$6 million to US\$33 million between 1994 and 2001 (World Bank 2004). In Kenya, fresh fruits and vegetables had a rural market value of US\$354 million as of 2002, equivalent to 3 percent of GDP, and has become the fastest-growing sector of the economy (Neven and Reardon 2004; Smith et al. 2004).

The literature on the political economy of agriculture policy in Africa in the pre-structural adjustment era did not address the role of the state in this subsector. This is probably because the growth in high-value, nontraditional exports is a fairly recent phenomenon, even though a number of

African countries, such as Kenya and South Africa, have been engaged in this subsector for decades. Moreover, this subsector is marked by a higher degree of private sector involvement, and therefore, much of the literature on this subsector focuses on whether and how the private sector facilitates smallholder participation rather than on public sector intervention.

A majority of discussion about this subsector revolves around supermarket value chains and their implications for smallholder production. The findings are relatively mixed. While British and other EU supermarkets may be increasingly sourcing from large commercial farms in Africa (Dolan and Humphrey 2001), some domestic retailers in the region appear willing to buy from smallholders who can meet certain quality, safety, consistency, and cost standards (Weatherspoon and Reardon 2003).

There is a variety of institutional options by which smallholders can overcome the market failures that they typically face and increase their competitiveness in the high-value and nontraditional products. They include the formation of producer organizations and cooperatives on the one hand and vertical integration in the form of contracting arrangements on the other. In the horticulture industry, contracting arrangements in the form of outgrower schemes play an important role. In principle, firms provide farmers with credit, inputs, machinery, extension services, and an assured output market, while farmers offer a steady flow of raw materials, which is crucial for processing firms that may have high fixed costs (Glover 1984). In addition, by not entering into a direct wage relationship with the farmer, but rather agreeing to buy her crops, the firm does not need to worry about fluctuations in labor supply and avoids the transaction costs of supervising agricultural labor (see section 2). Since the firms control the technical inputs they offer, they also indirectly control the quality of the crops produced (Bracking 2003). Moreover, the firms can provide the necessary managerial oversight and technical advice needed for ensuring that the products meet the requisite standards demanded by the final market.

In practice, however, outgrower schemes have demonstrated variable success. There is evidence of smallholders selling to alternative traders, which in turn reduces firms' recovery rate of input costs and diminishes trust between the firm and the farmer. Such a trend has also encouraged some companies to stifle the dissemination of processing facilities to local traders and thereby reduce the latter's incentives to buy from smallholders involved in outgrower schemes (Shepard and Farolfi 1999). Depending on the terms of the outgrower contract, smallholders can also be at a disadvantage. Often, the contract is binding on the farmer, but the firm can renege at will by claiming the provided output does not meet specified quality standards (Bracking 2003; Glover 1984). Indeed, depending on the design of the scheme, firms can reinforce smallholder dependence and vulnerability.

Cooperatives and farmer associations represent another approach for helping smallholders take advantage of the opportunities in the high-value export sector. They are an institutional arrangement built around the principles of democratic grassroots participation. In Europe, cooperatives have played an important role in integrating small farmers in high-value markets, and they have remained important until today.⁹ However, in developing countries, the public sector undermined the participatory nature of these organizations by intervening excessively during the preadjustment period, believing that the groups were too politically powerful, without providing the necessary managerial assistance and training necessary for them to thrive (Lele and Christiansen 1989). In the post-structural adjustment period, some former parastatals have been transformed into cooperatives, while others have emerged with the support of donors and NGOs. Lessons from successful cooperatives highlight the importance of limiting membership to a small group of individuals who already have established some trust and familiarity, strong democratic processes, and a sustainable source of financing. Yet development projects centered on creating cooperatives and farmer organizations have often failed if the incentives for farmers to join were only input subsidies, which did not foster trust among participants but rather increased farmers' dependence on the project organizers (Coulter et al. 1999). The trend in many African countries toward greater

⁹ For example, cooperatives account for more than 80 percent of the market share of dairy in several European countries (van Bakkum and van Dijk 1997).

decentralization and participatory politics promises to offer at least the necessary supporting environment for cooperatives and producer associations.

Beyond the desirability of institutions for promoting smallholder participation in high-value export crops, a number of other ethical questions pertain specifically to this subsector. One issue that has received particular attention by the research community in recent years is the role of women in Africa's horticultural industry (Barrientos, McClenaghan, and Orton 2001; Barrientos, Dolan, and Tallontire 2003; Dolan and Sorby 2003; Smith et al. 2004). Although women comprise between 35 and 75 percent of the workforce in export horticulture (Smith et al. 2004), they disproportionately suffer from discrimination in hiring practices, low wages, sexual harassment, and unsanitary working conditions.

Does the state have a role to play in this subsector? Answering this question highlights a number of challenges for the state. First, there may be a degree of power asymmetry between the state and the other actors involved, including not only the private sector but also NGOs and the donor community. Indeed, outgrower schemes emerged in response to poor public extension systems and inadequate credit. They enable the state to benefit from foreign investment, increased export earnings, greater tax revenue, and savings on hiring extension personnel and providing inputs (Bracking 2003). Therefore, these aggregate benefits will influence the political considerations regarding the extent to which governments ensure that outgrower schemes assist smallholders. Second, these schemes may benefit from reliable access to the legal system for enforcement. Yet, as demonstrated in Zambia, where a law was passed to increase firms' recovery rates by discouraging smallholders from selling to other traders, the lack of bureaucratic capacity to enforce legislation reduces its utility (Shepard and Farolfi 1999).

This last point also applies to legislation regarding labor standards and ethical processes in the horticulture industry. Governments can approve and enforce International Labor Organization conventions, enforce occupational health and safety legislation, and help exporters meet the criteria of international labor codes (Smith et al. 2004). The horticulture industry may, however, lobby against such measures. On the other hand, consumer concerns in import countries may promote the implementation of such standards. There is a trend toward private standards, such as EUROPEGAP (Good Agricultural Practices), which are higher than national regulations and address labor rights as well as environmental issues. Private standards usually rely on third-party certification, which is, however, a poorly regulated area (Busch 2004). This indicates that the public sector may have to play a role in this area, too.

Summary

Dividing the problems facing smallholders into three subsectors may be overly simplistic, especially since some smallholders are involved in multiple forms of production and since, to varying degrees, many of their basic constraints are similar. Nevertheless, there is a strong overlap among the nature of production for certain commodities, the socioeconomic status of the smallholder involved in that commodity, and the interests of the state. This, in turn, has implications for both the type of public sector intervention that is necessary and that which is feasible.

The food crop sector tends disproportionately to include the poorest and most remote smallholders who have lost access to crucial inputs during the process of market liberalization. Without private sector interest, the government must find a way to improve access to inputs in a manner that is consistent with macroeconomic stability and that avoids the problems of corruption and predation that have historically characterized state intervention. If input subsidies are provided, they need to be accompanied by a clear exit strategy that accounts for the political environment and competing interest group pressures.

For traditional export crops, which still comprise the majority of agricultural exports in a number of African countries, world price volatility remains a major concern. Since this will be a problem for the foreseeable future, is continued government price support the appropriate tactic? Or

is privatization of government marketing boards a more viable solution to increase public-private synergies and possibly encourage greater diversification away from these crops? Not surprisingly, the needed degree of continued government intervention will most likely depend on the capacity of the public and private sectors, the socioeconomic status of the producers involved in exporting traditional crops, and the importance of the crop to the overall economy.

Lastly, the nontraditional export sector has witnessed a high degree of private sector involvement and government encouragement. With the growth of supermarkets and the implementation of more stringent quality standards, the long-term status of smallholders in this subsector remains ambiguous. A number of institutional options, such as farmer-controlled enterprises and private outgrower schemes, have emerged to encourage smallholder participation, but government regulation is still needed to ensure they function properly and do not reinforce patterns of dependency among smallholders. Whether the government is willing and able to legislate and effectively implement regulation in this regard has yet to be proven in any conclusive manner.

5. Approaches for Future Research

The preceding sections suggest that there are two major areas where research can contribute to meet the challenges involved in understanding policies and politics for smallholder agriculture. One area is normative policy analysis, which focuses on the role of the public sector, the private sector, and the third sector in overcoming the different types of market failures that are an obstacle to small farm-led agricultural development. The second area is positive policy analysis, which aims at a better understanding of political processes, taking the change in political frame conditions into account. This analysis is essential for assessing the political feasibility of policies supporting pro-poor agricultural development. This section discusses approaches for future research in these two fields.

Understanding the Role of the Public Sector, the Private Sector, and the Third Sector

As the considerations presented in section 2 show, the types of market failures that require policy interventions differ depending on the country- and commodity-specific conditions, and they change in the course of development. Therefore, the first analytical task is to identify to what extent a rationale and justification for intervention exists. If the answer to this question is positive, the second analytical task is to identify the appropriate policy instruments for the intervention.

Analytical Tasks

1. Identifying the need for policy intervention: A major problem with the analysis of agricultural policies of the 1980s, especially in the study by Krueger, Schiff, and Valdés (1991), was the assumption that a situation without policy intervention would be the appropriate reference situation. Standard procedure in neoclassical economics assumes that nonintervention is the optimal reference situation and that market failures do not play an important role.¹⁰ Since then, the analytical possibilities to identify whether there is an economic need for interventions have increased considerably due to a better understanding of how the specific material conditions of agriculture influence agrarian institutions; the improved possibilities to use modeling techniques for analysis; and the opportunity to learn from the consequences of the structural adjustment reforms (see section 4). However, beyond the need of

¹⁰ Even though one can attribute a neoliberal ideological bias to this assumption, it is not a surprising assumption to be made at that time. Alexander Chayanov (1966/1925) had, in the 1920s, already analyzed the specificities of agricultural production and its institutional consequences in a framework that is compatible with neoclassical economics. This work was translated into English in the 1960s, but it did not receive major attention in the neoclassical literature. It was mainly the application of the concepts of new institutional economics to agriculture, which increased the understanding of the market failures discussed in section 2. Though in 1937, Ronald Coase wrote the first paper on the role of transaction costs (using a different term) in economic organization, agricultural economists applied these concepts only decades later. The various papers by Binswanger et al. quoted in section 2 on the role of market failures caused by the specific material conditions in agriculture did not appear before the middle of the 1980s. Bardhan's (1989) seminal book on agrarian institutions was published at the end of the 1980s.

addressing market failures, the decision on the scope of functions that the state should be responsible depends on value judgments and state capacity.

2. *Identifying appropriate policy instruments:* It remains a major analytical challenge to identify appropriate policy instruments that address market failures in agriculture. The experience of the pre-adjustment era shows that policy interventions can have various unintended consequences. They are inherently prone to capture by interest groups, so avoiding policy and government failure is important. The responsibility for correcting market failures ultimately rests with the state, but this does not imply that public sector institutions alone should necessarily provide all respective public goods and services. There are various options to involve the private and the third sector, including partnership arrangements, contracting, and regulation. If one distinguishes between the provision and the financing of services, it becomes clear that there is a wide range of alternative institutional options. This is illustrated in Table 1, which takes extension services as an example.

Table 1. Governance Structures for Providing and Financing Agricultural Services: The Example of Agricultural Extension^a

Provision of the Service	Financing of the Service				
	Public Sector	Private Sector: Farmers	Private Sector: Companies	Third Sector: NGOs	Third Sector: Farmer-Based Organizations (FBOs)
Public Sector	Traditional public extension	Fee-for-service extension	Private or third sector contracting extension agents from public sector		
Private Sector: Companies	Publicly financed contracts or subsidies to service providers from private or third sector	Information provided with sale of inputs	Advertisement in newspapers, radio, and TV	Extension agents from private company hired by NGOs	FBO contracting extension agent from company
Third Sector: NGOs		Extension agents hired by NGO; farmers pay fees		Extension agents hired by NGO; service provided free of charge	
Third Sector: FBOs		Extension agents hired by FBO; farmers pay fees		NGO financing extension agents who are employed by FBO	Extension agents hired by FBO; service free to members

Source: Adapted from Rivera (1996) and Anderson and Feder (2004, p. 44).

^a The extension reforms of the previous decade have indeed led to a wide variety of institutional arrangements (see Rivera and Alex [2005] for a review of extension reform in more than 30 countries).

These considerations lead to the question of which combination of public, private, and third sector involvement is most appropriate in a given situation. To the extent that the public sector is involved, the question arises as to how centralized or decentralized the public sector involvement should be. Applying the concepts of new institutional economics to the public sector is a promising analytical approach in this field (compare Birner and Wittmer 2004). This approach underscores that there are no universal answers to the question regarding the role of the public, the private, and the third sector. It is essential to identify the nature of the goods and services to be provided (public goods, private goods, common-pool resources, club goods), to analyze the specific attributes of the transactions required, to assess the capacity and the incentive structures of the potential parties involved (government agencies, private sector companies, NGOs, farmers associations), and to examine contextual factors such as the institutional environment. This approach makes it possible to derive testable hypotheses on the context-specific comparative advantage of different governance structures in the area under consideration, but empirical measurements of transaction costs are required to test such hypotheses. Recent studies show that it is possible to empirically measure transaction costs facing state agencies, NGOs, and farmers groups in different governance structures (see Gabre-Madhin 1999; Mann 2000; Mburu and Birner 2002).

Challenges to Analyzing Policy Intervention

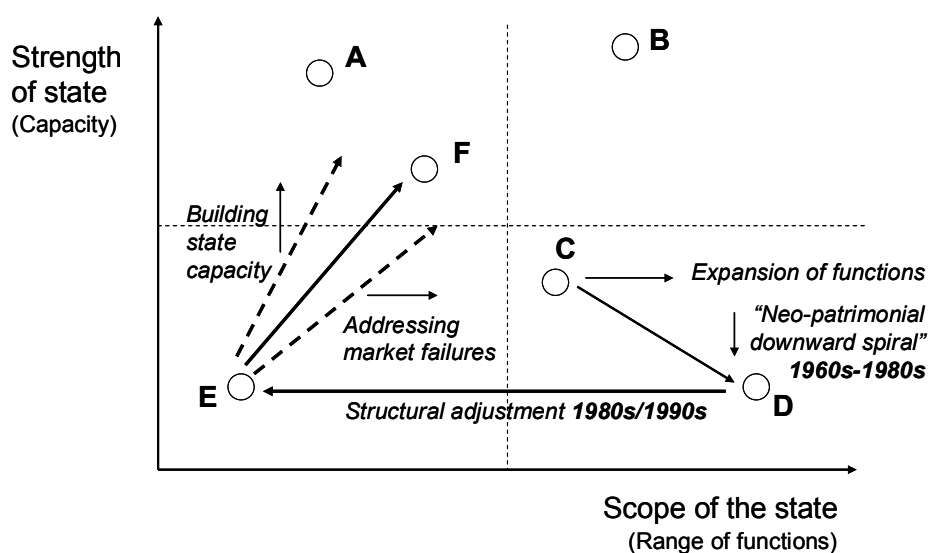
1. *The problem of state capacity:* The analytical approach suggested above echoes the recommendation of the 1997 World Development Report that it is essential to match the scope of government policies to existing state capacity. A major problem rests, however, with the limited capacity of the state, especially in many African countries. As Levy (2004) observed, even though many African governments inherited a fairly effective public administration established during colonial rule and invested in capacity building in the early years of independence, state institutions have subsequently become subject to a “neopatrimonial downward spiral.”¹¹ Democratic reforms and donor assistance did not prevent this downward spiral; they may have even contributed to this problem (see van de Walle 2001, quoted in section 3).

The recommendation to match state functions with state capacity corresponds to Fukuyama’s (2004) emphasis on distinguishing between the strength and the scope of the state. A “strong state” is characterized by well-managed institutions, which are effectively controlled by checks and balances and which have the capacity “to plan and execute policies and to enforce laws cleanly and transparently” (p. 7). While a strong state, defined in this sense, is in any case preferable to a weak state, the range of functions that the state should be responsible for is a matter of value judgment. Countries may prefer a state with a limited scope of functions, as indicated in point A in Figure 2, or they may prefer a more active state with a broader scope of functions, for example, in the field of social and environmental protection, as indicated in point B.

The “neopatrimonial downward spiral,” combined with an increase of state involvement in the economy, can be characterized by the shift from point C to D. The structural adjustment programs of the 1980s reduced the range of functions of the public sector, which is indicated by the move to point E, but they did not contribute to increasing the strength of state institutions. Obviously, countries now face difficult choices regarding the extent to which resources should be spent to (a) increase the provision of public services and infrastructure that are essential for pro-poor growth (moving to the right side in Figure 3) and (b) build state capacity to improve the effectiveness and efficiency of this provision (moving upward). The sequencing of these policy changes may matter as well (Fukuyama 2004; Levy 2004).

¹¹ Interpreting the deterioration of state capacity in Africa, one has to take into account that the state institutions implemented by the colonial regimes were “transplanted” and may have undermined indigenous institutions (see Dia 1996).

Figure 2. Distinguishing Strength and Scope of the State



Source: Adapted from Fukuyama (2004, pp. 11, 13, 14).

These considerations are relevant with regard to policies for smallholder agriculture, because a lack of state capacity constitutes a major problem in those areas where the incentives for the private sector are weak and thus where it is not sufficient to create an enabling environment. In line with the considerations presented in section 2, this is most likely to be the case for food staple crops in phase 1 and phase 2. The experience of the Green Revolution in India highlighted that state provision of key services—including R&D, extension, improved seeds, fertilizer, credit, and storage and marketing—is important to “establish the basics” and “kick-start” food crop markets (Asian Development Bank 2000). Even if the state contracts out the provision of such services, the need for the state to effectively administer such contracts remains. Likewise, if the funding of such interventions is financed by donors and if NGOs are involved, state capacity is still required for coordination and for providing oversight. In spite of their nonprofit orientation, NGOs are not free from problems of rent-seeking and capture, especially under the influence of expansive donor funding.

Land reform is another policy field that requires public sector capacity. Even market-assisted land reform depends on an effective land administration. With regard to the high-value and nontraditional crops, state capacity is also required for the various reasons discussed in section 4, such as enforcement of contracts and implementation of social and environmental standards. State capacity is also necessary to better cope with food crises and to implement social safety nets. Moreover, as discussed in section 2, smallholder development depends on the provision of public goods in sectors other than the agricultural sector itself, such as roads, infrastructure, and education. Hence, improving state capacity, especially in Africa, remains an essential task to implement policies that support smallholder agriculture.

Research can contribute to this task by analyzing the possibilities and experience of public sector management reform. There is meanwhile ample experience with reforms in Africa that aim to build state capacity and improve public sector governance (see Levy and Kpundeh 2004). However, researchers have paid little attention, so far, to the specific challenges of reforming the agricultural administration. Research focuses mainly on reform efforts of specific agricultural services, such as agricultural extension or irrigation, but largely ignores placing these reforms in the context of the general public administration and public sector management of which they are part. This limited perspective has been a major obstacle to the reform of agricultural sector institutions (Binswanger 2004).

The insights from projects that aimed at building state capacity in Africa reveal some important insights for future research in this field (see Levy and Kpundeh 2004). One finding is the need to take the political dimension of policy reform and reform implementation into account in order to match the scope of reform with political commitment and the institutional capacity for managing reforms. Identifying a “good fit” proved to be more successful than a “best practice” approach. (compare with above). Another insight, especially from efforts to implement new public management approaches, is that economic incentives alone are not sufficient to create a noncorrupt, efficient, responsive public service. Issues of leadership, organizational culture, and professional ethics can play an important role as well. Decentralization is another major research area in the context of state capacity. By creating voice and accountability, decentralization has the potential to improve the responsiveness of public policies to the needs of smallholders. However, decentralization can also lead to elite capture, especially in cases where social hierarchies prevail (see Bardhan [2002] for a review).

As this account shows, research progress regarding the role of the public, the private, and the third sector in policies for smallholder agriculture would certainly benefit from interdisciplinary cooperation among agricultural economists, political scientists, public administration specialists, and rural sociologists.

2. Problems of ideological bias: A major shortcoming of research, as well as of policy intervention, with regard to the role of the public, the private, and the third sector can be seen in different forms of ideological bias. One bias is the emphasis on the private sector that has occurred since the 1980s, coupled with a general distrust of public sector involvement.¹² In view of the above considerations, this is rather problematic for the prospects of smallholder-based agricultural development. As Robert Paarlberg noted, if M.S. Swaminathan would propose the policy package that made the Green Revolution in India possible to the World Bank today, it would never been accepted due its public sector focus (Paarlberg 2005). Research is not free from private sector bias either. For example, there is an emphasis on analyzing contract farming and a relative neglect of institutional alternatives that focus on collective action among farmers, such as cooperatives. This is problematic because institutional options focusing on collective action may be one way to support smallholders by overcoming market failure and avoiding state failure, as the example of the Grameen Bank shows. This example also shows that challenging conventional wisdom can be important to make policies for smallholders work. The founder of the Grameen Bank explicitly challenged the conventional wisdom that sustainable credit systems without collateral are impossible (Yunus 2003). While institutional options based on collective action among smallholders, as a third sector option, are an important alternative to pure public or private sector solutions, “community failure” may occur as well (Birner and Gunaweera 2002). This underscores the need for a comparative analysis of different types of institutions in order to identify the best fit depending on the specific circumstances.

A related problem is a bias toward “one size fits all” solutions. A striking example of this bias regarding agricultural institutions is the Training and Visit System of agricultural extension, which was uniformly promoted in more than 70 countries (Anderson and Feder 2004). The failure of this system to achieve impact and sustainability in the long run also underlines the need for research on context-specific institutional arrangements that aim at identifying “best fit” solutions.

Understanding Political Processes

As can be derived from section 4, there is a strong ad hoc element in past explanations of agricultural policies in developing countries. Ex post, it is almost always possible to find a convincing explanation why a particular policy was implemented in a particular country. One can resort to any of the explanatory elements presented in section 3: interaction between different interest groups, motives of

¹² Several related factors contributed to this “power shift” (Mathews 1997), including the change in economic thinking during the Reagan-Thatcher era, the breakdown of the communist regimes, and the effects of globalization.

the political leaders, goal to correct unintended consequences of past policy choices, macroeconomic imperatives, ideology, interests of bureaucrats, food crises, ethnic considerations, and so forth.

Quantitative Analyses

Quantitative cross-country analyses may be useful to enhance the understanding of agricultural policy choices, since they make it possible to test the significance of different explanatory factors that are highlighted in the qualitative literature. Quantitative time-series and cross-country studies could be informed by qualitative case studies along the lines outlined below. For example, Swinnen, Banerjee, and de Gorter (2001) found that periods of protection for Belgian farmers over the past century often coincided with low world prices for agricultural commodities. Protection was greater if a commodity contributed a greater share to national gross national product but lower if a commodity comprised a large share of consumer expenditures, which in turn would lead to high resistance to protection policies among consumers. An increase in agricultural protection was also correlated with the introduction of democratic reforms, which gave farmers a greater voice in influencing agricultural policies. Focusing on developing countries, Fan and Rao (2003) analyzed the factors influencing the budget share for agriculture, using a cross-country regression with a dummy variable for structural adjustment and lagged total government expenditure and per capita GDP as explanatory variables. This study showed that structural adjustment policies were associated with a decline in spending on agriculture in Africa, but not in Asia and Latin America. This implies a larger role of donor influence on agricultural policies in Africa than in the other regions. The approaches used in both studies could be expanded to include factors that capture the capacity of agricultural interest groups to influence decision making. Indicators for such factors may include the presence of farmers' organizations, the degree of urbanization, and the weight of rural votes in the respective electoral system. Apart from regression analyses using the taxation of agriculture or budget shares for agriculture as dependent variables, one could also use event history analysis methods to explain the adoption of agricultural policies that specifically support smallholder agriculture (compare Leicht and Jenkins 1998). Ultimately, such quantitative cross-country studies will depend on a more coherent theory that allows one to derive empirically testable hypotheses about the political feasibility of policies for smallholder agriculture. Case studies that use a coherent analytical framework, as suggested in the following section, will also be useful to inform both development theory and quantitative empirical analyses.

Analytical Framework for Case Studies

This section proposes four building blocks for an analytical framework that attempts to address the challenges of explaining agricultural policy choices. It is argued that the framework should account for the following: the role of ideas, ideology, and policy beliefs; political strategies that interest groups can use to promote their material interests and/or their policy beliefs; the political process in terms of both decision making and policy implementation; and the importance of timing in policy reform.

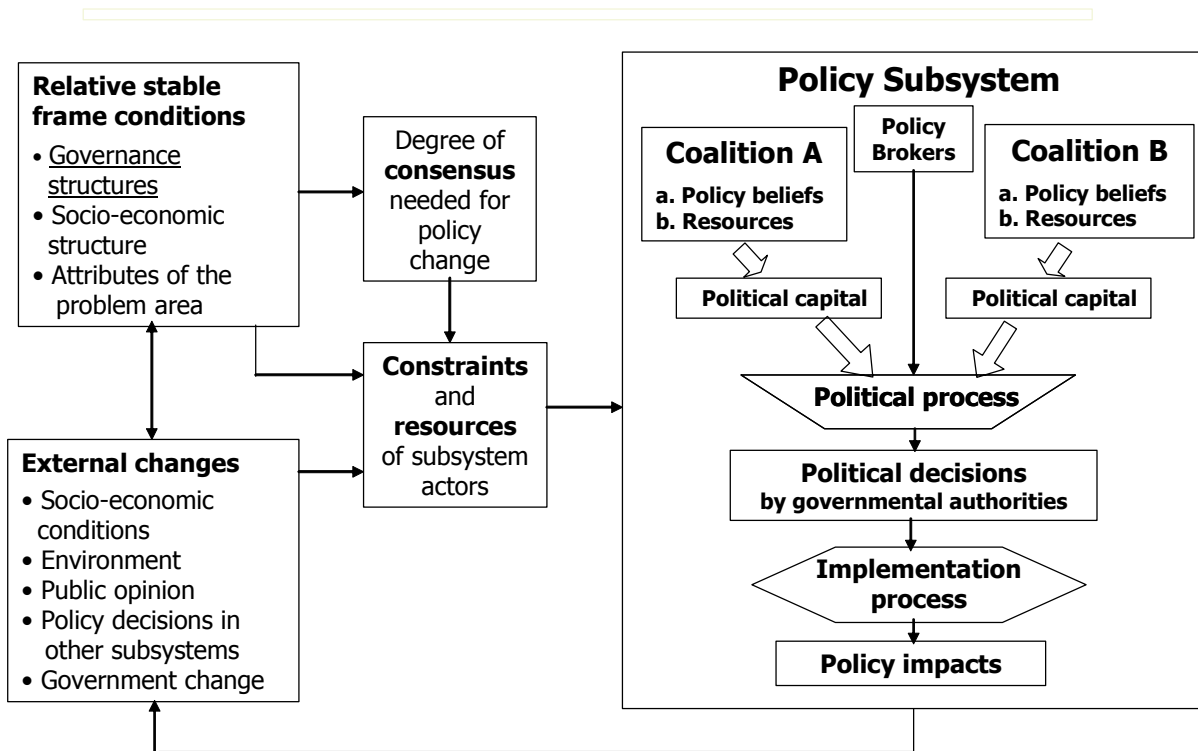
Although it has thus far been mainly used to explain environmental policies, the advocacy coalition framework (ACF) developed by Paul Sabatier and Hank Jenkins-Smith (1993) is highly useful for understanding the role played by ideas and policy beliefs. Specifically, ACF highlights that coalitions that promote the same policy option may not only include representatives of groups representing economic interests, such as agricultural producer groups, but also members of the bureaucracy, NGOs and donors, and think tanks and academia. The number of advocacy coalitions that emerges depends on the policy area; one typically can observe the formation of coalitions around two or three competing policy options. Figure 3 depicts a modified version of the ACF.

To understand the role of different advocacy coalitions in the policy process, one needs to analyze their beliefs and their resources. Sabatier and Jenkins-Smith (1999) distinguished three types of beliefs: core beliefs, policy beliefs, and secondary beliefs. Core beliefs relate to fundamental values, such as the relevance an actor attaches to equity as compared with other goals. Like religious beliefs, these core beliefs rarely change. Policy beliefs refer to the policy solutions that actors consider appropriate to reach their objectives. Important policy beliefs with regard to agricultural

policies refer to whether agriculture plays an important role for economic development (“agro-optimism”) or whether this position is criticized (“agro-skepticism”). Policy beliefs can also refer to more general questions discussed above, such as the role that is attributed to the public versus the private sector. Secondary beliefs refer to the way in which a particular policy is implemented, and they are more likely to change than will core or policy beliefs. Sabatier and Jenkins-Smith (1993) developed empirical methods to measure the policy beliefs and derived empirically testable hypotheses on the conditions under which consensus across advocacy coalitions is more likely to occur.

The possibilities of different advocacy coalitions to influence political decisions and their implementation depend on the resources they have at their disposal, such as financial resources (economic capital), skills and knowledge (human capital), and social networks (social capital). What is essential for influencing policies is the comparative ability of the advocacy coalitions to mobilize these types of capital in order to create “political capital,” which can be defined as the resources that an actor can use to realize outcomes that are in his or her perceived interest (Birner and Wittmer 2003).

Figure 3. Conceptual Framework for Analyzing Agricultural Policy Processes



Source: Adapted from Sabatier and Jenkins-Smith (1999) and Birner and Wittmer (2003).

Strategies to create political capital may include electoral leverage, lobbying, public protest, use of ideological arguments in the public discourse, and securing support from international actors. Actors can also use scientific evidence to create political capital in the policy process. This concept of political capital draws on different political resource theories in economics and political science, including the work by Ilchman and Uphoff (1998), and on resource mobilization theory. The concept makes it possible to better understand the different strategies that advocacy groups can use to promote outcomes that are in favor of or against policies that support small farm development. It can be applied both to the politics of decision making and to the politics of implementation (compare

Thomas and Grindle 1990). The concept of political capital has been applied in quantitative cross-country studies that explain policy choices (e.g., Leicht and Jenkins 1998), though not yet regarding agricultural policies.

Analyzing the nature of the political process by which different advocacy coalitions interact is an important aspect of research on policy processes. As indicated above, one can observe increasing efforts, often promoted by donor organizations, to “open” the political process for public participation, for example, in the form of multi-stakeholder consultations. The model of deliberative democracy captures this trend. This model assumes that people may change their perceptions as the consequence of social interaction and that they may come to accept reasons for collective action, even though the outcome is not strictly in their personal best interest (Fung and Wright 2001). Phrased differently, this approach acknowledges that people may change their preferences in a process of social learning. It remains a question for empirical research to which extent stakeholder consultations and other platforms correspond to the deliberative democracy model and promote policy learning across advocacy coalitions (changes of policy beliefs) and to which extent self-interested strategic bargaining prevails.

As indicated in Figure 3, the process of policymaking and implementation depends on frame conditions, which are relatively stable, and on driving forces. The frame conditions include (a) the political and administrative institutions; (b) the socioeconomic structure, which influences the interest groups and the resources they have; and (c) the attributes of the problem area. An important aspect of the political system is the degree to which consensus is required to achieve policy outcomes. One can assume that this degree is lowest in authoritarian regimes and highest in democracies with proportional systems of representation. A problem for empirical research in authoritarian systems is that political bargaining processes typically take place within closed circles and cannot be observed by researchers.

The driving forces of change may include changes in the socioeconomic or natural conditions, including disasters or food crises, which may create pressures that can trigger policy change. Other driving forces include changes in the public opinion (e.g., the emergence of an environmental movement), policy decisions in other policy subsystems (e.g., a change in economic policy that affects agricultural policies), and political changes, such as a change of government following an election or a coup. As indicated in Figure 3, these changes can influence policy processes by altering both the frame conditions and the constraints, resources, and beliefs of the actors.

Kingdon’s (1984) approach to identify “windows of opportunity” can be applied to better understand the timing of policy changes. This is important because some policy changes crucially depend on timing. The most obvious case is land reform, which has been most successful if a window of opportunity arises after a major regime change could be used. Kingdon’s (1984) approach is based on a criticism of the conventional policy cycle model, which assumes that policies are brought on the political agenda, adopted, implemented, and evaluated in a systematic way. The argument is that for analytical purposes, it is useful to distinguish three different “streams”: a problem stream, a policy stream, and a politics stream. In the policy stream, policy solutions are constantly generated by research institutions, think tanks, and government agencies, but they are not necessarily implemented, and to some extent they end up in the “garbage can” without being adopted. The problem stream describes the problems in the respective policy subsystem, which may increase or decrease over time. Shocks, such as natural disasters, may occur and lead to sudden policy pressure. The politics stream captures the ongoing changes in the political system. Windows of opportunity for policy changes arise, if these streams can be “coupled.” This is typically the case if either the problem pressure or changes in the political system, such as elections, create an opportunity for change, and if political entrepreneurs can make use of this situation to promote the adoption and implementation of policy options, which may have been in the policy stream for quite some time. The political entrepreneurs may be members of the advocacy coalitions or policy brokers who can mediate between coalitions. Obviously, for research institutions, which contribute to the production of policy solutions in the policy stream, a better understanding of the windows of opportunity for policy adoption is helpful.

6. Concluding Remarks

The 20th century has generated a rich and diverse experience regarding the role of small farms for poverty reduction and economic development. The experience has shown that policies that support small farmers by correcting for the market failures inherent in the different phases of agricultural development can be a particularly successful strategy to achieve pro-poor growth. Yet the empirical evidence also shows it is politically difficult to implement such policies and avoid the government failures that are likely to occur in this field. Although there is no shortage of possible explanations why countries failed to design and implement policies that would make pro-poor agricultural growth possible, the reasons that some countries have been successful in this regard are less well understood. As the paper highlights, analyses of agricultural policies and processes in the postliberalization era that account for contemporary political contexts are virtually nonexistent. At the same time, however, there have been considerable advances in analytical techniques, which may help address important knowledge gaps, such as: Depending on the country-specific and sector-specific frame conditions, what is the appropriate role of the public sector, the private sector, and the third sector in addressing the market failures that occur in different phases of development? How can the state capacity, especially in Africa, be increased to better perform the functions that remain the responsibility of the public sector? Which types of policy reforms are politically feasible?

As past experience shows, progress in this field depends on the courage to challenge conventional wisdom and efforts to apply new analytical methods. The paper also suggests that interdisciplinary research projects, which bring agricultural economists, political scientists, rural sociologists, and public administration specialists together, would be fruitful to bridge the remaining knowledge gaps. Combining research approaches from different disciplines has never been easy. However, considering that more than 90 percent of the world's 1.1 billion poor are small family farms (Lipton 2005), continuing efforts to better understand the policies and politics for smallholder agriculture are more than justified.

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