

AGRICULTURAL MARKETS, STRUCTURAL CHANGE AND THE STRUCTURE OF SMALLHOLDING IN OIC MEMBER COUNTRIES



Standing Committee for
Economic and Commercial Cooperation of the
Organization of Islamic Cooperation (the COMCEC)

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Overview



2

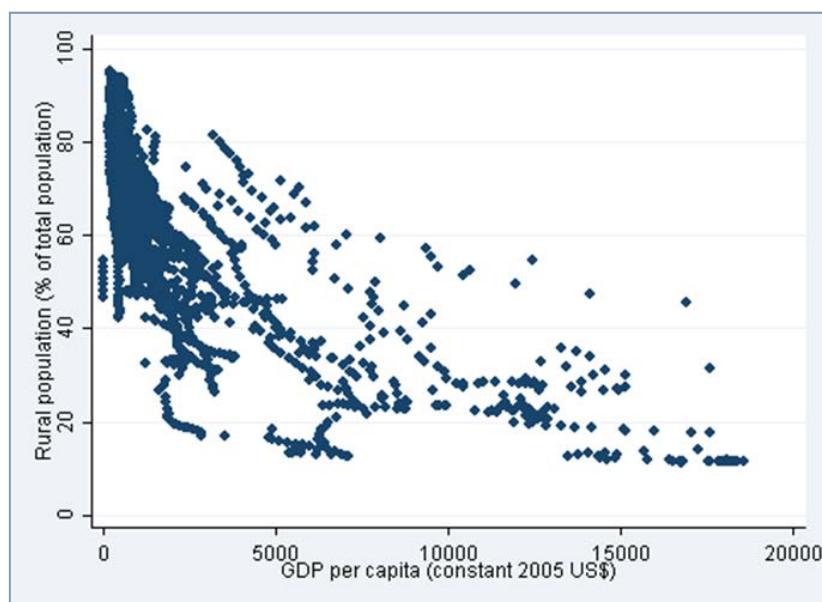
- General observations about what economic development means for agriculture and smallholder farmers
 - ▣ Archetypical patterns
 - ▣ Each country charts its own path
- There is a continuum
 - ▣ Farmers go from self-sufficiency
 - To producing for a mostly urban population
 - Via cash markets
 - Via supermarkets and grocery stores
 - Agribusiness grows to manage domestic markets
 - Agribusiness finds its place in global markets
 - Ultimately based on comparative advantage
- At the start of this process, incomes are lower in agriculture than other sectors
 - ▣ and a greater share of rural households are poor
- When the process works well, the income gap closes
 - ▣ Both agriculture and the economy grows
 - ▣ Poverty rates decline
- My colleague, Mona Sur, will talk about specific lessons for policies that help make this process work

Structural change and the composition of economies

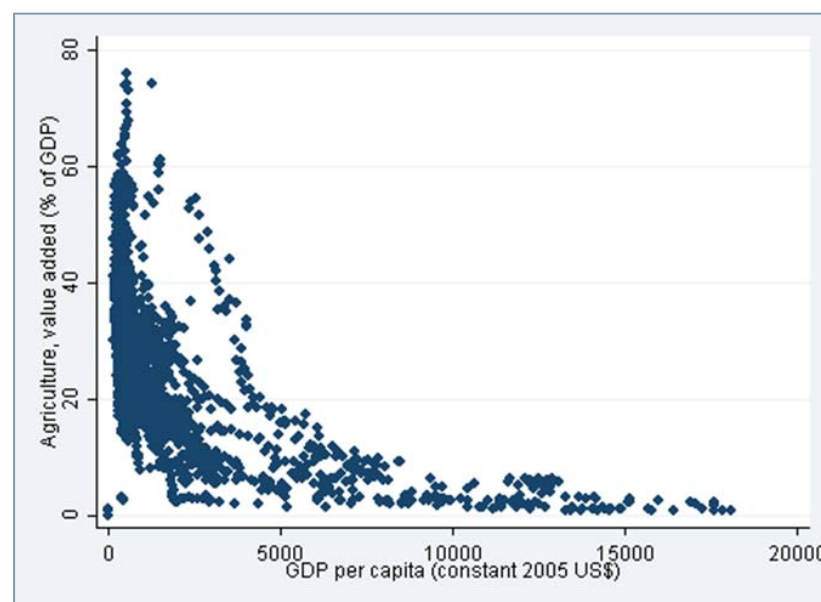


3

The share of workers
employed by agriculture
shrinks

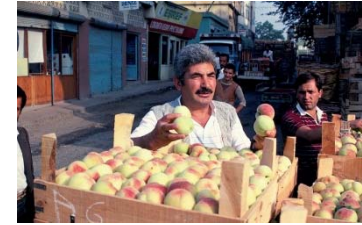


as does agriculture's share of
GDP



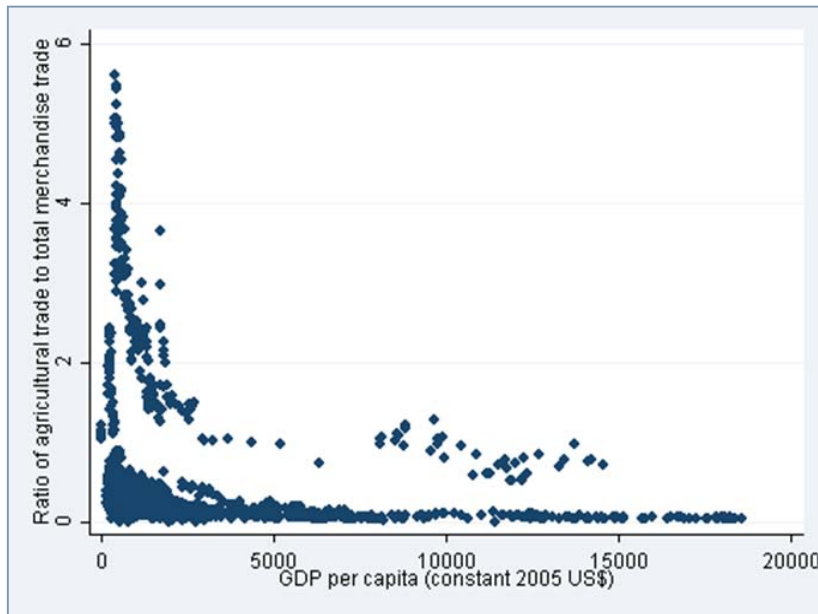
Each dot represents one year's observation for a COMCEC country.
The data runs from 1961 to 2011.

Agriculture grows even though it becomes a smaller part of trade and the economy

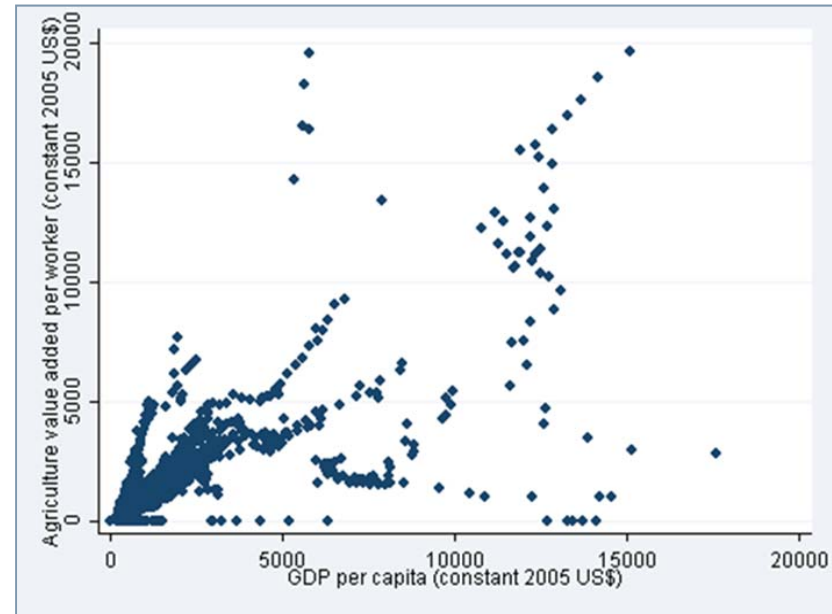


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Agriculture as a share of trade declines



... but agricultural incomes grow



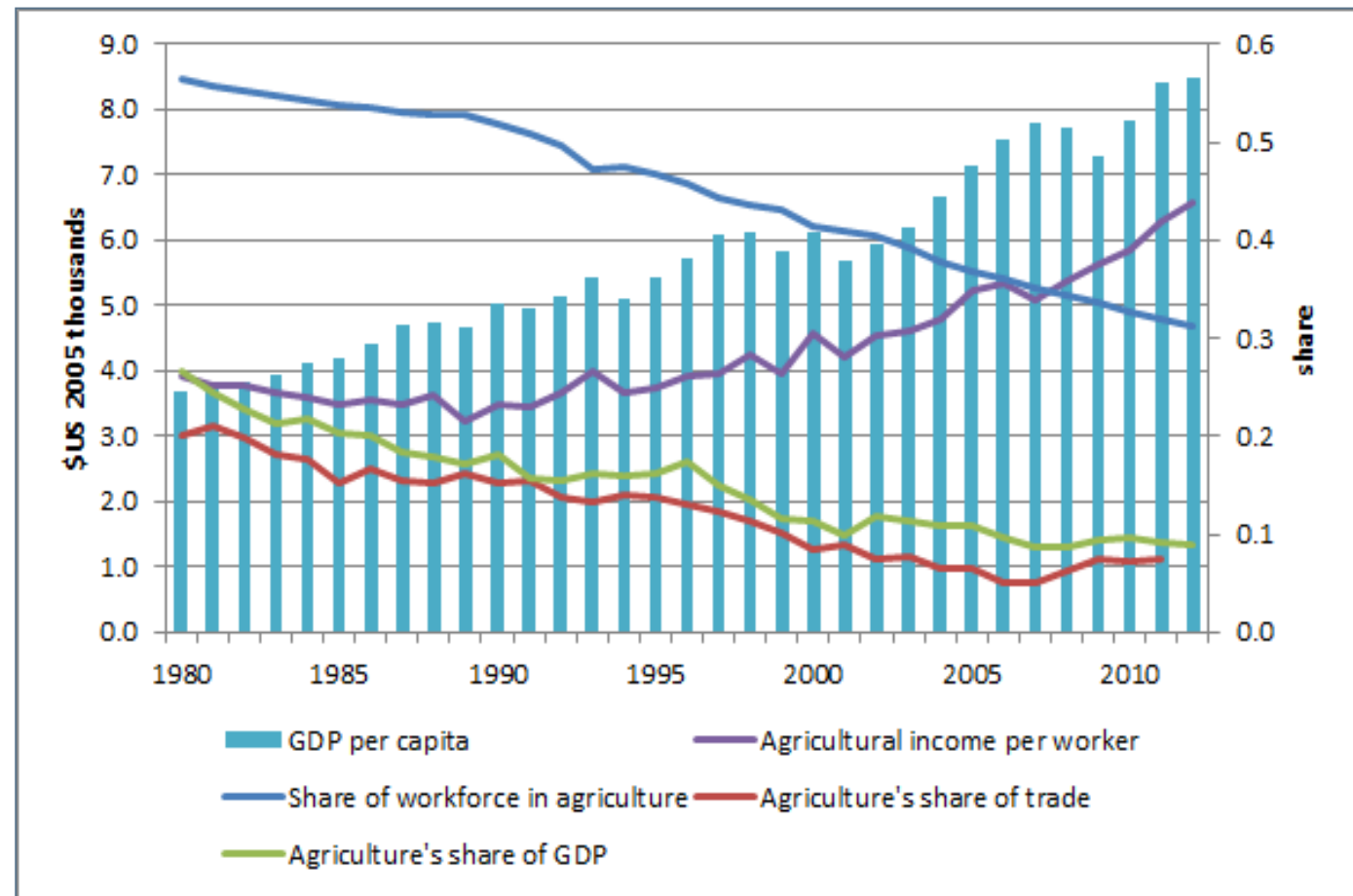
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An example from Turkey



5

- Labor share falls to 30 percent
- Agriculture's share of trade and the economy drops to less than 10 percent
- But the sector grows and is the largest in Europe
- And incomes grow in and out of agriculture

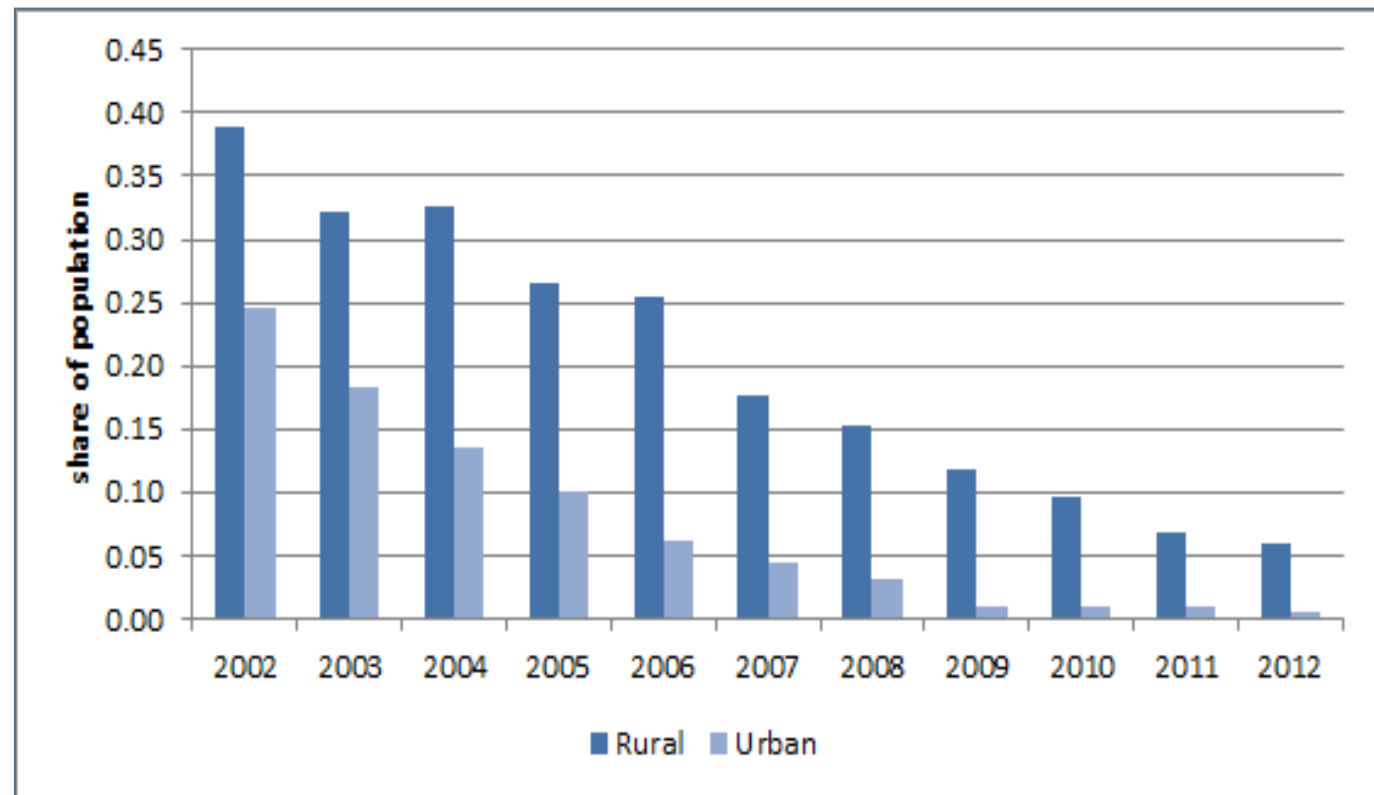


When the process of structural change is inclusive poverty rates drop as incomes grow



6

- As labor moves to other sectors, the gap between average income in and out of agriculture declines
- Overall growth increases average incomes for both groups
- Policy challenge is to include the rural poor so that they benefit from macroeconomic



As countries become more urban and wealthier



7

- Systems develop to bring food from rural areas to cities
- Agribusinesses grow along the food chain
 - ▣ *Warehouses*
 - ▣ *Transporters*
 - ▣ *Processors*
- Diets change
 - ▣ *Convenience becomes important*
 - ▣ *Diets become more diverse*
- Supermarkets and fast food chains emerge
- Trade grows



As country experiences with globalization, new communications and transport, urbanization grew, food policies evolved



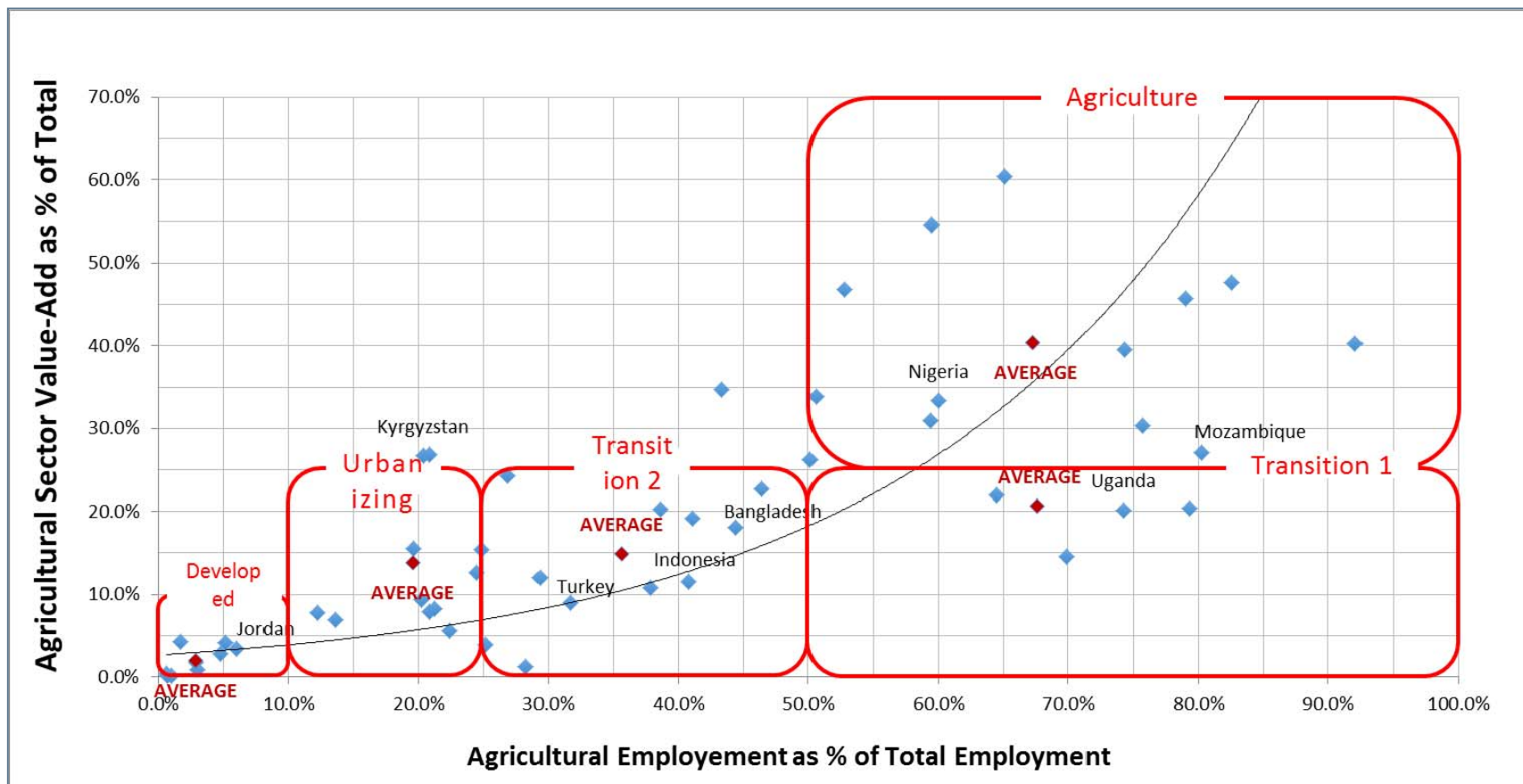
8

- 1970s – Stabilization of commodity markets through parastatal agencies and marketing boards and/or price and quantity restrictions
 - ▣ International commodity agreements, dual exchange rates, tariff protection
- 1980s – Gradual liberalization of commodity markets through (a) institutional reforms to downsize marketing agencies, (b) efforts to liberalize input and output prices, remove quantitative restrictions and encourage private sector participation, and (c) increasing WTO role in trade liberalization
 - ▣ Government's rely more on markets to implement policies
- 1990s – Broader liberalization of capital markets and deregulation of foreign direct investments (FDI) in many developing countries.
 - ▣ Transportation costs fall, communications improve
 - ▣ Led to an expansion of supermarket chains and fast food restaurants in developing markets
 - A need to manage agricultural supply chains
 - ▣ Governments emphasize putting regulatory framework in place to support markets
- 2000s – With urbanization, food chains bring food from country-side to cities
 - ▣ Urban population depends more on supermarkets
 - Convenience becomes important
 - More food is consumed outside of the home
 - ▣ Whole sale markets and food processors displace informal cash markets
 - ▣ Contracts and contract enforcement become more important
 - ▣ Governments are called on to ensure food safety
 - Supermarkets and fast food restaurants impose their own standards
- 2010s -- Trade in food driven by comparative advantages, managed supplies, food safety
 - ▣ Governments emphasize competitiveness
 - ▣ Improving market access for everyone

A framework for examining smallholder participation in food markets



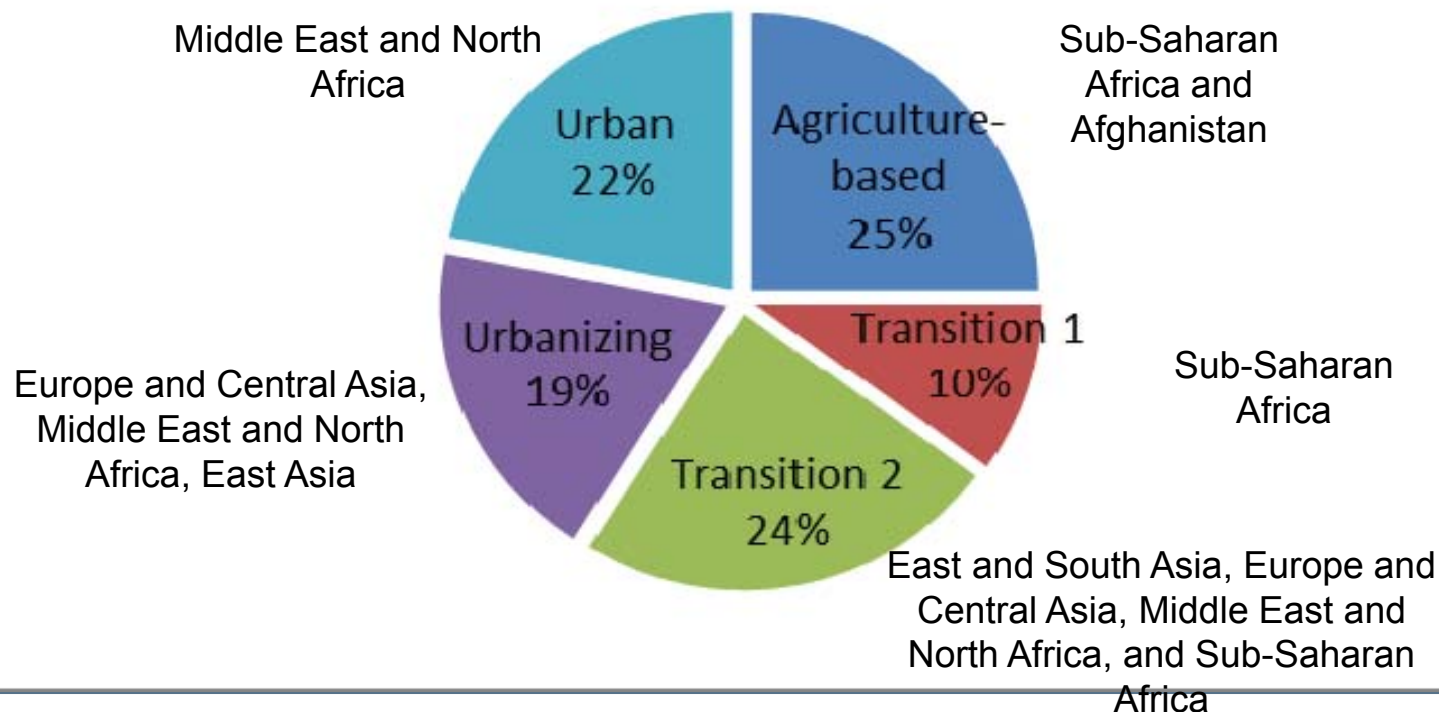
9



Distribution of OIC Member Countries across the five Groupings



As approximate percentage to total number of OIC Member Countries



But what about smallholders? How do they participate?

11



Who is a smallholder?



12

- Various definitions focus on different variables:
 - ▣ Physical farm size
 - ▣ How much of the work is done by family members
 - ▣ The amount of income from farming
 - ▣ Market participation
 - ▣ A combination of the above (EU definition)



- For this study, smallholders farm two hectares of land or less

Farm-size distribution in selected OIC Member countries



Country (year)	< 1 ha	1–2 ha	2–5 ha	5–10 ha	10–20 ha	> 20 ha
Albania (1998)	466,809	279,793	140,377	46,639	–	–
Algeria (2001)	1,023,799	223,115	128,864	239,844	181,267	107,729
Djibouti (1995)	1,135	944	191	–	–	–
Egypt (1999–2000)	3,955,941	365,362	170,625	35,996	10,953	3,007
Guinea (1995)	442,168	150,950	137,247	123,732	30,239	–
Guinea Bissau (1998)	84,221	59,120	14,809	8,531	1,590	–
Indonesia (2003)	18,606,642	3,460,406	2,801,627	–	–	–
Iran (2003)	4,332,423	2,056,727	522,956	797,006	491,156	169,399
Jordan (1997)	47,509	28,728	6,532	3,291	1,778	614
Lebanon (1998)	194,829	141,594	27,434	19,536	3,127	1,155
Libya (1987)	175,528	25,213	17,654	43,904	40,406	17,066
Malawi (1993)	1,561,416	1,212,967	270,326	78,123	–	–
Mali (2004–05)	805,194	255,596	108,998	189,636	142,932	28,967
Morocco (1996)	1,496,349	380,039	272,412	411,967	247,766	58,996
Mozambique (1999)	3,037,782	1,633,986	922,603	426,665	49,941	648
Pakistan (2000)	6,620,054	2,389,423	1,425,370	1,857,166	580,200	107,104
Senegal (1998)	437,037	91,532	72,226	142,213	90,669	6,071
Turkey (2001)	522,990	539,816	950,840	560,049	327,363	175,592
Uganda (1991)	839,369	411,810	296,560	97,013	59,969	–
Yemen (2002)	1,180,105	865,733	124,052	107,170	83,150	–

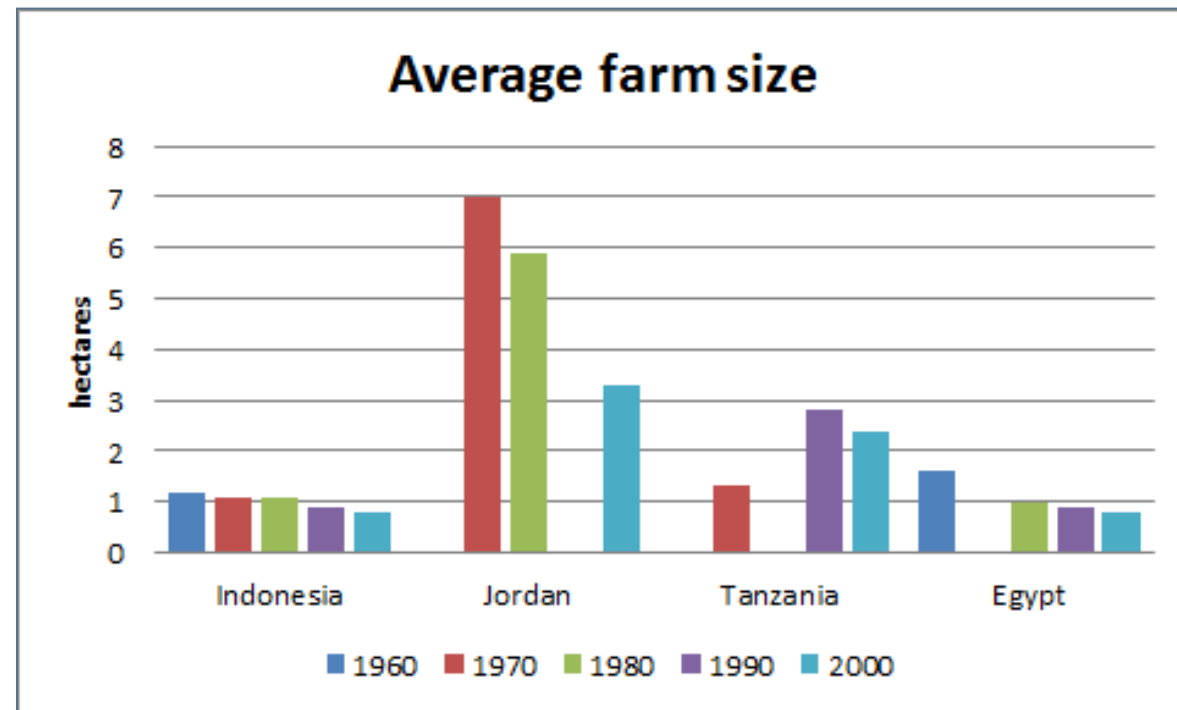
Source: Lowder, Scoet, and Singh 2014.

**80% of all farms in OIC
countries are smallholders**

Farms are growing smaller rather than larger

14

- Farm size is declining in most countries, even if the share of population working in agriculture declines



Rural population and access to markets

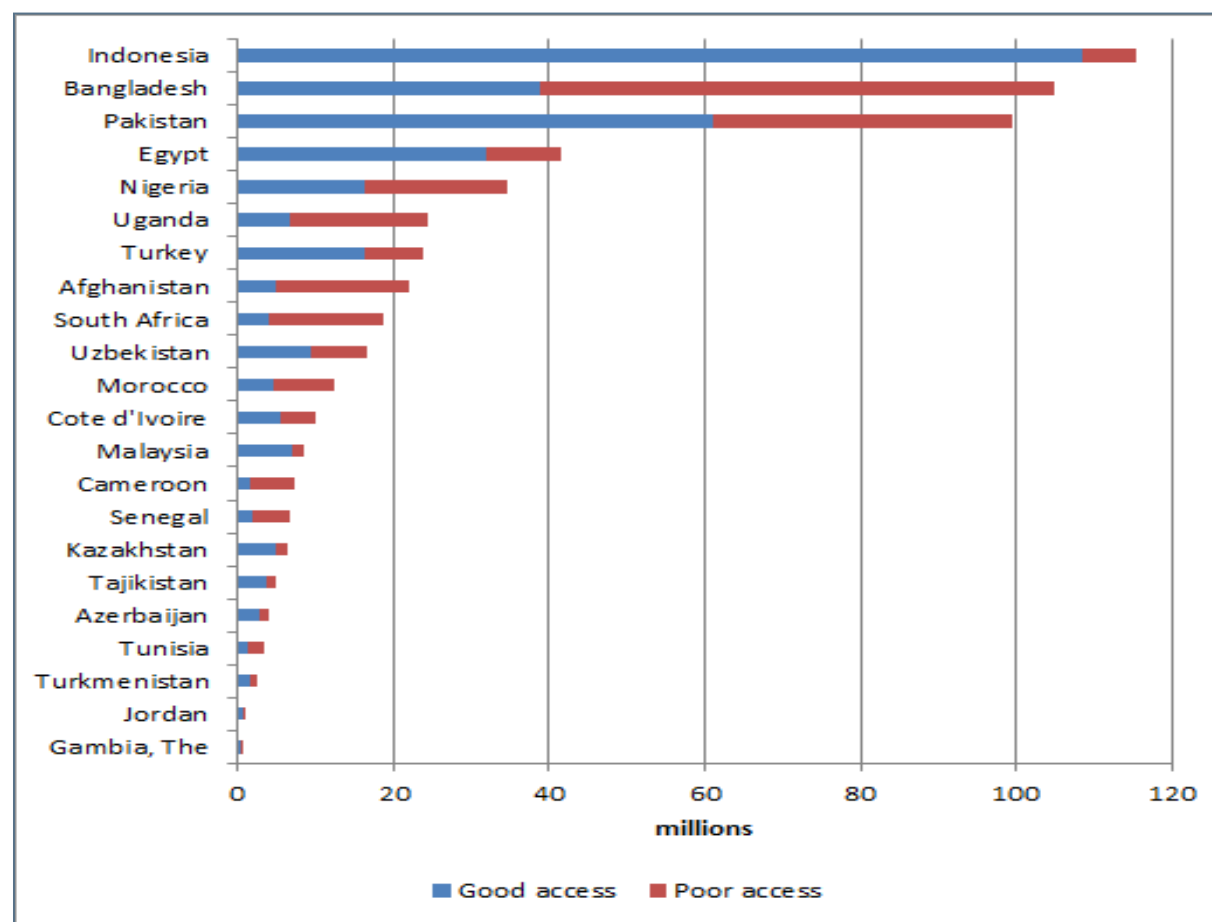


15

- Not all households have equal access to markets, even when overall infrastructure is good

-but transport alone doesn't mean farmers can participate

Source: Roberts, Shyam and Rastogi 2006



Challenges for agriculture based economies



Afghanistan
Benin
Burkina Faso
Gambia, The
Guinea-Bissau
Mali
Mozambique
Niger
Nigeria
Sierra Leone
Somalia
Sudan
Togo
Uganda

The majority of smallholders:

- Not part of structured value chains
- Sell to traders and/or in spot markets
- Constrained access to roads and transport facilities
- Lack of access to financing
- Limited access to updated information and technology
- Limited or no compliance with grades and standards

Those who are export-oriented/catering to high-end markets/agro-processors:

- More likely to be part of a more structured value chain
- More coordinated production
- Compliance with certain grades and standards is required

Opportunities arise in transition economies



Transition 1

Chad

Guinea

Mauritania

Senegal

Transition 2

Albania

Bangladesh

Cameroon

Cote d'Ivoire

Gabon

Indonesia

Oman

Pakistan

Tajikistan

Turkey

Turkmenistan

Yemen, Rep.

The following opportunities for smallholders arise:

- Possibility to cater to populations in towns and cities located over greater distances
- Possibility to be linked to markets
- Increased demand in high-value food products (fruit, vegetables, fish, meat, and dairy)
- Increased demand in better food quality and safety

Preconditions for seizing opportunities the above opportunities:

- Well-functioning transport infrastructure and better storage and logistics facilities (warehouses)
- Investments in marketplace
- Reliable power supply
- Enabling to FDI environment for agribusinesses
- Improved access to capital and knowledge for smaller firms and farms

Trade and domestic demand can both drive production



VALUE OF DOMESTIC AGRICULTURAL PRODUCTION VERSUS AGRICULTURAL EXPORTS ON EXAMPLE OF CASE STUDY COUNTRIES

Case study country	Domestic gross production value, top 10 sources (average of 2010–12, in constant 2004–06 US\$ millions)	Export value, top 10 products (average of 2009–11, in constant 2005 US\$ millions)
Mozambique	2,920	378
Nigeria	29,304	1,026
Bangladesh	8,183	279
Indonesia	34,964	24,554
Turkey	31,932	4,752
Kyrgyz Republic	994	117
Jordan	820	564

Source: Authors' calculations, based on FAOSTAT (FAO 2014) and World Development Indicators (World Bank 2014h).

Note: No data available for Uganda.

- For **Jordan** and **Indonesia** – export values of their top 10 commodities are close to 70% of the value of gross domestic production from their top 10 sources
- For **all other case study countries** – comparable shares are less than 15 percent

A continuum of policy priorities that should be forward looking



19

- For poor and remote areas
 - ▣ Delivery of security, health and education services
 - Opens options for those that stay and those that leave
 - ▣ Delivery of extension services
 - To all farmers
 - ▣ Selective infrastructure expansion
- For transitional areas
 - ▣ Market information, banking services
 - ▣ Positive business environment
 - Warehouses, shipping
 - ▣ Secure land tenure
 - Land registries and lease markets
 - ▣ Support for agricultural research and development that adapts new technologies to local conditions
- For maturing agricultural sectors
 - ▣ Supportive business environment for emerging agri-business community
 - FDI as a way to secure capital and expertise
 - ▣ Trade policies that are open
 - So sector is anchored in comparative advantage
 - Lower hurdles to imported technologies
 - ▣ Support for private-public food safety standards
 - ▣ Policies that encourage competition
 - ▣ Policies that support efficient logistics

THANK
YOU

