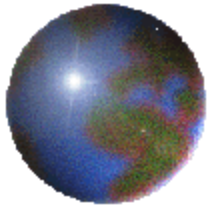




Commercialization of smallholder in AAMP countries: policies and public spending



Shahidur Rashid

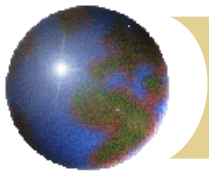
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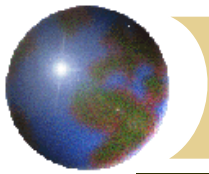
Prepared for AAMP Policy Seminar, Kigali

April 20, 2011



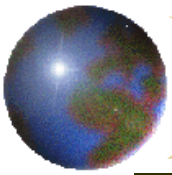
Talking points

- ✦ Conceptual framework
 - ▣ What determines smallholder commercialization?
- ✦ Empirics on returns to public investments
 - ▣ Estimates from IFPRI and EIU
- ✦ Reconciling the returns to public spending estimates
 - ▣ Trades restrictiveness and ease of doing business
- ✦ Summary

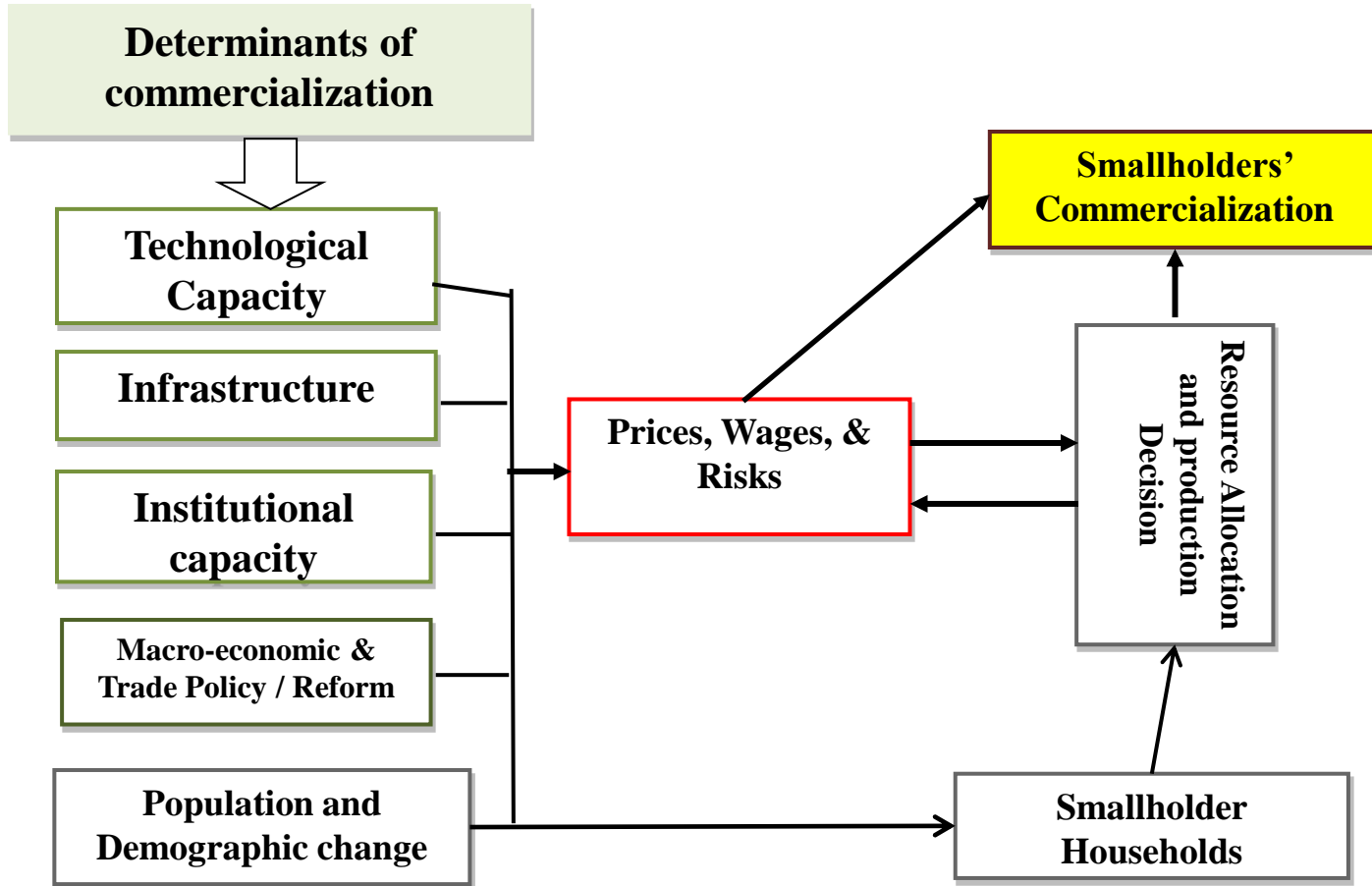


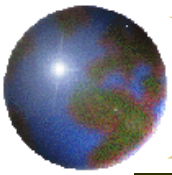
Conceptual framework (1)

- ❖ Why do we have smallholders?
 - ❖ Answer: due to population & demographic change
- ❖ What would commercialization of smallholders require?
 - ❖ Answer: change in their resource allocation decisions
- ❖ What brings about changes in smallholders resource allocation decisions?
 - ❖ Answer: incentives (prices, wages, risks)
- ❖ What determines the incentive structure?
 - ❖ Answer: A host of factors, especially infrastructure, institutional capacity, macro policies, etc.

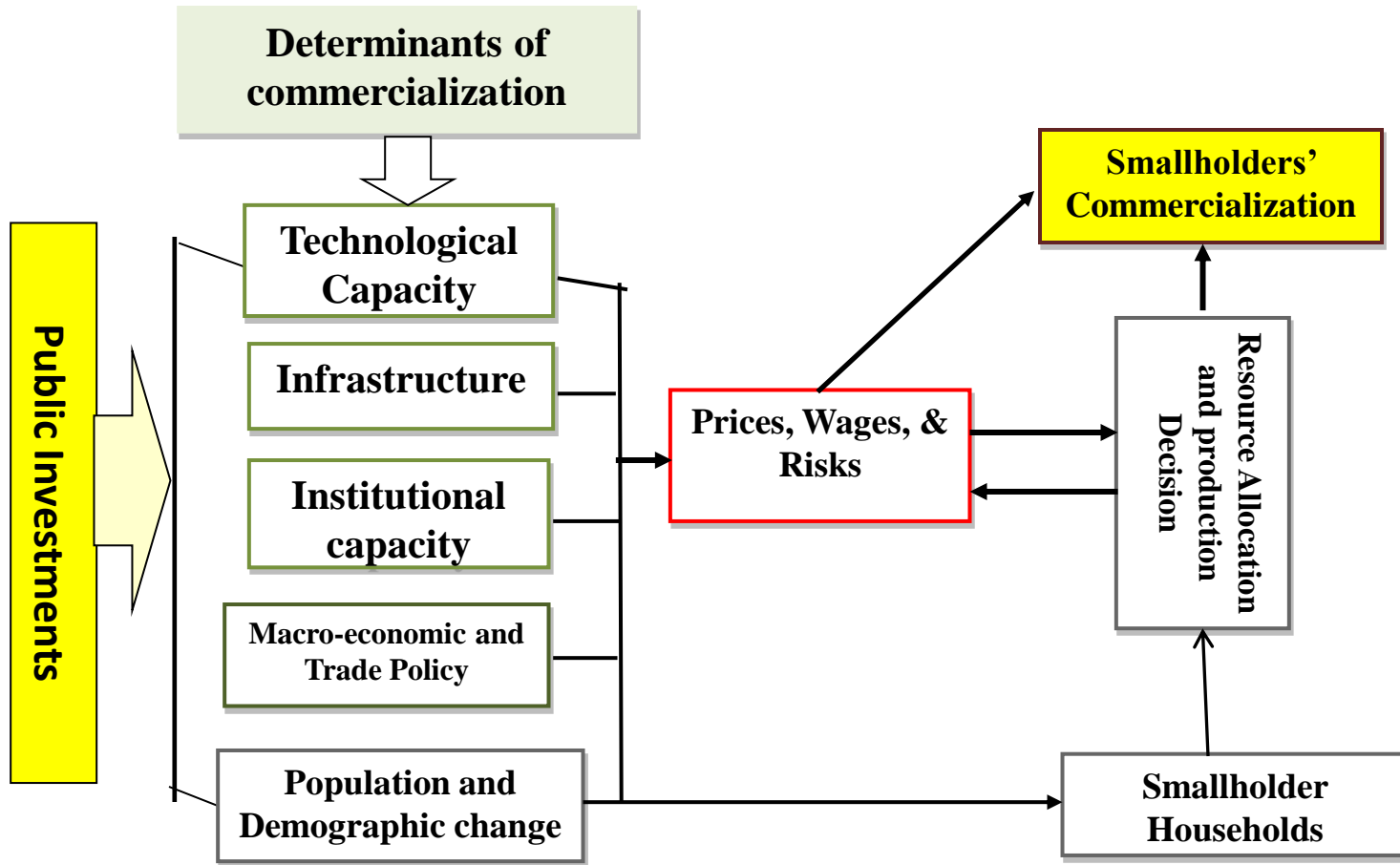


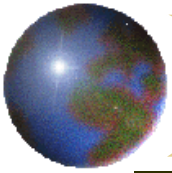
Conceptual framework (2):





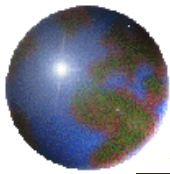
Conceptual framework (3)





Conceptual framework (4)

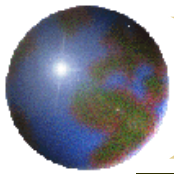
- ❖ So, public spending is critical because private sector will not invest to change the key determinants of commercialization
- ❖ So, the question is *which determinants of commercialization* should a country focus? Clearly answer will depend on the geo-political context of the country
- ❖ However, one way to answer this question would be to look at returns to public investments



Empirics on returns to public investments

Estimates from Asia

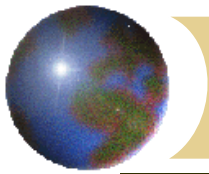
Factors	Ranking (poverty reduction)	
	EIU	IFPRI
Policy institutional reforms	1	--
Rural Roads	3	1
Irrigation	4	7
Ag extension	5	--
Ag research	2	2 (includes extension)
Input delivery	7	--
Electricity/ health/ education/ telecom	8	3



Empirics on returns to public investments

Estimates from Asia

Factors	Ranking (growth)	
	EIU	IFPRI (India)
Policy institutional reforms	1	--
Rural Roads	3	2
Irrigation	4	4
Ag extension	6	--
Ag research	2	1 (include extension)
Input delivery	5	--
Electricity/ health/ education/ telecom	4	3

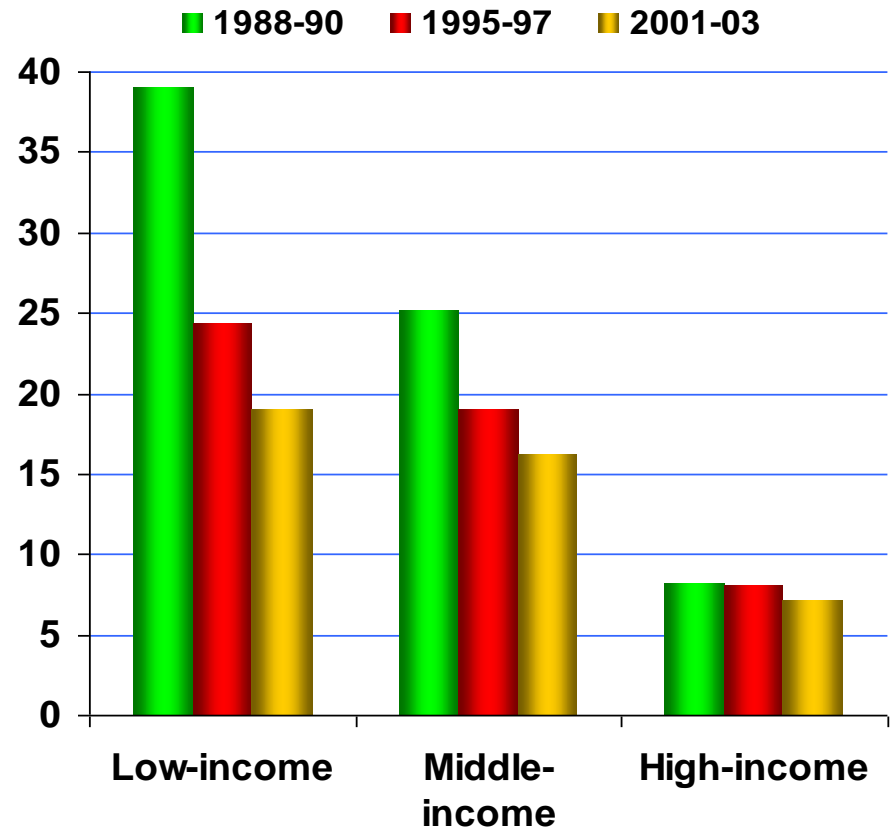


Reconciling the empirics for AAMP countries (1)

Key points

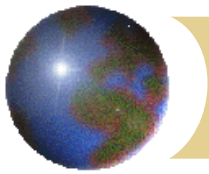
- Tariffs on agriculture have been historically high in developing country agriculture
- Even though there has been decline in recent years, developing countries continue to have higher applied tariff rates than the MIC and HIC

Applied tariffs rates in Ag



Note: Tariffs shown are simple averages across countries and goods.

Source: UNCTAD Trains database.

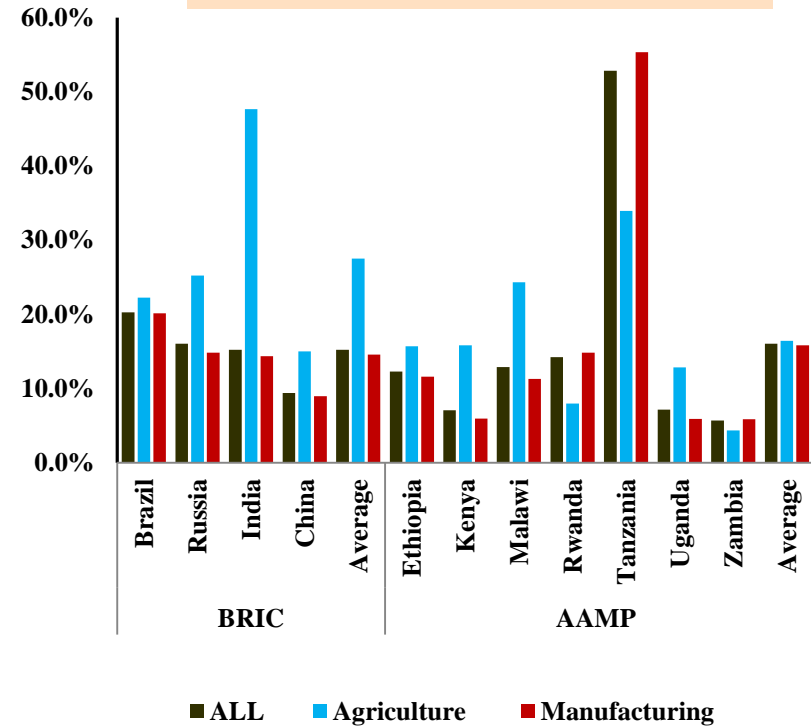


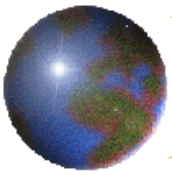
Reconciling the empirics for AAMP countries (2)

Key Points:

- ❖ TRI is a measure of restrictions that a country imposes on the bundle of goods it imports.
- ❖ On the average, AAMP has less restrictions on imports than the BRIC countries.
- ❖ The exceptions are Tanzania and Malawi
- ❖ Among all countries, India has the highest restrictions on imports of agricultural goods to its domestic markets

Trade Restrictiveness Index

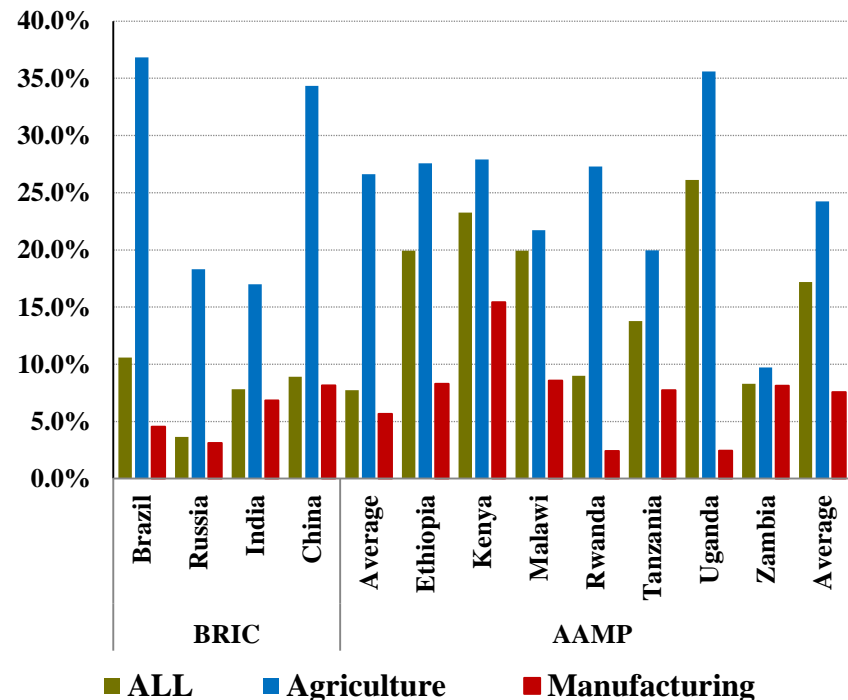


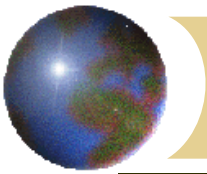


Reconciling the empirics for AAMP countries (3)

- ❏ MATC Index measures the restrictions other countries impose on a country's export
- ❏ There are wide variations between the two groups of countries.
- ❏ On the average, AAMP faces slightly more restrictions than the BRIC countries, although restrictions on Russia and China's agriculture are comparable to AAMP countries.

Market Access Trade Restrictiveness Index

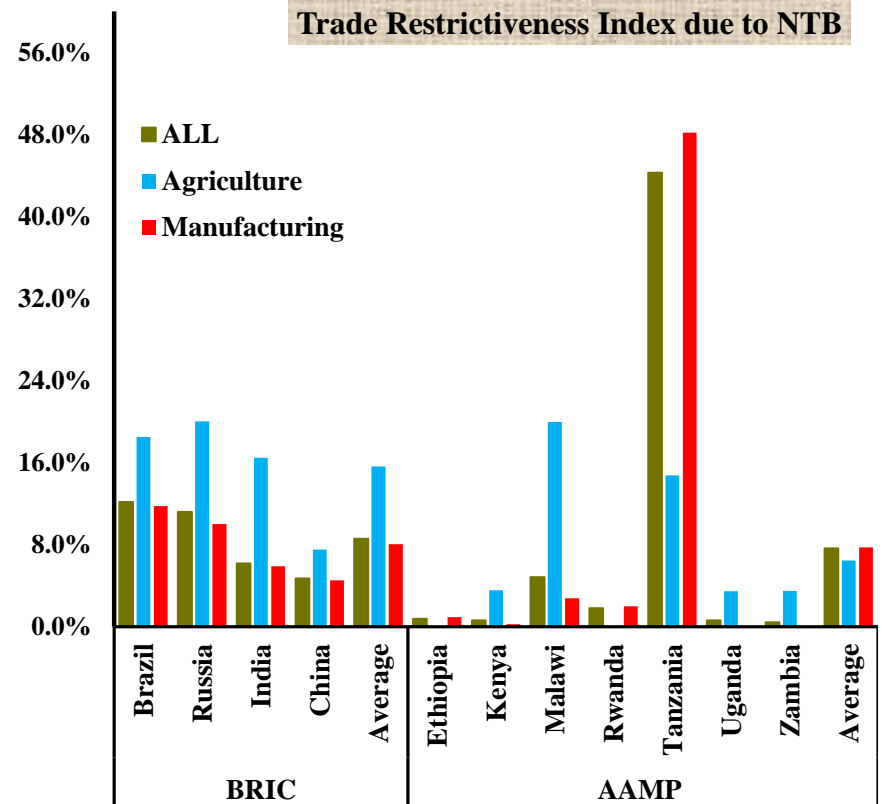


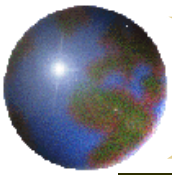


Reconciling the empirics for AAMP countries (4)

Key Facts:

- Trade Restrictiveness Index for Non Tariff Barrier (NTB) measures how NTB affect a country's bundle of import
- On the average, Non Tariff Barrier (NTB) to trade in AAMP countries are lower than the BRIC countries
- Exceptions are Tanzania and Malawi

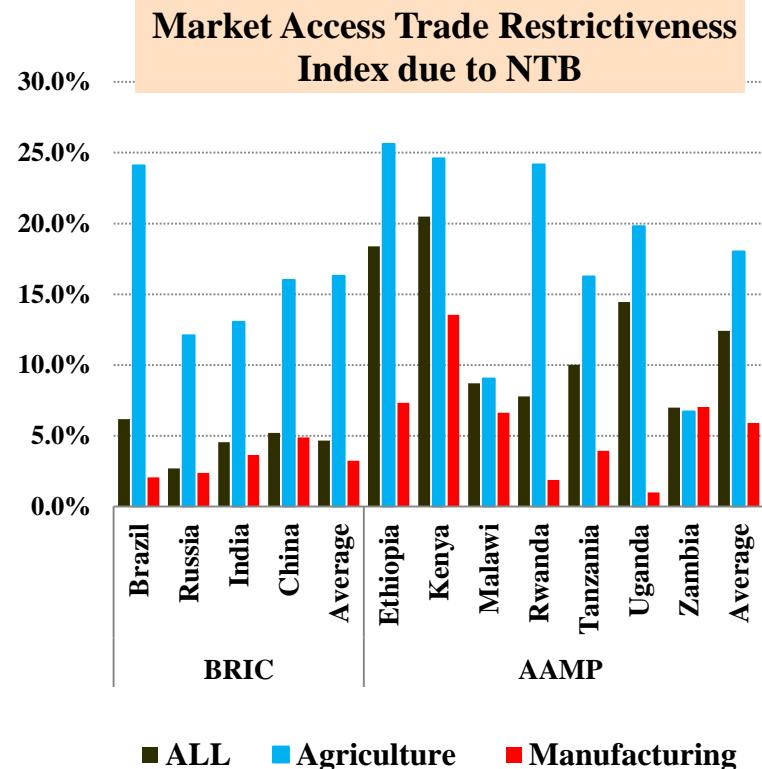


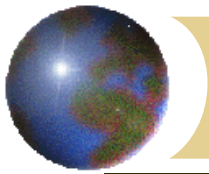


Reconciling the empirics for AAMP countries (5)

Key Facts:

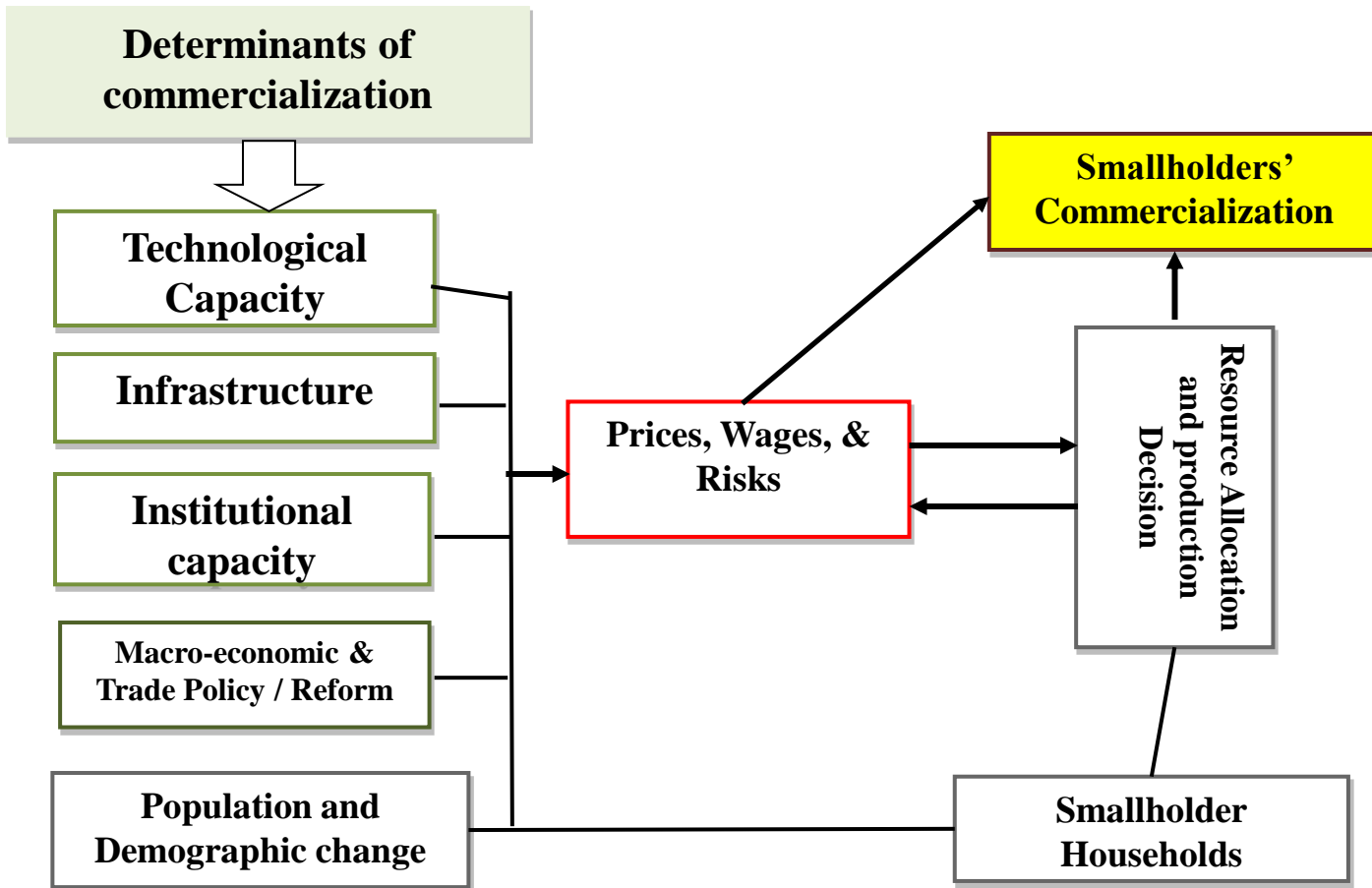
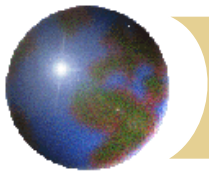
- NTB-MATRI measures the restrictions other countries impose on country's export through NTB
- On the average, NTB-MATRI for NTB is higher on the AAMP countries than the BRIC countries.
- Exceptions are Malawi and Zambia, where NTB-MATRI for agriculture are lower than any other countries

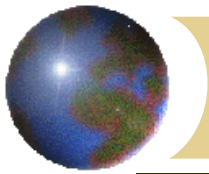




Key messages

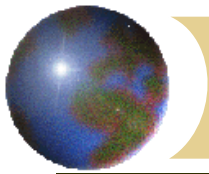
- ❖ Policy and Institutional reforms in AAMP countries are not likely to have as large of a return as they did Asia
- ❖ Trade policy environments in BRIC countries are more restrictive than in the AAMP countries.
- ❖ Yet BRIC, countries are growing. This means, there something beyond trade & macro policies that contributing to growth in those countries.





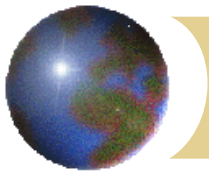
How about technology?

- ❖ Two challenges
 - ❖ Effective adoption and dissemination of available (on the shelf) technology
 - ❖ Attracting Foreign Direct Investments (FDI) to AAMP countries
- ❖ Institutional capacity is also a constraining factor



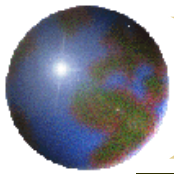
FDI to Africa for technology and innovation

- ❖ In any resource constrained countries, FDI can contribute towards:
 - ❖ Promoting technology and institutional innovation
 - ❖ Building human capital
 - ❖ Creating jobs and increasing HH incomes
 - ❖ Promoting overall development
- ❖ Many emerging countries have benefited from increased flow of FDI (India, China, Brazil, South Africa)
 - ❖ Latin American countries had particularly benefited from FDI in promoting agricultural commercialization
- ❖ Developing countries are receiving an increasing share of FDI

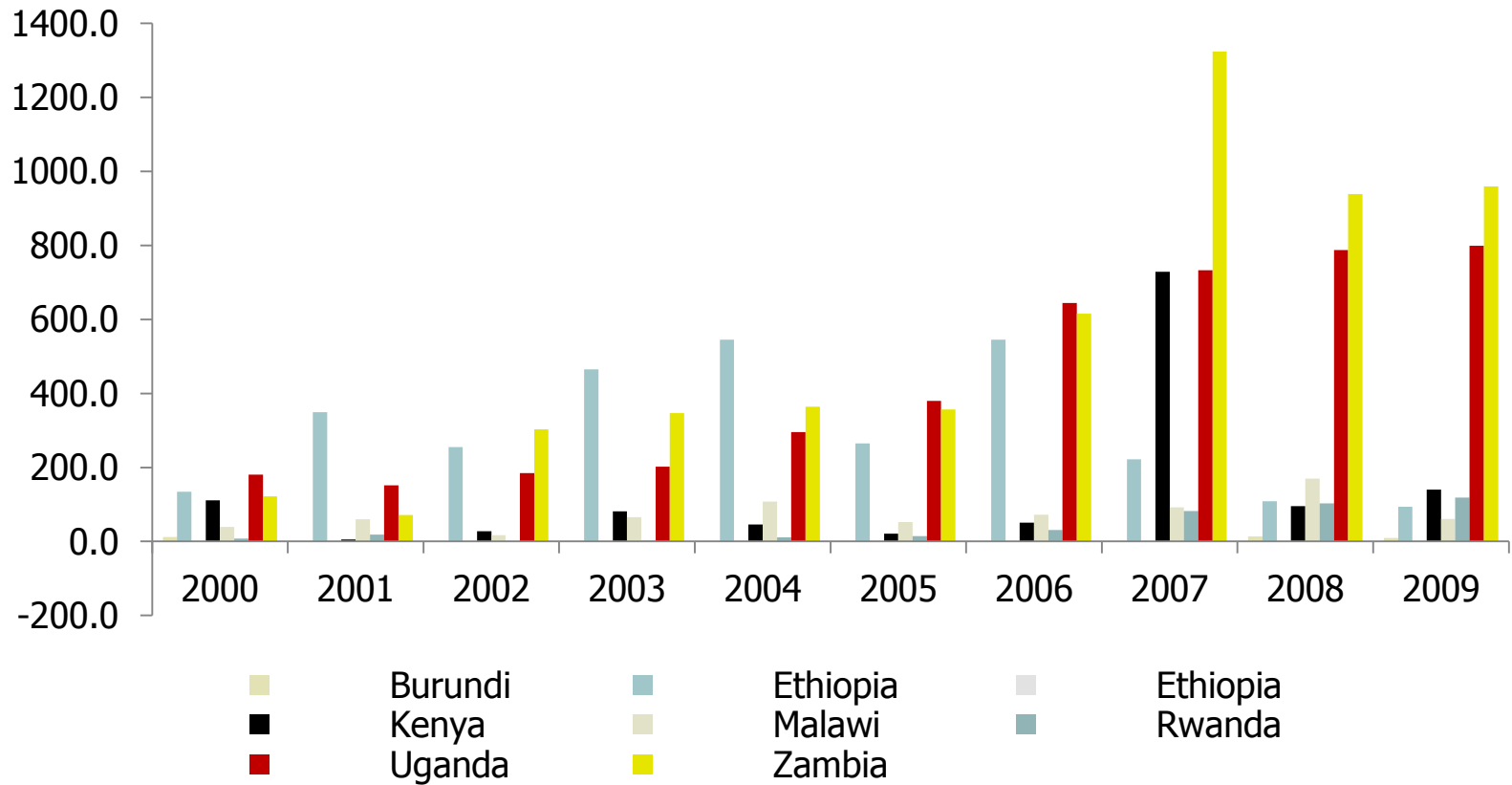


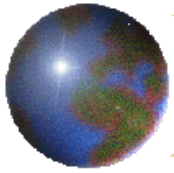
Trends in FDI: sub-Saharan Africa (1)

Decades	FDI to SSA	SSA Share in World FDI
1970s	US\$907 Million	5 Percent
1980s	US\$ 1.3 Billion	2 Percent
1990s	US\$ 4.3 Billion	3 Percent
Early 2000	US\$10 Billion	4 percent



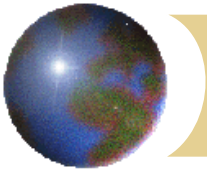
Trend in FDI: AAMP countries (2)





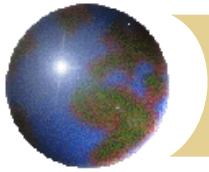
Trends in FDI: sub-Saharan Africa (2)

- ❖ FDI to Africa has increased in absolute terms, but has declined relative to growth in overall flow of FDI to developing countries.
- ❖ Understanding this puzzling trend is subject of large body of research
- ❖ Within AAMP some countries have done better (why?)
- ❖ The Challenge: How to attract more FDI to SSA?



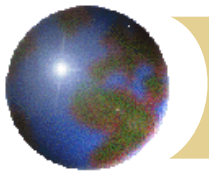
What will attract FDI to Africa?

- ✚ The simplest answer to the question is “possibility of making profits”
- ✚ What determine the FDI profitability? Consider the following:
 - ✚ Economic openness
 - ✚ Size of the economy
 - ✚ Political stability
 - ✚ Infrastructural development
 - ✚ Institutional capacity
 - ✚ Regulatory environment



How to assess determinants of FDI flow?

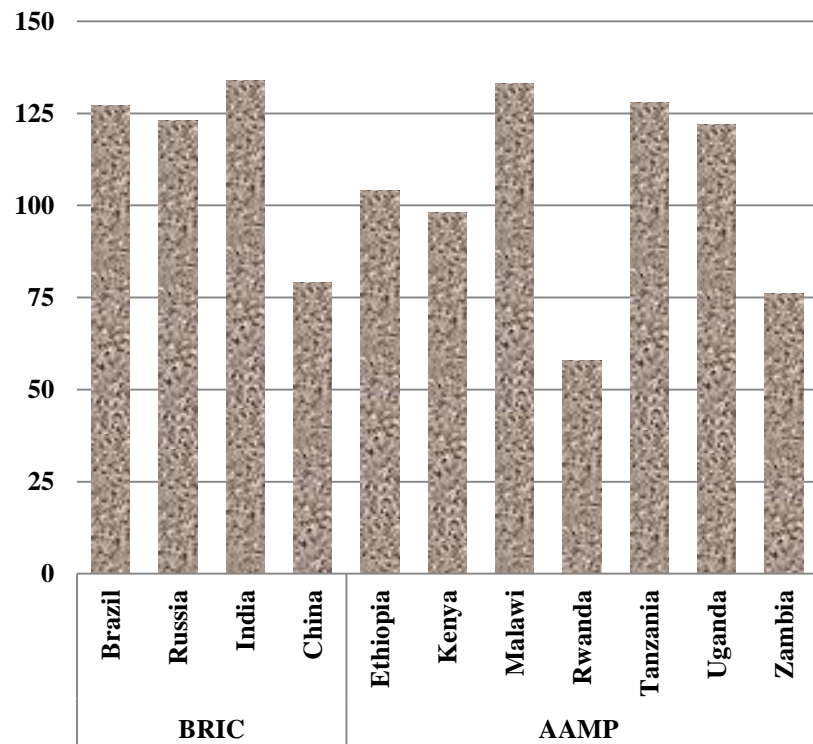
- ⊗ One way to analyze why FDI vary by country is to compare a common indicator. World Bank produces such an indicator, called “the ease of doing business”. It ranks countries based on the following indicators:
 - ⊗ Starting a Business
 - ⊗ Dealing with Construction Permits
 - ⊗ Registering a property
 - ⊗ Getting credit
 - ⊗ Protecting Investors
 - ⊗ Paying taxes
 - ⊗ Trading across borders
 - ⊗ Enforcing contracts
 - ⊗ Closing business

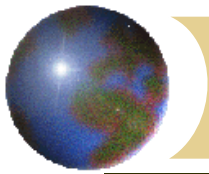


World Bank ranking on the ease of doing business suggests:

- ➊ AAMP countries rank better than the BRIC countries
- ➋ None of the AAMP countries ranks worse than BRIC countries
- ➌ Rwanda and Zambia rank better than any of the four BRIC countries

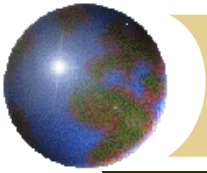
The ease of doing business (2011)





Summary

- ❖ Policy and Institutional reforms in AAMP countries are not likely to have as large of a return as they did Asia
- ❖ Trade policy environments in BRIC countries are more restrictive than in the AAMP countries.
- ❖ Yet BRIC, countries attract more FDI and growing faster. This means, there is something beyond trade & macro policies that are contributing to growth in those countries.



Summary (2)

✦ Two broad facts

- ✦ FACT 1: FDI to Africa has increased in absolute terms, but has declined relative to growth in overall flow of FDI to developing countries.
- ✦ FACT 2: Why is it that some AAMP countries are doing better than the rest in terms of attracting FDI? What can learn from these experiences

✦ These two broad facts implies that there should be active policy actions reverse this trends— learning from the cross country experiences within Africa can help!