Privatisation and Liberalisation in the Agricultural Sector:

An Examination of Processes and Outcomes in Three African Cases

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Noragric Report No. 39
Department of International Environment and Development Studies
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Noragric Report No. 39
October 2007

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NORWEGIAN UNIVERSITY OF LIFE SCIENCES MDCCCLIX

Sjaastad, Espen, Kaarhus, Randi, Vedeld, Pål and Wold, Bjørn Kjetil*. Privatisation and Liberalisation in the Agricultural Sector: An Examination of Processes and Outcomes in Three African Cases. Noragric Report No. 39 (October, 2007)
Department of International Environment and Development Studies, Noragric
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Internet: http://www.umb.no/noragric

ISSN: 1502-8127

Photo credits: Digital Vision
Cover design: Åslaug Borgan/UMB
Printed at: Rotator, Ås

* Statistics Norway

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LIST OF ACRONYMS

Admarc	Agricultural Development and Marketing Corporation (Malawi)
ANC	African National Congress (South Africa)
CAS	Country Assistance Strategy (World Bank)
CFR	Central Forest Reserve (Uganda)
DFID	Department for International Development (UK)
DFS	District Forest Service (Uganda)
ESAF	Evangelical Social Action Forum
EU	European Union
FAO	Food and Agricultural Organisation (UN)
FD	Forest Department (Uganda)
FID	Forest Inspection Department (Uganda)
FRELIMO	Liberation Front of Mozambique
GDP	Gross Domestic Product
IDA	International Development Association (World Bank)
IFAD	International Fund for Agricultural Development (UN)
IMF	International Monetary Fund
LFR	Local Forest Reserve (Uganda)
MoF	Ministry of Finance (Uganda)
MWLE	Ministry of Water, Land and Environment (Uganda)
NFA	National Forest Authority (Uganda)
NFP	National Forest Policy (Uganda)
NORAD	Norwegian Agency for Development Cooperation
NRM	National Resistance Movement (Uganda)
PRE	Economic Rehabilitation Programme (Mozambique)
RENAMO	Mozambican National Resistance
TIP	Targeted Inputs Programme (Malawi)
URA	Uganda Revenue Authority
USAID	United States Agency for International Development
UWA	Uganda Wildlife Authority

EXECUTIVE SUMMARY

The main objectives of this report were to:

1. Assess issues surrounding promotion of privatisation and liberalisation measures by the World Bank and the International Monetary Fund (IMF), in the context of African primary production

2. Analyse the overall and distributional impacts of these policies, with reference to case studies in three African countries

The report has been prepared as a desk study, utilising available literature. Cases were selected on the basis of their ability to illustrate different aspects of privatisation and liberalisation within the agricultural sector, as well as World Bank and IMF involvement.

The cases selected were:

1. Agricultural marketing in Malawi. A review of the politics, policy processes, and outcomes surrounding agricultural marketing in Malawi, from the 1970s until today. In particular, the case study focuses on the varying objectives of the key stakeholders with respect to privatisation and liberalisation policies, the effects of these varying objectives on Malawi's Agricultural Development and Marketing Corporation, and the outcomes in terms of production and marketing.

2. The cashew nut industry in Mozambique. Under pressure from the International Monetary Fund and the World Bank, an export tax on cashew nuts was phased out from the mid-1990s, leading to the collapse of the industry. The case study examines the context, the debate, and the process that precipitated this outcome.

3. The Forest Sector Reform in Uganda. Following a more general reform process that started in the late 1980s, forest sector reforms were initiated in the late 1990s. These reforms involved a transfer of control from government to an autonomous national authority, decentralisation of government activities, privatisation of activities within forest reserves, and re-establishment of protected area boundaries. The case study examines macro- and micro-effects of the reforms, as well as issues of governance.

The three cases, being essentially different in scope and nature, revealed some contrasting experiences:

- Reforms in Malawi, a country that has enjoyed peace since independence, were met with a degree of institutional inertia and political resistance; effecting radical change in Uganda and Mozambique was easier, given the institutional vacuums in which years of tyranny and civil war had resulted.

- The macro-economic impacts of Ugandan reforms were generally positive; the impacts in Malawi were mixed; while those in Mozambique were disastrous.

- Grass roots interests in Mozambique were heard but not heeded; grass roots interests in Uganda and Malawi were neither heard nor needed.

There are, however, also common lessons to be drawn from the three cases:

- Liberalisation and privatisation tend to favour social groups that can already be described as fortunate.

- Effects on vulnerable groups are either non-existent or adverse, and compensatory measures are generally ignored.

More general conclusions that emerge from this study are:

- Privatisation should be seen as an instrument but is often seen as a goal. This encourages faulty diagnosis of social problems, automatic prescription of a cure, and a failure properly to identify and analyse policy alternatives. It also tends to polarise debates around privatisation efforts.

- Recent trends include the emergence of consensus-building within groups of multi- and bi-lateral donors, the increasing participation of these groups in the policy articulation of developing countries, and an associated emergence of policy decisions as negotiated compromise. These trends have caused an erosion of accountability, both within government and among donors.

In lieu of policy recommendations, we offer the suggestion that policy reforms should require:

- contextualized knowledge
- a diagnosis of opportunities and obstacles
- an evaluation of the adaptation of current institutions versus creation of new ones
- review of proposals by main stakeholders
- sufficient time for sound implementation
- rigorous monitoring and evaluation of input-output implementation and impacts
- downward accountability of policy implementers

… and that *large* or *controversial* policy reforms require:

- testing alternatives under proper monitoring.
- broad based policy design teams followed by a review process among main stakeholders

FOREWORD

A handful of exceptions notwithstanding, privatisation and liberalisation have been promoted and implemented in countries throughout the world over the last quarter century or so. In western democracies, these processes have emerged from the ordinary conduct of politics and its attendant public discourses. In developing countries and transitional economies, however, the same processes have been triggered and bolstered by conspicuous support and sponsorship from the World Bank and the International Monetary Fund (IMF).

In recent years, support for text-book privatisation and liberalisation has eroded. Also World Bank economists stress a more flexible approach. The Norwegian government's main political declaration (the Soria Moria declaration), and subsequent statements from its Minister of Development, have indicated that Norway would not support development programmes conditional upon privatisation and liberalisation. This position constitutes the rationale for the project on which this report is based.

Initially, the priority was to investigate whether the IMF and the World Bank still promoted such programmes through conditionality or through other means. Parallel to Norad support for this project, however, the Norwegian Ministry of Foreign Affairs supported another project with very similar objectives. The draft report from this project[1] was ready in November last year, and results were presented at a conference in Oslo alongside evidence from abroad. The unequivocal conclusion from the conference was that the World Bank and the IMF still promoted privatisation and liberalisation, albeit not quite as vigorously as before and with an attendant and increasing focus on governance issues.

This allowed us to focus on issues related to the implementation process and the outcomes and effects of these policy programmes. The focus would be a more inclusive view of the entire processes behind privatisation and liberalisation. A practical consequence of this was an extension of the time frame; rather than a consideration of events during only the last couple of years, cases would need to be old enough to permit some examination of outcomes. Furthermore, the analysis of privatisation and its effects would take place in the context of specific cases from the countries in question; Malawi, Mozambique, and Uganda. In these cases, privatisation emerges as a component within wider liberalisation programmes, necessitating some consideration also of the latter. Finally, the study would specifically take governance issues into consideration in each separate case, since these issues have become a priority within the World Bank, according to both themselves and others. This report reflects these alterations and adjustments, made subsequent to the original Terms of Reference.

[1] See Bull et al. (2006).

1. CONCEPTUAL CHALLENGES AND CURRENT ISSUES

1.1. INTRODUCTION

The structure, extent, and efficiency of the agricultural sector are of crucial importance to the development prospects of poor nations simply by force of sheer numbers; most people derive a significant part of their livelihood from use of land and associated marketing and processing activities. In addition to issues of overall performance and contribution to the national economy, the structure of the agricultural sector affects rural-urban migration and demographics, influences rural wealth and income distribution, and has connotations for the manner in which traditional ways of life mesh with the laws and policies of the state.

In this chapter, we briefly review key issues in privatisation of agriculture, land use, and processing of primary commodities more generally,[2] focusing on problems that are currently at the forefront of debates within policy, aid, and research environments. We do so mainly with reference to the African context. Before embarking on this review, however, we take a brief look at the concept of privatisation and its significance in the context of the agricultural sector.

1.2. TWO MEANINGS OF PRIVATISATION

Privatisation has been defined as “the transfer of property or responsibility from the public sector (government) to the private sector (business).” This definition is inclusive enough to cover a wide range of mechanisms and processes within the agricultural sector. The term “privatisation” is, however, also used to describe changes in the property rights structure, away from communal or collective rights towards more individual or private rights. Although it is frequently policy-driven and state-managed, the latter conception of privatisation most often involves a transition within the private sector rather than transfers between public and private sectors.[3] In the following, we separate between these two meanings of privatisation, albeit with an understanding that both are relevant to many of the key issues reviewed. We also note that the distinction between public and private land in many poor countries is amorphous and contested, with obvious implications for what in fact can be dubbed privatisation.

1.2.1. Privatisation as transfers between public and private sectors

Scepticism towards public ownership was a prominent feature of the writings of Adam Smith and several of the other classical economists – how could government be trusted to act on behalf of its subjects? Concerns about idle assets, distorted incentives, and bloated and voracious public sectors have since accentuated this scepticism within mainstream economics. As a policy targeted for developing countries, privatisation as public-private transfers came into vogue in the 1980s with the structural adjustment and stabilisation programmes designed and promoted by the World Bank and International Monetary Fund. In many African

[2] We take “the agricultural sector” to also include activities within animal husbandry and forest utilisation; furthermore, our concern here is with the sector and its products up to and including the processing and wholesaling stages.

[3] Rather than focusing on public and private sectors, one may distinguish between public, private, and communal “spheres” or “regimes,” across which the structures of rights and duties governing use, management, and alienation differ in essential ways.

countries, however, privatisation emerged on a serious scale only in the 1990s, parallel to a wave of democratisation in Sub-Saharan Africa.

Transfers of property or responsibility from government to business may take many forms. Beyond transfers of property through sales, leases, or grants, this type of privatisation covers mechanisms such as transfers of management responsibility, removal of restrictions on private provisioning (exposing government to competition), issuing of vouchers, government withdrawal from the market, outsourcing, and corporatisation.

These mechanisms have readily identifiable counterparts in recent and still unfolding processes in African agriculture and land use. An example of removal of restrictions on private provisioning is the recent dismantling of state control of tobacco farming in Malawi, where rights of cultivation previously were reserved for large and state-sponsored farms; an example of corporatisation is the transition to "executive agencies" in Tanzania in the late 1990s, whereby a number of government agencies, including agricultural research and extension services, were told to operate according to business principles and essentially fend for themselves; governments across the continent have progressively withdrawn from agricultural input and output markets; and outsourcing of forest operations and services related to land surveying and delivery has become increasingly common.

Transfers of government property are equally relevant. Such transfers include sales of large government farms, forest estates, and processing industry, as well as government cooperatives for distribution and marketing of inputs and outputs. Besides sales of farms and estates, this form of privatisation also covers sales, leases, and grants of other types of state-owned land. This may involve a variety of different types of land and may occur through a variety of mechanisms, including those that come under the general heading of "land reform."

Motivations for public-private transfers that have been offered are, in no particular order: increasing the efficiency in provision of the relevant commodity or service; raising public funds; reducing public spending; depoliticising the economy; reducing the power of public-sector labour unions; promoting popular capitalism through dispersal of asset ownership; improving the corporate governance culture; increasing consumer choice; and rectification of past injustices.

The extent to which privatisation was pursued and followed through varies greatly from one country to the next. A highly relevant question in the context of privatisation and conditionality today is therefore the scope that remains for further privatisation.

1.2.2. Privatisation as changes in land rights

What does privatisation of land rights mean? The term is often confused with different but related concepts such as exclusion, enclosure, consolidation, and formalisation. Definitions abound, but for all practical purposes, privatisation involves a process where rights over land increasingly are assigned to individuals or households according to boundaries defined in terms of location. The hypothesised benefits of privatisation are equally varied. One that has received much attention is improved access to credit through use of land as collateral, although this effect also requires formalisation of rights; another is efficient reallocation of land through the emergence of a land market. Most of the other effects generally spring from the same source: privatisation progressively allows (or forces) individuals to reap the rewards (or suffer the costs) of their actions. In economist terms, private land rights are assumed to minimise external effects. Privatisation may be assumed to unfold organically, in an evolutionary manner, with minimal state interference, or may be seen as requiring state intervention. The process may be gradual or sudden, piecemeal or massive.

The search for expedient land rights structures is an ancient concern – the English enclosure movement started in the 13th Century and lasted for several hundred years. Academic concern can be traced to philosophers such as Locke, Kant, and Rousseau. The 18th Century French Physiocrats were fierce defenders of private rights in land, and private property rights are by neoclassical economists stipulated as a condition for efficient competitive equilibria (and are often taken as axiomatic). A succession of schools within law, economics, and political science has since, with a few notable exceptions, generally promoted the same view.[4] Over the last 20 years or so the picture has become more nuanced. A body of literature has emerged where the attractions – as opposed to the problems – of communal land rights are underscored.[5]

A recent and influential World Bank report on land policy[6] recognises the local and context-dependent adequacy, even advantages, of operating with forms of ownership that do not amount to private (freehold) ownership. Still, the concept of full ownership is reserved for private ownership in the traditional sense of the term. Private ownership is also characterised as "well-defined" and is regarded as the most secure form of ownership.

These issues have a long history also in the context of developing countries. Colonial authorities were constantly tinkering with what they perceived as archaic and inefficient customary systems of land tenure. Post-independence governments often sought to erase the colonial legacy by nationalising land or trying to formalise custom. In the 1970s and 1980s, privatisation of land rights became part and parcel of more general efforts to transform governance structures in the South. In the 1990s, academic resurrection of communal property spilled over into policy, with some governments pursuing the establishment of communal property associations, village land trusts, or permutations thereof. Meanwhile, others were privatising more vigorously than ever.

Given their long and varied history, their myriad ideological justifications, and their persistent exposure to scientific scrutiny, the single most remarkable fact associated with property interventions in the South is their almost uniform lack of success. While it is outside the scope of this study to address the privatization of land rights within the separate case studies, the issue is presented in further details in chapter two.

1.3. CURRENT ISSUES

1.3.1. Overarching concerns

The last three or four decades have been characterised by population growth and a rapidly increasing demand for agricultural produce, technological advances that have led to substantial increases in output per hectare, and an increasingly interlinked and competitive

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[4] Highlights of this literature are Alchian (1950), Gordon (1954), Demsetz (1967), Hardin (1968) and the World Bank (1975). The "old institutionalists," represented by e.g. Thorstein Veblen, and anthropologists such as Elizabeth Colson have challenged this perspective.

[5] Ostrom (1990) and Bromley (1992) are two important contributions. Attractions of communal land tenure relate to insurance, economies of scale, self-determination, community cohesion, and associated transaction cost savings.

[6] World Bank (2003a).

global economy. The dual pressure generated by international standards of efficiency and the perennial scarcity of public funds has made efforts to control food supply and domestic market prices increasingly difficult for African governments. These processes have thus also, over the last 20 years or so, brought a new policy focus and new instruments to the fore. Politically, this has implied a change in views on the distribution of power and the assignment of rights and duties between social actors and economic sectors; horizontally and vertically within the public sector, and from the public sector to the private sector and to civil society more generally. Privatisation processes, in the form observed in many African countries over the last decade or so, imply substantial institutional change at organisational, administrative, management and policy levels. Privatisation therefore not only concerns economic efficiency in resource use, but also the broader issue of governance and its legitimacy; how different actors exert coercive, remunerative, and normative powers.

Agriculture as a sector has its particularities. Even if there typically are strong elements of segmentation in agriculture – where farmers, bureaucrats, politicians, and labour unions may have joint interests against other sectors – other types of networks tend to dominate segment networks in developing countries; kinship, friendship, class, ethnicity, political affiliation, and business connections generate more vibrant communication networks and feelings of loyalty than does the sector itself. Opposing and incompatible interests across such networks will often obscure broader social objectives and act as impediments to a transparent and effective privatisation process.

Beyond the objectives, privatisation processes within the agricultural sector will, as in other sectors, also differ according to the instruments used by the state (regulatory framework, divestment, withdrawal, public-private partnerships, etc.), the entities targeted for privatisation (parastatals, farms, industry, etc.), and the goods that these entities supply (public, private, club, common pool, or a mix). Privatisation policies that directly affect large numbers of people – such as nationwide land reforms or outsourcing of extension services and associated retrenchment – often create the most controversy. But the sale of a state-owned grain mill with 100 employees and a constrained portfolio of assets will often have substantial indirect effects through associated changes to subsidies, prices, cropping patterns, and marketing opportunities.

Organizational structure and performance in the agricultural sector also differ from those of other sectors. Traditionally, the presence of a substantial corps of public employees at the grass-roots level has facilitated communication and information sharing between the state and rural people. Furthermore, the pervasiveness of cooperative movements often sets the agricultural sector apart. This means that the scope for privatisation may be uncommonly large but also raises questions with respect to how privatisation efforts mesh with established ways of networking and organising production.

Corruption is a plague that may afflict privatisation efforts of all kinds, but is a particular concern within agriculture and natural resources use, where the commodities produced are geographically dispersed and largely untraceable and where paper trails are comparatively short. A case of corrupt and cronyist practices in relation to privatisation has been reported from Uganda, where "few checks exist on government divesture decisions, where political leaders seek to divest to favoured clients, and where the big offenders are unlikely to be punished for their illegal behaviour".[7] The lack of financial capital in agriculture may also

[7] Tangri and Mwenda (2001)

open privatisation processes to involvement of foreign investors, generating networks of actors and processes that are neither transparent nor economically efficient. These processes also raise the issue of the extent to which international donors are willing to address governance issues when this may halt or decelerate privatisation.

The impact of privatisation and liberalisation on wealth and income distribution is particularly important in the context of African agriculture. Increased wealth and income differentiation on other continents and in other sectors may be avoided through simple compensatory measures, for example public investments in housing, infrastructure, or social security. In the African countryside, however, compensatory measures are made difficult by the sheer numbers of people, their dispersed demographics, and the often weak presence of the state in rural areas. Feasible compensation, for example in terms of price subsidies, would generally appear to negate the very objectives that led to privatisation or liberalisation in the first place; and many African governments have found it easy to ignore the plight of already impoverished and mostly voiceless rural populations.

1.3.2. Smallholders and privatisation

The potential contribution of the smallholder to economic growth, and the associated scope for rural poverty reduction, is a lasting preoccupation among politicians and analysts alike. On one side are those who emphasise the vast numbers of mostly poor people who in some form or other depend on land and its produce, the need for domestic self-sufficiency in food production, the safeguarding of basic needs, the benefits of stable commodity prices, the need to stem urban migration, and the erosive consequences of the mortality, morbidity, and social unrest that invariably attend famine years. On the other side are those who – disillusioned by efforts to invigorate rural African economies – point to the distortive effects of price controls, the dependence created by subsidies and grants, the need for poor countries to economise on public expenditures, the desirability of nurturing the private sector, the pitfalls of measures to protect against international competition, and the already diverse portfolio of income sources relied upon by rural households.

The policy dilemmas inherent in this debate are faced by practically every government in the developing world. Over the last 15 to 20 years, the general trend has been towards market liberalisation, but the overall picture is complex. Questions of privatisation enter into the debate on several fronts.

Public-private transfers of state farms, processing industry, and parastatal input and marketing cooperatives have been a feature of recent agricultural sector policy in many countries. As a rule, efficiency has improved subsequent to privatisation, sometimes spectacularly, with many enterprises turning losses into substantial profits. At the same time, however, privatisation has also generally led to a contraction of operations, with associated reductions in jobs, demand for smallholder output, and domestic supply of processed commodities. The challenges posed by these changes have generally not been met by compensating efforts in rural job creation or support services; often the opposite has been the case, with progressive state withdrawal from marketing, extension, and infrastructure investments. Paradoxically, privatisation (and liberalisation more generally) has therefore not always led to greater commercialisation of smallholder agriculture but instead the opposite, with many rural producers reverting to low risk, low-yield, and often low-nutrition subsistence crops.

In the 1990s, a more liberal trade environment led to a blossoming in several African countries within the cultivation of low-volume, high-value crops, especially in horticulture and associated export-driven agro-industry.[8] The number of producers and workers involved in this sub-sector is, however, limited. Privatisation and liberalisation were attended by a shift in the focus of rural development, away from semi-subsistence smallholders towards the nurturing of a class of native, so-called "emergent" commercial farmers, who possess sufficient capital and who produce exclusively for the market. In the end, it is therefore a question of not only how much has been gained or lost but who has gained or lost.

In the recent World Bank report on *Agricultural Development for the Poor*, the role of smallholders in growth and poverty reduction returns to centre stage. The foreword starts out by stating that "Broad-based agricultural development on small farms has been a powerful force for promoting growth and reducing poverty in many poor countries".[9] Privatisation, market integration, and development of the private sector remain key policy objectives, reflected for example in the call for transferable rights to land and water, market-oriented public interventions, abolishment of subsidies, and increased private sector service provision. But greater emphasis is also given to the sequencing of privatisation measures, good governance, decentralisation, and the development of support services. The report also embraces the notion of an inverse relationship between farm size and productivity, although the evidence of this is at best shaky as far as the African continent is concerned.[10]

Evidence from Africa to date suggests that privatisation and liberalisation may obstruct rather than promote market integration amongst smallholders; that although smallholders – because of substantial multiplier effects – indeed may contribute to economic growth, the gains from this contribution are most often realised by others; and that efforts to promote broad-based growth in rural areas instead tend to benefit a small group of emergent farmers with access to sufficient capital. Despite the optimistic noises made in *Agricultural Development for the Poor*, the question of whether the broader and more versatile policy perspective found therein will truly benefit the African smallholder remains open. The private sector generally regards the African countryside as barren as far as investment opportunities are concerned; giving privatisation a "human face" is not necessarily a sufficient motivation for private investors to change their minds. In particular, the challenges posed by capital constraints and the absence of credit opportunities remain enormous, and neither transferable land rights nor innovative lending mechanisms will alter the fundamental problems of rural finance.

1.3.3. Agricultural marketing

The rationale for our study of agricultural marketing is a dramatic change in the perspective of agriculture in Sub-Sahara Africa in just 15 years. As recently as the early 1990s, the general consensus was that a number of African states placed a heavy indirect tax on agricultural production that served as both the main indirect tax base and an instrument favouring the urban population. The instrument was some kind of public monopoly, either for export as in Cote d'Ivoire and Ghana, primarily for domestic trade as in Zambia, or a combination of arrangements for domestic and export trade as in Malawi. The monopolies covered different crops, but would usually cover either main export products or domestic staples, possibly in combination with crops previously selected as strategic crops, or a combination of both export crops and domestic staples.

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[8] These market opportunities were dependent upon infrastructure and proximity to markets; in countries such as Mozambique these opportunities never materialized.

[9] World Bank (2005: ix).

[10] Even when adjusting for fertility and associated levels of fragmentation, studies of this relationship are often marred by comparisons of fundamentally different operational forms and market adaptations.

In the early 1990s, the World Bank[11] argued that removal of state monopolies was the key element to reduce the excessive tax burden on farmers and to unleash untapped agricultural potential by increasing producer prices. A secondary argument was that removal of corrupt, inefficient, and costly public monopolies would reduce the heavy fiscal burden on government budgets. Today the privatisation and liberalisation pendulum has started to show some indications of being close to its maximum amplitude, and a likely scenario is a return to increased government intervention.

In this situation it is both encouraging to learn that World Bank policy rhetoric has changed and at the same time discouraging to learn that the World Bank implementation has hardly followed suit.[12] Hence it is an urgent matter to summarize what we have learned from this oscillation in order to contribute to ensuring that potential return is to situation based upon synergies.

1.4. THE THREE CASES

The three cases discussed in this report are distributed among two major themes: privatisation and liberalisation of agricultural input and output markets; and forest sector reforms in the wake of more general economic liberalisation. The case from Malawi investigates the background for, and effects of, liberalisation of agricultural input and output markets, with associated privatisation of key public assets and functions. The Mozambique case examines the case of post-conflict cashew nut production and marketing and effects of increased exposure to international competition. Finally, the Uganda case discusses the multiple and often conflicting interests that defined that country's forest reforms and how the major stakeholders have benefited or not. Of specific concern to all these cases is the role of smallholders – their interest and influence in privatisation and liberalisation processes and the manner in which they are affected by the outcomes. In addition, the Ugandan forest reform points up issues of both privatisation and nationalisation of land.

Beyond their links to "current issues" more generally, however, each of the cases also illustrates cross-cutting themes within recent African reforms: the various forms that internal resistance against donor-promoted reforms may take; the changing role and modus operandi of donors; and the links between donor agendas, reform processes, and governance issues. In the concluding section of this report, we synthesise the lessons provided by the different cases in order to arrive at a broader picture of World Bank conditionality, privatisation and liberalisation within primary resource sectors, and the outcomes of these processes for different groups of Africans.

[11] E.g. Demery, Ferroni and Grootaert (1993:198-201).
[12] As documented by Bull et al (2006).

2. LAND RIGHTS

2.1. PRIVATISATION OF LAND RIGHTS: REALLOCATION, EXCLUSION AND FORMALISATION

Privatisation of agricultural land rights has been tried and tried again in Africa, the most famous example being the Swynnerton Plan in Kenya in the late 1950s and early 1960s. It is generally agreed that the desired effects related to investment demand and credit supply have failed to appear.[13]

The story with respect to how privatisation affects land markets is more complex. Proponents of privatisation argue that private rights are required to develop markets and that markets in turn are necessary in order to ensure that land comes into the hands of the more efficient producers and to allow consolidation of scattered holdings. Against this, critics argue that markets lead to concentration of land in the hands of the few, that they encourage speculation and absentee ownership, and that transfers are motivated by hunger and distress rather than by efficiency. Some also argue that the transfer mechanisms necessary for efficient redistribution already are in place; customary institutions related to gifts and reciprocity, as well as frequently observed local leasing arrangements, make establishment of sales markets superfluous or destructive.

Arguments concern not only the attraction of land markets, or the lack of it. Another important facet of this debate is whether state intervention in fact is needed in order to engender markets. One view sees private rights and land markets as evolving organically, driven by increasing scarcity of land and associated changes in relative prices of land and labour; the other view sees state intervention in rural rights structures as necessary for the emergence of markets. Both the latest World Bank strategy on rural development and their 2005 report on agriculture and poverty call for the establishment of transferable land and water rights, mainly through formalisation efforts.[14] Analysis of land use in Africa, however, generally shows that it is necessary to distinguish between sales and rental markets. While sales markets normally suffer from a number of distortions and often promote land concentration, informal rental markets are generally able to operate effectively without state regulation and may act as both an income source and a means of access to land for the poorest rural dwellers.[15]

Besides privatisation of rights to agricultural land, particular concern surrounds exclusion from communal natural resources as their scarcity increases. One important issue is the gradual reduction in natural forests and woodlands where community members share access to fuel wood, fodder, construction materials, and a host of non-timber forest products. Of particular concern is the fact that the very poor generally depend on these resources to a much greater extent than the comparatively wealthy.[16] Privatisation of communal water rights may similarly represent a threat to disadvantaged people in rural areas, as rights of access or use are attached to fees or levies that the poor can ill afford, or as rights to upstream water are appropriated by commercial farmers for irrigation purposes.

[13] Disagreement about the reasons for these failures persists, however; many still see privatisation as a necessary but not sufficient condition for improving the motives and means for investment.
[14] World Bank (2003b, 2005).
[15] Holden *et al.* (2006).
[16] See e.g. Vedeld et al. (2004).

The debate on privatisation of property rights has recently been animated by the writings of the Peruvian economist Hernando de Soto and the programmes initiated by his Institute for Liberty and Democracy (ILD). According to de Soto, property must be formalised in order to turn "dead" capital into "living" capital and allow the poor to enjoy the benefits of the formal economy that were previously reserved for the rich elites. The concern of de Soto is thus not privatisation as such, but rather formalisation, in the sense of surveying, registering, and integrating rights into uniform systems. While the two are conceptually different, the question, in the context of African land tenure, is whether the latter will lead to the former.

Formalising communal rights is not problematic in itself; witness, for example, the numerous formalised commons in Northern Europe. In Africa, however, attempts to formalise communal land have mostly failed, and formalisation of rural land has often been closely associated with de facto privatisation. With limited public resources, governments are often tempted to implement procedures that simplify the surveying and registration of rights and that permit easy integration; in the process, secondary rights and communal access mechanisms are ignored. On experience to date, de Soto's ambition simply to formalise the rights that already exist may be wishful thinking. Furthermore, the formalisation process will, in and of itself, frequently alter perceptions and social relations in a manner that causes fundamental changes in the property rights structure.

The concerns voiced by de Soto touch on an essential question: how can law and policy be realigned in order to close, or at least diminish, the enormous gulf that exists between the institutions of the state and those of the rural poor? In many rural settings, the state is perceived as remote and indifferent or even a serious nuisance. Recent efforts to decentralise and devolve government tasks and authority illustrate the difficulties in addressing this problem. The role of property formalisation in bridging this gap remains controversial.

2.2. GENDER ASPECTS OF LAND PRIVATISATION

At least two basic arguments can be distinguished in debates on the gendered aspects of land privatisation.

One basic argument is that privatisation, in the sense of defining and formalising exclusive property rights, provides both men and women with more secure rights and greater opportunities to enter into, and benefit from, market transactions. Thus, secure property rights, acquired through privatisation, will in practice also benefit the more vulnerable, since access to institutionalised protection and the market principle do not discriminate along e.g. gender lines. The implication of this perspective is that there is no contradiction between privatisation and the protection of either men's or women's rights and interests.[17]

Another argument maintains that privatisation tends to reinforce existing inequalities between men and women unless particular mechanisms to protect women's rights are put in place. Informal gender inequalities are now turned into formal and legally based gender gaps[18]. A growing number of studies on land tenure changes in Sub-Saharan Africa seem to support this argument. In many communities, women's rights to land are locally considered secondary to men's rights. That is, women's rights are, to a greater extent, user rights while men's rights to

[17] See e.g. de Soto (2000).
[18] Kaarhus *et al*. (2005).

a greater extent are rights to ownership and management, especially in groups where patrilineal rules dominate.

There is evidence that privatisation processes have resulted in a marginalisation of women's rights, even in matrilineal groups.[19] To the extent that privatisation involves a transition from customary or communally held land to private land, the process will often require cash to pay for registration and documents. Power and influence may also affect negotiation and mediation when claims are made public and rights are contested. Through such processes, the gender balance can easily shift in favour of the male side, since men usually have privileged access to cash and to the "public sphere."

In *Land Policies for Growth and Poverty Reduction*, it is claimed that processes leading to increases in the value of land, which in many cases result in increased demands for the privatisation of land rights, at the same time lead to "a progressive weakening, or even the loss, of women's rights to land".[20] The argument is that, even if there is no clear causal relationship between privatisation and the weakening of women's rights, both emerge as results of the same processes, and in this way they are interlinked. This, in turn, can be said to represent a challenge with regard to the need for establishing specific mechanisms of protection of women's land rights in situations of rapid change. Which is what we see in Sub-Saharan Africa today.

2.3. CONSERVATION AND NATIONALISATION OF LAND

Debates around public-private transfers of land are often concentrated around the intended recipients. In Zambia in the late 1990s, the government sought to attract foreign investors by offering 100-year leases on "state land" located on either side of the railway line between Kapiri Mposhi and the Tanzanian border, ignoring the fact that locals had been farming in most of these areas for generations. In South Africa, on the other hand, the state is returning land that was confiscated from local communities, prior to liberation in 1994, under the heading of "restitution." While both of these examples involve "privatisation," critics of the former process will generally support the latter, illustrating the fickle allegiance between ideology and concept.

As noted, the distinction between public and non-public land is often obscure in Africa. A phrase such as "land is held in trust by the president on behalf of the people" is a feature of numerous constitutions. In practice, beyond the rights of eminent domain that are common across the globe, the state often treats land held under customary tenure as de facto state land.

Communal resources, which represent the source of a significant share of rural income, are often under threat from not only privatisation but also conservation. Paradoxically, conservation generally involves nationalisation of land, with the gazetting of communal forests and pastures into national parks or other protected areas. Communal resources are thus under pressure both from privatisation (in the sense of changes in the system of land rights) and from "the opposite of privatisation" (in the sense of private-public transfers of assets).

The share of land devoted to national parks, wildlife reserves, nature reserves, and other types of protected areas, is growing in Africa. But rural populations are also growing, increasing the

[19] Holden *et al.* (2006).
[20] See World Bank (2003a, p. 58)

number of points of conflict between productive and conservationist uses. Over the last few decades, this problem has spawned the development of new, participatory approaches to conservation, including limited use solutions, joint state and local management models, and conservation efforts outside the boundaries of protected areas.

Recent research shows that there is cause for concern, however. According to many social scientists working in the South, the promise of the new conservation approaches has been unfulfilled, with notions of local participation and joint management largely confined to project proposals and marketing initiatives. While these ideas have been useful as rhetorical devices in dialogues with funders, governments, and human rights groups, conservation efforts on the ground have largely continued according to the “fortress” model of old, with customary land users in many cases summarily evicted from their land and subsequent benefits from tourism remaining largely invisible at the local level.[21]

In contrast to some forms of environmental degradation, park conservation is not, of course, an irreversible process. In Kenya in late 2005, for example, “the minister of wildlife and tourism announced that Amboseli National Park would be downgraded to a national reserve and returned to a governing council of the Maasai people, its original owners”.[22]

Thus, privatisation – in the sense of returning land ownership or management responsibility to indigenous groups – can also be a potentially important tool in reducing environmental conflict, although the attraction of this tool predictably is contested by environmental groups.

[21] See especially Chapin (2004) on the practices of the “big three” conservation organisations.
[22] Quammen (2006, p. 63).

3. AGRICULTURAL MARKETING IN MALAWI

There is hardly a consensus on whether to recommend privatization of agricultural marketing, neither on how far to take privatization nor on how to implement privatization. In short it seems as if both supporters and critics of the privatization policy are able to document support for their view. There are quite some examples that privatization and liberalization has worked well for some export crops and especially for minor crops cultivated by medium and large scale farmers where trading regimes are based upon few regulations, private traders and contract farming such as for cotton. There is a discussion on whether this privatization favours certain groups versus others and hence requires more public control, but without returning to public market actors. On the other hand, there are also quite some examples where this process has had a devastating impact on the production of staple crops. In this case there seem to be less agreement on whether the main cause is the privatization as such or rather the lack of consistent implementation.

How has agricultural production changed over the years of various policies and policy changes? What is the outcome of these changes for the different groups of farmers and what are the likely causes? The intention of this focus is to be able to contribute to a discussion on policy recommendations for the years to come.

3.1. DOCUMENTATION ON OUTCOME OF POLICY CHANGE

A number of single case studies exist. They are sharply divided on the effects for market liberalization and privatization[23]. Jayne *et al* (2002) focus on the ideology of the authors as the main reason for the sharp division in evaluation of the effects. While accepting that this is a reasonable hypothesis, we would like to add the need to review other potential factors which might be equally important for reaching different conclusions. We should add that these hypotheses are not competing ones, but may all contribute, supplement and complement each other.

Hypotheses of potential reasons for deeming liberalization and privatization of agricultural markets as successful or not:

- The ideology hypothesis: Ideology of authors (the "Jayne explicit hypothesis")
- The market structure hypothesis: The structure of the markets (the "Jayne implicit hypothesis")
- The timing hypothesis: The nature, order and timing of the policy implementation process

Jayne *et al*. document well that a series of case studies reviewed are sharply divided in the sense that the authors seem to judge the process either/or, rather than working well under some conditions and being a failure under other conditions.

Summary reports[24] tend to be less biased but still often lean towards evaluating liberalization and privatization as successful or not. They do, however, agree that the process of liberalization and privatization might work well for small export crops and in some cases even for large cash crops especially when producers are located close to each other, have a proper

[23] As documented by Jayne *et al* (2002)
[24] Such as Seppala (1998) and Jayne et al (2002)

infrastructure or are large and well organized, but does not work out well for main staple crop producers who are located across the country.

It is well known from other policy areas that the order and timing of policy implementation might be essential for its success and with a complicated process such as liberalization and privatization this is obviously a potential factor.

So far we have focused on the potential effects of liberalization and privatization, assuming the rationale behind this is to promote efficient markets. Seppala however presents a broader view and outlines three hypotheses behind the need to liberalize food markets:

- The efficiency hypothesis. This hypothesis postulates that state-governed food marketing is too inefficient and costly; hence, the official producer price does not give a proper price incentive for increasing production.
- The fiscal burden hypothesis. This hypothesis is based upon the same assumption that state-governed food marketing is too inefficient and costly, but focuses on another possible outcome, i.e. that the producer price remains at a proper level, but causes a large fiscal burden to the government.
- The ideology hypothesis. This hypothesis postulates that the need to liberalize is based upon ideology. Hence, there will be no judgement of economic performance of parastatal marketing; the World Bank would rather push liberalization in all areas for ideological reasons. The presentation of this hypothesis is usually based upon an assumption that state-governed marketing is needed to ensure food security and stabilize prices even in a liberalized economy.

The Seppala paper also presents three hypotheses on the effects of liberalization of food crops marketing on food crop producers, as follows:

- The first hypothesis says that all food crop producers will gain or lose depending on the development of crop prices.
- The second hypothesis claims that public marketing was serving only a segment of farmers and that segment will gain, and some lose, from liberalization. Farmers in remote areas benefited from uniform prices, while large-scale farmers and millers benefited from guaranteed floor prices and subsidized inputs and milling. Both these segments will lose while the farmers and small-scale traders in areas close to large markets tend to gain.
- The third hypothesis postulates the liberalization of food crop marketing is overshadowed by liberalization of cash crop marketing.

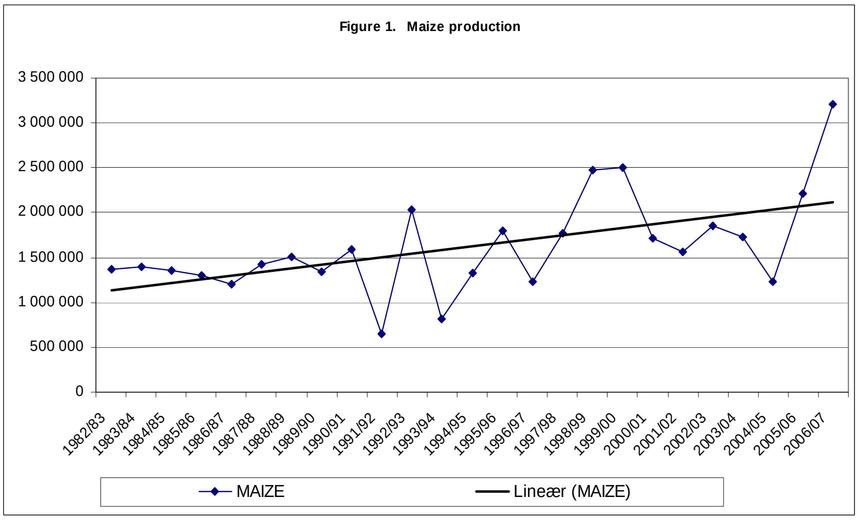
This paper takes us up to the mid 1990s. As we will show, the developments have gone further and definitely not only in a linear fashion, but in waves and U-turns as well[25]. The question is whether these hypotheses can be used to describe the developments in the last decade and how to take them further along.

[25] Refer to e.g. Øygard et al (2003) and Harrigan (2005).

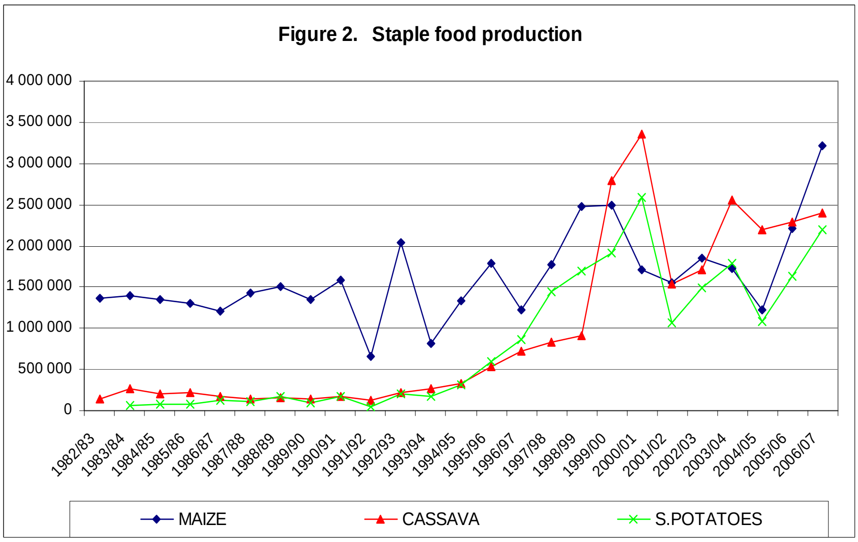
3.2. POLICY EVENTS IN MALAWI

3.2.1. Production at country level

As shown in Figure 1, there are two clear trends in the total production of maize in Malawi over the last 25 years. First, there is a clear increase in total production and second, there is a clear change from a stable production to a volatile variation. It is interesting to note the steady increase in production in probably the only country in Southern and Eastern Africa with an almost country-wide scarcity of land. The variation started with the disaster year 1991/92 caused by catastrophic drought, but followed by large variations in several years thereafter, only partly caused by climatic conditions.



As follows from Figure 2, maize totally dominated the production up to the mid 90s, when an increasing influx of sweet potatoes and cassava production started[26]. Measured in kilograms, the production of both sweet potatoes and cassava has reached the level of maize production. That hides, however, the fact that the calorie content is less than half per kg for these crops compared with maize.



[26] Even production of sorghum and millet has increased, but these are still at such a low level that it is not worthwhile to include them.

The question is whether this production increase is just a reflection of an increased population or even an increase per capita. As shown in Figure 3, the clear trend of increased maize production has not been large enough to compensate for the population increase. The per capita production of maize shows a slightly decreasing trend or rather a steady level. The question is of course whether the new era for sweet potatoes and cassava has been large enough to compensate for the slightly decreased per capita maize production. In order to compare these crops in a consistent manner we have calculated the calorie content of each and summarized a total stable food production measured in calories pr capita[27].

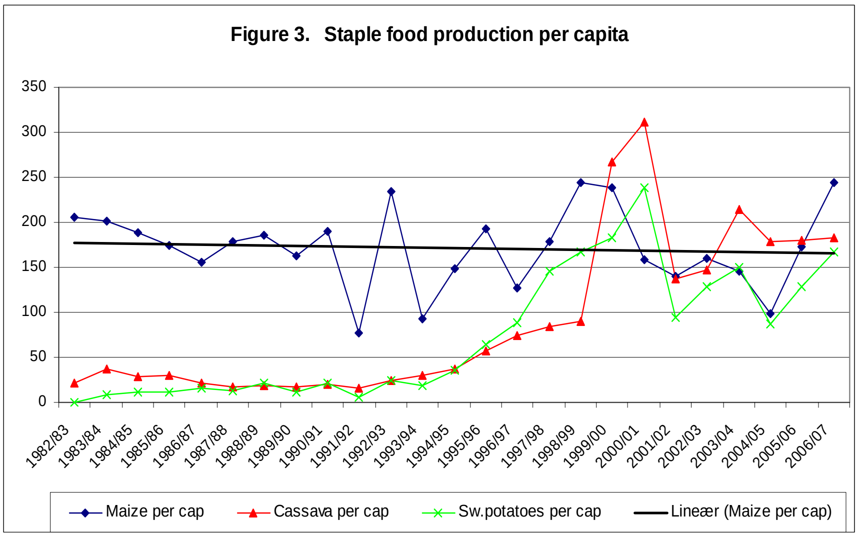
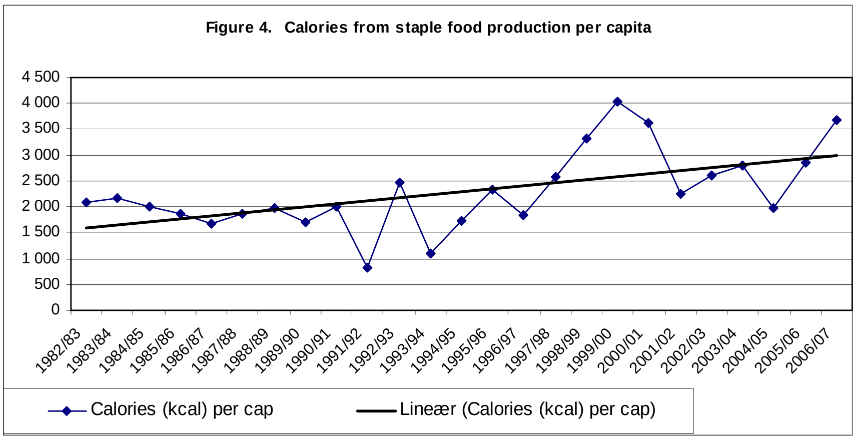


Figure 4 shows a clear trend of a consistent increase in per capita production of stable food measured by calorie content. The combination of an almost steady per capita production of maize and the new era of the "old" staple crops, cassava and sweet potatoes, has resulted in a total production measured in calories per capita at a level of around 1.5 times of the production in the Banda-period. However, even if sweet potatoes and cassava are more drought resistant, there is still quite a large variation in the total, highlighting the need for strategic grain reserves or other means of softening the impact of drought years.



[27] The calorie content is calculated in order to be able to summarize production and follow trends, not for calculating a food balance sheet or identifying whether the production is sufficient to cover calorie needs. For such calculations corrections for necessary retention of seeds for the next season and standard waste rates are needed.

3.2.2. Policy development

The question is what the policy regimes were behind these changes. The development of the agricultural sector has always been affected by the combination of agronomic technological developments and economic policy developments. Maize was introduced already at the turn of the century and promoted as the modern crop by all colonial powers and later the post-colonial government and donors. With the green revolution and hybrid crops which responded well to fertilizer and improved farm management, the return from inputs being cash inputs as chemical fertilizer or labour inputs as improved farm management by weeding etc., grew considerably. Donors and the independent states in Africa joined forces to promote efficient production.

An active government intervention in pricing and marketing was introduced in the late 1960s. Admarc, the parastatal marketing board, had a legal monopsony for buying all cotton and tobacco grown by smallholders and any crop grown on customary land including maize. Admarc built an extensive market network across the country, provided inputs and bought produce at a guaranteed fixed price[28]. Harrigan also refers that trends showed considerable price responsiveness among smallholders, but does not indicate whether they responded to changes in relative prices only or even to changes in the absolute price level.

3.2.2.1. Policy development in the 1970s

In the early 1970s, the Malawi Government agreed with the World Bank to promote two objectives: food self-sufficiency and cash crop export. This policy was implemented for maize by fixing the price between export and import price with a considerable subsidy justified by high import prices[29] and reducing price fluctuation by buying strategic reserves in surplus years. The policy succeeded partly in keeping the self-sufficiency at the same level despite areas reallocated to the estate sector, but not by resulting in a switch to hybrid or improved varieties based upon increased use of fertilizer, nor in increased self-sufficiency. The subsidies on maize were balanced by lower prices and hence an indirect taxation on export crops as cotton, groundnuts and tobacco. Despite the taxation, Admarc was still able to increase the real price offered and both the smallholder sector and especially the estate sector were able to increase export production (the latter by increasing the area under cultivation).

Production and income trends indicated a growing conflict between the two objectives of food self-sufficiency and export promotion[30]. Today we would argue that they should have been equally concerned with the lack of price response. Despite a reasonable and subsidized price of maize, farmers were not responding by switching to improved and hybrid varieties which demand cash investment in fertilizer, but respond with a considerably better return. The likely reason is that farmers were (and are) risk-averse and as postulated by household economic theory, farmers can afford to retain more when the price increases[31]. It should, however, also be added that this decade saw the first appearance of emerging smallholders able to move into exportables. This was the group of farmers who started to ask for estate-rights and over the next decades actually moved into estate land. A sector of small estates was established which obtained the same marketing rights as large scale estates and farmers were able to continue the move into export crop production.

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[28] Harrigan (1988)
[29] 39% in 1977, according to Harrigan.
[30] As remarked by Kydd and Christiansen (1982)
[31] Another factor that may have played a role in Malawian agriculture, is that especially in matrilineal regions land-holding women did not control cash at household level to buy inputs such as fertilizer.

Malawi faced the strange situation that the government and the World Bank had agreed upon an agricultural price incentive policy for maize, but without the expected response. At the same time the price incentive policy was *not* implemented for other crops (for these crops Admarc taxed export), but since the world market price rose, the real price increased. For these crops the farmers responded by a clear trend of increased export but lower than expected if prices had been allowed to follow world market prices.

As we will show, this was not the first time that the World Bank and the government agreed, even only half- way. In this case they agreed on all policy issues, but these were only partly followed through.

3.2.2.2. Policy development in the 1980s

Both the government and the World Bank changed their policy around the turn of the decade. The government stressed self-sufficiency based on maize with improved extension and input provision and with increased strategic grain reserves.

IMF and the World Bank stressed the removal of price distortions and made this a condition for IMF's stand-by facilities in 1979/1980 and 1982 followed by an extended fund facility from 1983 and for the World Bank structural adjustment loans (SALs) in 1981 and 1982/83.

The pricing policy was determined by the government objective of achieving a marketed surplus of maize until 1982/83[32]. The government realized that a general turn to export parity prices for export crops would hardly lead to increased aggregate marketing, but rather a decline in food crop production. In the early 1980s, the government finally did implement the price policy of the 1970s, or rather a strengthened 1970s policy, with a real increase in maize price (which almost doubled from 1980/81 to 1981/82 and remained at that level) combined with improved provision of extension service and saw a response by way of "a surge in the sales to Admarc and contributed to filling the 180,000 mt strategic reserve"[33]. In 1982, the conditions following SAL II included insistence of parity pricing, i.e. increasing prices to parity with world market export prices. The government gave in by having Admarc increase the price of cotton, groundnuts and tobacco from 1981/82 to 1982/83, parallel to increasing the fertilizer price.

But again IMF/the World Bank and the government agreed only partly. The price of maize was already well above the export price, but also below the import price, i.e. in the transaction price band. Hence, when the government had agreed to (or been pressed by) the IMF/World Bank that Admarc should move to parity prices for buying crops and selling fertilizer, they could still argue that the maize price was already in the parity price band between export and import price.

Compromises are often not just the only way out of conflicting objectives but also offer a good and balanced solution. However in this case it was start of a new problem. Admarc was now requested both to retain the high maize producer price and the subsidized consumer price of maize meallie meal, promoting the government policy of self sufficiency and increasing the other crop prices in order to promote what the IMF/World Bank perceived as sound economic practice – getting the prices right. Neither the government nor the IMF/World Bank took any responsibility for the negative trade margin across the board that inevitably would take Admarc into red figures. In short, Admarc increased all prices without a proper plan for

[32] According to Kydd and Hewitt (1986)
[33] Harrigan (1988)

recovering the additional costs. The following year, i.e. 1982/83, Admarc retained the maize producer price at the same high level, but also increased the fertilizer price with almost 50%. By 1985/86 the maize price had increased with 85% while the fertilizer price had increased with 140%. This was still only a minor contribution towards full cost recovery.

From the farmer's point of view, this policy initially looked very appealing: they faced higher prices of all crops and responded by doubling the sale of maize. However, as we know from household economic theory, while farmers tend to respond to an increased relative price by switching to that crop, they tend to respond to an increased price *level* by affording to retain a higher volume. They may respond to such big increases by selling more for a year or two, but while this for some would be based on increased inputs, others will only be selling a larger surplus since they are not sure whether the high price will remain. When even fertilizer prices increase, the risk aversion will tend to stop many farmers from responding to an increased price level by increasing inputs.

So what happened in Malawi when both the relative price of maize increased and the price level increased? The price doubled from 1980/81 to 1981/82. The production hardly changed at all, while the marketed volume increased with 50%! Encouraged by this response, the high price was retained, but for the next season the World Bank pressure to "get the price right" led to an increase in fertilizer price of 50%. Some of the cash surplus from the previous year was now fed back in increased fertilizer application and now even the production increased and the marketed volume was record high.

Unfortunately we never had a real chance to see the long term outcome of this policy because the World Bank's push to get the prices right led to a new round of price increases, both for export crops and for fertilizer. The success with maize continued for 2 more years, but then farmers made a large switch to export crops.

At this stage a combination of an increased work load on Admarc and a shrinking budget having to satisfy two masters which both demanded an increase in crop prices (the government wanted to retain the high maize price for self-sufficiency and the World Bank to retain the high export crop price to encourage international trading) pressured Admarc into lower performance (plus red figures in the accounts) and with the additional constraint of a continued price increase for fertilizer, the boom turned around. Production of maize already fell in 1984/85. Farmers still sold more than ever, but with a new round of increased fertilizer prices from 1985/86 even the marketing boom reversed.

It is essential to learn two messages from this experience, as follows:

- First, farmers may respond well to long-term stable incentives; they already adapted after two years with high producer prices. They may then even accept somewhat higher fertilizer prices, as long as they faced a long-term high, stable price.
- Second, an agricultural policy combining elements from two masters (the Ministry of Agriculture and the World Bank), with nobody to take overall responsibility for the total outcome, is the very best recipe for disaster. Admarc was given responsibility for their own declining service and red figures in the accounts. It is possible that a lack of performance and a corruption culture had already developed and from that perspective they should take some of the blame, but Admarc was in fact given the impossible task of increasing the volume of trade and paying out higher prices across the board without being given proper budget support from the Treasury in these years.

It was therefore very easy at the next stock-taking to blame Admarc rather than the policy makers in the government and World Bank.

The market situation developed in an erratic manner due to lower world market prices. At the same time Malawi faced exogenous shocks such as the influx of refugees from Mozambique and drought in the southern part and the maize market situation moving towards a very low performance in the second half of the 1980s.

Neither the smallholder export promotion was a success, but here the explanation might well be decreasing world market prices and a lack of pro-active sales promotion by Admarc. However, a decline in smallholder export in the first half of the 1980s turned to an increase in the second half of the 1980s.

When the marketed volume fell dramatically by almost 60% in 1986/87 (while production only fell 7%), the government responded by increasing the maize price with almost 30% and the fertilizer price with almost 40%. After the decrease in the previous year, farmers would be likely to be more risk averse than before and respond by buying less fertilizer. As we already have discussed, total production did not change much in these years, but the small increase over the period 1983/84 to 1986/87 was due to an increase in production of local maize.

The smallholders produced 18% more in 1987/88 due to better weather, but the marketed volume only recovered with 2%.

The government was now facing the harsh reality. Farmers had never been responding to higher maize prices by producing more, now they were not even selling more. The three likely main reasons were a) that increased fertilizer prices made hybrid maize production with high fertilizer application even more risky; b) that some farmers probably had stretched their resources too far by selling large volumes over a period of four years; and c) Admarc's lower performance.

As already discussed, Admarc was facing a larger workload in the 1980s and at the same time were not allowed to generate the same gross margin as before. The gross margin was reduced from 57% in the 1967-79 period to 25% in the 1980-86 period[34]. Admarc was not able to promote export crops as planned, but even other tasks suffered such as reduced capacity to ensure input provision and proper purchasing and payment for maize production[35]. As Harrigan addresses, the nation-wide decline in Admarc purchases also resulted from the effects of conflicting and poorly sequenced reforms on both production and sales.

Harrigan wrote her piece at the dawn of a new round with the IMF/World Bank on full-scale liberalization and privatization. She states that at this cross roads, full-scale liberalization and privatization of marketing are likely to require the removal of Admarc's subsidy on the consumer price and the pan-territorial ceiling consumer price. According to Harrigan[36], the World Bank was at this stage "pressing for a swift liberalization", while "the government has already taken a strong stand against full-scale liberalization and removal of subsidies".

But again the government had to give in and liberalization of the domestic markets was legislated in the Agriculture General Purpose Act of 1987. This act regulated how to license

[34]As documented by Chirwa (1998)
[35] Harrigan (1988)
[36] Harrigan (1988:431)

private trading companies to operate in specific markets. Minimum prices would still be announced and export controlled, while Admarc would buy at the guaranteed minimum producer price and hence serve as a buyer of last resort. But the privatization was real and handled in a decentralized and efficient manner by the eight Agricultural Development Districts covering all districts of Malawi.

The number of private traders increased from 387 in 1987/88 to 917 in 1989/90[37]. At that time, the authorization and renewal of licenses were handled by the Ministry of Agriculture and due to the combination of lack of capacity and no enforcement of renewal, the system fell apart. By 1996 the system was completely unregulated. How could these large changes take place in this relatively short time and what were the effects?

It could be argued that the various external factors in combination with the locked up investment in and outside the agricultural sector, and the inflexibility of the work force and the operational structure, weakened Admarc's capacity to sustain the quality of marketing activities[38]. Chirwa rather highlights the reduced trading margin[39], which started a downward spiral. The market share of Admarc had fallen substantially in 1985 and never recovered[40]. The price was still regulated by the floor-price offered by Admarc as a buyer of last resort. Farmers in central areas would sell to private traders who offered a better price. In remote areas, farmers still sold to Admarc which offered the pan-territorial floor price. Obviously this led to a dwindling trading margin for Admarc. They soon faced a deficit and had to pay the farmers by vouchers which could only be cashed after some months when Admarc had processed and sold the crops. Admarc had to cut expenses and reduce the number of markets. It should however be remarked that Admarc managed to return and increase their share of maize purchase in some years such as 1988-89, 1991 and 1993.

From the perspective of farmers selling maize the combination of Admarc and private traders was not bad. In central areas they got a better price from, and hence preferred to sell to, private traders. In remote areas or areas with low access, they could still rely on Admarc. In other areas they could either sell to Admarc, getting a proper price but receiving vouchers which could only be cashed later on, often too late for the next season, or to private traders for a lower price but against immediate payment. This way even the floor price element of the pan-territorial price approach started to dwindle.

It was, however, the consumer market which faced the largest changes. The lower sales-volume, the lack of a proper trade margin and lower financial resources, all added to the downward spiral of what Admarc could offer consumers throughout the season. Thus the consumer market share of Admarc decreased even more sharply in the years following liberalization than for the producer markets. Without price-regulation at the consumer market, the private small scale vendors charged exorbitant prices in all but central areas. In other words the private small scale traders (the big traders were only in the business of buying produce) enjoying the combination of lack of public control and lack of fair competition used their monopsony to ensure a maximum profit per trade rather than maximizing the volumes.

From the perspective of Admarc this meant a low competition at the consumer market. They managed to pick up a substantial share of the consumer market again, both in normal years

[37] Chirwa (2005)
[38] Scarborough (1990)
[39] Chirwa (1998)
[40] As documented by Chirwa (2005:8)

and in drought years when they took charge of distribution of food aid and the sale of strategic reserves.

The market situation prevailed very much throughout the 1990s. Admarc and private traders competed both in the producer market and consumer market. With floor prices for maize, private traders would dominate in the central areas while Admarc, as the buyer of last resort, in the remote areas. This was obviously a loss making operation for Admarc.

How could such a situation be allowed to prevail throughout the 1990s? This situation was hardly ideal for any of the actors and stakeholders. For both net buying and net consuming farmers, the price situation was worsening, both due to the input/output ratio and probably even more to the lack of predictability. Admarc lost on the producer market and was not allowed to recover by selling for a higher price. The government saw the self-sufficiency in maize dwindle and the World Bank saw the government as not being willing to get the prices right.

The reason the situation still remained without major changes in the 1990s was political. In the mid 1990s, Malawi moved from a one-party state under Dr Banda to a multiparty-system and a new president in 1994-96. The new government embarked on a number of policy changes, among which the privatization of Admarc's ownership. Admarc started by selling shares in the non-agricultural processing business, but also in agro-business and estates. Unfortunately some of these companies did not survive as private companies either and Admarc bought two of them back. This was, however, the start of a process of selling out subsidiaries in other sectors, in agro-business and estates.

Even Admarc's focus moved from marketing to production enterprise[41]. When the government had to bail out Admarc, it was not mainly due to the loss-making marketing operations, but the loss-making production enterprise operations. In the very first years of the 2000s the deteriorating financial situation of Admarc was a major concern with both the government and the IMF/World Bank. In the Malawi Poverty Reduction Strategy Paper privatization of Admarc was one of the strategies towards liberalization of the agricultural markets and the development of the agricultural sector. The government accepted the World Bank's recommendation that the commercialization of Admarc (moving to a shareholder company) before the end of 2003 would be a precondition for release of the second tranche of an agricultural sector loan. However, at this time, both an independent study by a Malawian specialist[42] and a study by the World Bank[43] showed that Admarc played a crucial role in ensuring properly set consumer prices. Poverty was significantly lower in areas close to Admarc depots and the main reason was the access to fairly stable consumer prices throughout the season. It could have been expected that these findings would serve as the base for further discussion on how to ensure a stable price regime essential for poverty reduction, but no such discussion took place. The presentation of the World Bank study planned for early December 2003 was delayed to 2004 and on New Year's Eve 2003, the Parliament assembled for an extraordinary session to vote on a bill endorsing commercialization of Admarc. According to government staff, the World Bank had asked for this postponement due to other commitments of their staff, but according to the World Bank staff, the government had asked for this postponement[44]. In any case, the Parliament met and decided

[41] Chirwa (2005)
[42] Nthara (2002)
[43] World Bank (2003c), draft dated December 2003, but report only released in January 2004
[44] Personal discussion.

to turn Admarc into a shareholder company where the government held all shares. Admarc was now instructed to operate on a commercial basis and operations of remote rural markets would require special agreement with the government and special funding. The second tranche of the loan was then released.

Figure 5. The Policy Turn-Arounds in the Post-Banda Period

Year	Intervention	Inputs	Target group	Costs	Donors
1992-93	Drought Recovery Inputs Project		1.3 million		
1994-95	Drought Recovery Inputs Project		0.8 million		
1995-96	Drought Recovery Inputs Project		0.7 million		
1998/99	Starter Pack	2kg hybrid seeds, 15kg fertilizer	All: 2.86 mill hh	$68 mill	WB, DFID, EU, China
1999/00	Starter Pack 2	2kg hybrid seeds, 15kg fertilizer	All: 2.86 mill hh	$42 mill	
2000/01	Targeted Input Program	Improved seeds, 10kg fertilizer	Targeted: 1.5 mill hh		
2001/02	TIP		Targeted: 1 mill hh		
2002/03	Extended TIP	Improved seeds, 10kg fertilizer	All: 2.8 mill hh		
2003/04	TIP		Targeted: 1.7 mill hh		
2004/05					
2005/06	Voucher	2 x 50kg bag of fertilizer: voucher Kw 2100, farmer Kw 900	Maize targeting poorest smallholders in each village + tobacco areas		
2006/07	Voucher	2 x 50kg bag of fertilizer: voucher Kw 2100, farmer Kw 900	Maize targeting poorest smallholders in each village + tobacco areas		

Sources: Harrigan (2003) and personal discussion

3.3. THE POLICY TURN-AROUNDS IN THE POST-BANDA PERIOD

As mentioned, the financial problems which led the government to accept the commercialization of Admarc in 2002/2003 started in the 1990s when private traders were allowed to operate in parallel with Admarc, while Admarc itself still had to defend the floor price. Throughout the 1990s, small- and large scale private traders took over the produce markets buying maize and other crops from farmers in central areas. Admarc bought maize in remote areas for the floor price and sold maize at a reasonable price throughout the season, facing higher operation costs and still operating with a low trade margin. Their market performance subsequently dropped. Fertilizer and other inputs became less available and more expensive and created a bad circle with declining availability.

Farmers responded by switching to other crops which did not require the same fertilizer input. By the end of the 1990s the crop composition of smallholders had started to turn away from maize to a diversified set of crops. Maize was still the major crop (Figure 3), but the combined production by alternative crops as cassava and sweet potatoes passed maize production in volume terms since this production was less risky for farmers. As both the value and the calorie content are larger for maize, this remains the major staple crop.

Two serious droughts, 1991/92 and 1993/94, and the additional stress caused by the large influx of refugees from Mozambique highlighted the food security vulnerability. The donor community led by the World Bank responded by food aid support during the droughts, but did not allow any return of marketing policy to subsidized inputs or inputs on credit. Fertilizer prices grew to exorbitant prices and farmers continued to respond by not only switching to other crops not requiring fertilizer, but even by switching to local maize varieties. These give lower yields, but are not dependent upon appropriate fertilizer application and are therefore not as risky as the hybrid varieties. Luckily, the risk aversion by farmers was acknowledged by the Ministry of Agriculture and supported by donors pushing for a programme to develop improved maize varieties well adapted to both agricultural and food processing practices in Malawi, but still responding substantially better to fertilizer application.

3.3.1. The first policy turn-around[45] – the starter packs

In 1993 and 1994, Malawi took the steps from a one-party system under President Banda to a multi-party system and elected a new president, Dr Muluzi. The pressure from the new government and the second drought in 1993/94 caused the World Bank representative to express the view in a donor meeting in July 1994: “We really hate this sort of give-away input programme, but unless someone has a better idea, we see no alternative but to implement it. Without it we will later face a massive need for emergency food aid”[46].

The free input programme of 1994/95 lasted only for one year, but helped to ensure a higher production for the following two seasons before falling again in 1996/97. Better climatic conditions led to increased production in 1997/98, but still lower per capita production than in 1995/96.

The pressure grew. In order to ensure self sufficiency and food security, the question was not whether to do something, but what to do and how to implement it. Luckily, at this stage new improved maize variety seeds and nitrogen-fixing legume-seeds were ready for distribution. They were likely to allow for a double yield with fertilizer application and still supplied a hard shell which allowed for traditional processing and storing.

The time was ripe for an initiative and a group of individuals comprising scientists, economists and policy makers formed the so-called Maize Productivity Task Force (MDTF) which managed to push the debate for comprehensive intervention ahead. The MDTF liaised with key donors and drew upon the public and private sectors as well as upon external expertise[47]. Rather than proposing a return to increased cash cropping or subsidies for inputs, they designed a package solution to boost maize production among all smallholders comprising a hybrid seed and fertilizer package, which was relatively small but intended for universal distribution.

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[45] Or as expressed by Harrigan (2003), U-turns and full circles.
[46] Blacke and Mann (2005:15)
[47] Blacke and Mann (2005:18)

This programme was accepted by all the stakeholders and the starter packs were implemented from 1998/99. The programme was promoted by the government and supported by donors with financial support from DFID, the World Bank and the European Community. Only USAID was opposed to the programme and chose to support a private sector programme. However, while the government promoted it as a multi-year programme, the donors saw it as a short term measure. The programme offered each smallholder family a package comprising seeds and fertilizer in a quantity covering 0.1 ha. The starter packs comprised hybrid seeds and 15kg of fertilizer for every smallholder household during the first two years, but soon switched to the newly developed improved seeds and less fertilizer.

The starter packs coincided with good climatic conditions and monitoring showed that a substantial contribution had been made to the overall production. In 1998/99 and 1999/2000 the staple food production in Malawi hit an overall record high. Maize production was around 25% higher per capita than in the "golden" 1980s. If we summarize the calories provided by the three main staples, maize, cassava and sweet potato, the production per capita was around double of that in the 1980s. And this success was obtained for a fixed cost of US$ 20 million for 2.8 million households, or around US$7 per household. The observer might think that a successful agricultural policy implemented at a reasonable cost would be prolonged for a period of approx. 10 years to learn about the long term effect.

On the contrary, despite or rather due to the success made, the donors argued for a lower need and pushed for a reduction. The programme now switched from universal coverage of 2.8 million households to 2 million and later 1 million households. With the switch to targeting 2 million households in the third year, farmers returned mostly to cassava and sweet potato. Maize production fell substantially but was compensated by the large production of cassava and sweet potatoes.

Despite a tighter targeting of only 1 million households in 2001/02, maize production was hardly lower than the previous year, when even cassava and sweet potato production was low. Unfortunately the Food and Early Warning System had deteriorated and the Agricultural Extension Officers overestimated the production in a serious manner, claiming a sufficient production, when there was in fact a fall in the production of maize per capita of 10-15%, a drastic reduction to less than half of cassava and sweet potato, and a reduction of more than 1/3 in calorie terms.

The Ministry stuck to this excessively high estimate for quite some time before NGO reports on extreme prices and the beginning famine pressed them to adjust the estimate and initiate a food aid programme.

3.3.2. A pendulum – yes, but intended?

After the food crisis in 2001/02, the donors agreed to scale up to an Extended Targeted Inputs Programme (TIP) covering all 2.8 million households, but stressed that this was temporary. With the improved food security situation in 2002/03, the coverage was again reduced, this time to 1.7 million households and DFID was the only remaining donor.

From an observer's point of view it seems as if donors might not accept a multi-year programme, but accepted the starter pack approach as a flexible scaling up and scaling down approach responding to food security needs. It could be argued that donors respond on an ideological basis rather than on experience gained in Malawi[48]. From 2003/04, the government/donor committee on food security only agreed to a small TIP reaching 1.7 million households, based upon a safety net approach, rather than an approach to boost agricultural self sufficiency.

The pressure from the government to make the starter pack approach a multi-year programme was strongly supported by the MDTF group. The outcome of the various starter pack programmes was documented and a need to switch from the limited policy issue of fiscal sustainability to "Is it worthwhile enough to be a spending priority"[49] was argued for.

However, this might well be a too modest approach. A universal starter pack gives a very good return not only in maize production but also in maize availability and hence food security throughout the season. With the current frequency of various kinds of droughts (from partial to almost complete), the starter pack approach is likely to be a cheaper approach than food disaster interventions. It boosts the rural initiative and might give the best economic return at the level of society.

With only DFID remaining, we may conclude this was hardly the donor perspective. Unfortunately we will never learn, because the World Bank support was suspended towards the end of the Muluzi government period in 2003. The overall budget deficit was too high to allow for substantial financial support to the agricultural sector alone.

3.3.3. The new government – a step towards a new public–private sector balance

In 2004 the Minister of Finance, Dr Mutharika, was elected as the new President and embarked upon a new economic policy in the agricultural sector. The previous year was slightly below average for maize, but due to increased production of sweet potatoes and especially cassava, the total production was on the increase and this gave the new government room to form a new policy. They used this to strike a balance to please all camps.

Admarc was re-nationalized and turned from a commercial firm[50] back to a parastatal, leaving smallholders, even in non-central areas, relieved. They expected Admarc to sell at uniform prices.

The new government initially used food security as the main justification behind providing inputs and only targeted a selection of smallholders. The macro-economists concerned about the budget-deficit, such as those in the World Bank, were satisfied. This reflected the growing awareness in the World Bank of the need for some kind of public insurance arrangement for "bad weather" given the risk aversion and low risk capacity among poor smallholders[51]. Still a number of policy issues remained to be sorted out.[52] Rather than returning to starter packs, Targeted Input Programmes and Extended Targeted Input Programmes, a system relying on public/private cooperation was launched. The government provided vouchers for the poorest smallholders which allowed them to buy maize seed and two rounds of fertilizer at a very low price, paying Kw 950 for a bag of fertilizer rather than the full price of around Kw 3000. The private sector promoters, including those in USAID and the World Bank, were satisfied. These vouchers were of course a great boost to the private sector which managed to respond

[48] Potter (2005:34f)
[49] Levy (2005:204)
[50] Despite all shares owned by the government it was formally a commercial firm.
[51] World Bank report by Hess, Ulrich and Syroka (2005)
[52] As addressed by Chirwa, Kydd and Dorward (2006)

by making seeds and fertilizer available across large parts of the country already in the first year and increase the coverage in the following years.

After the poor 2004/2005 season the programme started to change its justification, not by removing the food security concern, but by adding the self-sufficiency concern. In 2005/06 and 2006/07, vouchers were distributed across the country for both maize and tobacco (the latter only in the tobacco districts).

The vouchers are supposed to cover 1/3 of the smallholders, i.e. the poorest 1/3. They are distributed by local traditional leaders, village headmen and chiefs, whereby the local leaders strengthen their authority and the government gains continued support. At this stage we do not know about the leakage, nor how many of those who were eligible but did not receive vouchers, nor how many non-eligible non-poor who did receive a voucher. An ongoing agricultural census will however be able to document the leakage by the end of 2007.

After another successful agricultural season in 2006/07, President Mutharika now has strong support from the agricultural sector, local chiefs and politicians.

There are still challenges ahead. First, the surplus production in 2005/06 allowed the government to fill up the national strategic grain reserves. But the storage facilities are limited for the surplus production in 2006/07. The government has arranged for new storage silos to be built, but will have to design a policy for proper market management including price adjustment. It should be possible to retain this as a technical issue, but if it turns political it may then become difficult to handle.

Second and more seriously, in the effort to gain extra political support in the political arena with the previous President and his party, President Mutharika has not dispelled the rumour that he will subsidize the fertilizer even more. This is serious for two reasons. First, a period with two consecutive years with surplus production is not the best timing to promote an extended coverage. Second, if total subsidies are to increase, a proper analysis should be undertaken from a food security, a self sufficiency and an export point of view on whether to increase the coverage of eligible smallholders, the quantity being subsidized or the size of the subsidy.

3.3.3.1. Monitoring and evaluation

As already mentioned, the starter pack approach is well documented[53] including chapters by a range of authors and perspectives. Naturally the voucher system has not yet been equally well documented, but in a paper prepared with support from USAID[54], a plan is outlined and advocates the need for proper monitoring and evaluation. Unfortunately this paper highlights the problem raised earlier by other authors[55]: some papers tend to reflect the policy of the funders, not necessarily by twisting the empirical facts, but rather by a too limited scope of trying to evaluate only one approach, either to prove the advantage or the disadvantage of that approach. Even more comprehensive papers[56] tend to lack empirical information documenting the impact of all alternatives discussed. A recent paper[57] tries to overcome this

[53] Levy (2005)
[54] Mangisoni (2007)
[55] Janyne et al (2002), Seppala (1998)
[56] Gough et al (2002)
[57] Imperial College London, Wadonda Consult, Michigan State University, Overseas Development Institute (2007)

bias by forming a broader based research team. This should be welcomed as a sound approach and is a step towards a less biased presentation of outcome and impact. However even this paper only addresses one approach and does not go well into the matter of cost efficiency.

3.4. SUMMARY OF POLICY EVENTS IN MALAWI

The development in Malawi has moved in phases, mainly reflecting how development theory has evolved while balancing priorities of the government and pressure from donors.

3.4.1. Phase one, the capital phase based upon public monopoly of the 1980s

The active public policy design and intervention in the agricultural sector developed long before independence starting with the idea of modernizing grain production by introducing maize. At Independence and up to around 1980 all partners agreed upon some basics. In order to promote development capital was considered essential. When lacking domestic savings, it is crucial to make available public capital and take public responsibility for agricultural infrastructure including provision of inputs (physical, research and extension), marketing options (for reasons difficult to disentangle, with uniform prices across the country), processing/storing, resale and for some crops even export. Then the farmers will respond. The policy focused on maize production among smallholders to secure internal staple food production, while promoting cash crop exports by reserving high-value crops for estates.

And the farmers did respond. Production of maize remained sufficient and steady in the smallholder sector, allowing the estate sector to focus on cash crop production with an emphasis on tobacco[58]. Public companies such as Admarc for maize were run in an efficient manner and generated a steady surplus. This surplus was reinvested both within and outside the agricultural sector.

3.4.2. Phase two, retaining the parastatals, while opening for private competition

In 1987, private companies were allowed to buy agricultural produce. Naturally they focused on trading in central areas. The parastatal was still required to be the buyer of last resort. Hence they lost the income from central areas and retained the high costs of remote areas. At the same time inefficiency and corruption increased in parastatals such as Admarc. To which degree the severe draught and/or an inefficient input supply by Admarc caused the disaster production in 1991/92 is difficult to disentangle, but it led to a policy change and the implementation of a Drought Recovery Inputs Project in 1992/93. When Dr Banda was voted out of power in 1994, and a new drought followed in 1994/95, the ground was prepared for a policy change. At this stage, all main donors fronted by the World Bank were promoting growth through increased export. They were steadfast behind the need for privatization of marketing, but with open domestic competition, they focused rather on privatization of public sector estates and promotion of an increased focus on export. The government was happy to promote export but also wanted to encourage self-sufficiency of food crop production and insisted on using Admarc as a tool in this policy. Public and private marketing continued side by side allowing the private traders to focus on profitable trading in central areas, but pushing Admarc to less profitable areas and hence seriously weakening their financial base.

[58] E.g. Holden et al. (2006)

3.4.3. Phase three, the starter packs

A new drought hit Malawi in 1997 just as the new Blair government was voted to power in the U.K. In 1998 a new policy phase emerged in Malawi based upon combined public and private marketing. The public effort focused on the so-called starter packs but also allowed Admarc to continue operating. The starter pack programme was financed in this first year by the U.K., the World Bank, the EU and China and supplied all smallholders with a very small package of seeds and fertilizer. The starter packs were distributed by private transporters (after bidding and contracting) to public distribution localities (such as Admarc depots). Vouchers were distributed well in advance allowing the smallholders to be informed about the arrival and pick up of the starter packs. There were some complaints from private traders of the starter packs crowding out the private traders, but the monitoring analysis shows that this was hardly the case[59]. The starter packs were highly successful in achieving the two main policy objectives of the government, promoting self sufficiency of staple food (maize) and ensuring export (tobacco). Unfortunately we will never learn whether the starter pack approach would be a proper approach even on a longer term basis. Towards the end of the previous government led by President Muluzi, the donor support dried up. The World Bank was neither satisfied with the speed of privatization nor with an increasing budget deficit and suspended the release of further funding in. DFID funded a large impact study documenting the success and cost-efficiency of the starter pack approach[60].

3.4.4. Phase four, public voucher and private marketing

The current president, Dr Mutharika has experience both as head of the Ministry of Finance and as World Bank staff and has been able to balance the policy in order to retain support from both the World Bank and other donors and still be able to push national objectives of combining self-sufficiency of staple food and export promotion. After the poor 2004/05 agricultural season, his government has both re-nationalized Admarc and re-started the policy of support for agricultural inputs (fertilizer and seeds for maize and tobacco). However, the starter pack approach has been replaced with a voucher system. The vouchers are distributed on a limited scale to the poorer smallholders. The vouchers allow buying seeds free of charge and fertilizer at a highly subsidized rate. Each voucher is sufficient for a large quantity of fertilizer, but the policy is that farmers should pay around 1/3 of the market price themselves when buying from private traders.

The voucher approach has been operative for two seasons and clearly contributed to a very good harvest the last year and a bumper harvest this year. The programme has ensured the President strong support from the rural community in Malawi. The approach of relying on the ordinary private marketing system has ensured a strong support from donors and especially from USAID. The vouchers have allowed private traders to plan for a predictable market of fertilizer and hence reduce some of the problems with the usually very unreliable demand in the fertilizer market in remote areas. However the problem with the thin market is still remaining and a critical issue is to which degree the traders will use the new market situation to increase their profit by increasing prices and hence indirectly ensuring that a large share of the voucher values ends up with traders rather than smallholders.

[59] Nyirongo in Levy (2005)
[60] Levy (2005)

3.5. POLICY CHANGE, THE WORLD BANK AND OTHER DONORS

As this summary documents, the policy objectives of donors headed by the World Bank and of the governments of Malawi have remained quite stable, but the agricultural policy approach has changed over the years. Donors have tried to push responsible public budgeting and privatization. Some donors have gone further and insisted on moving from starter packs to vouchers. The governments of Malawi have tried to push their main agricultural objectives of self-sufficiency of staple food crops (focus on maize) and export promotion (focus on tobacco).

The real question from the Malawi side is not so much one of public or private marketing, but rather showing how changing governments have tried to achieve their main agricultural objectives of self-sufficiency and export promotion by balancing requirements for privatization from the World Bank and other donors.

The real question from the World Bank side is not so much related to agricultural policy, but whether it is possible to push the governments towards a reduced budget deficit and/or towards privatization.

Unfortunately this does not promote a comprehensive and consistent policy, but rather a policy fluctuating according to negotiation power of the policy stakeholders. A drought year highlights the need for food security and self-sufficiency and hence the World Bank allows the government to go for increased public support in some way. On the other hand, several good years allow the World Bank to press towards cutting public expenditures.

Only in this perspective is it possible to understand the fluctuation of policy. Neither the government nor the donors have been able to take the full responsibility for a comprehensive long term approach and hence nobody could be held accountable.

3.6. OUTCOME: MARKET EFFICIENCY

A main problem is the lack of systematic documentation of the outcome of the various policy regimes. One study may document that one approach such as a monopolistic public market is very inefficient, while another document shows that a competitive private market is only possible in very central areas and that private marketing in most of the country is too weak and hence very inefficient. The same could be said for distribution of free or subsidized inputs. Despite the obvious need for a systematic monitoring and evaluation over some years and under various marketing regimes, each study still focus on limited perspectives.

3.7. POLICY AND POLICY PROCESS RECOMMENDATIONS

Today, the agricultural policy of Malawi has reached a kind of balance with acceptance and even agreement on substantial public support for provision of agricultural inputs implemented in a manner utilizing the private trading sector. An obvious recommendation in this situation will be to test, monitor and evaluate different approaches in different parts of Malawi over the years to come. It will be essential to provide support on an equal footing to all parts of Malawi, but with different approaches, such as free inputs on a limited scale versus partly subsidized inputs on a larger scale and various combinations of public and private purchase of produce such as public floor price at district- or regional centres versus public agents competing with private traders without floor prices in other areas.

The most important policy recommendation would, however, be for donors to commit themselves to support (within a limited budget) the agricultural sector on a long term basis (such as two presidential periods) while allowing the government of Malawi to take charge and be held accountable for the policy.

4. THE CASHEW NUT INDUSTRY IN MOZAMBIQUE[61]

4.1. INTRODUCTION

In April 2000, while Washington DC during the Annual Spring Meeting of the Bretton Woods institutions was the location of intense anti-globalisation protests, the celebrated economist Paul Krugman in his New York Times column focused on cashew nuts. [62] He addressed the criticisms directed at policies imposed by the World Bank on Mozambican cashew nut production and processing; criticisms claiming that the World Bank had "destroyed Mozambique's cashew nut processing industry". Krugman wrote:

> It turns out that this is one of those stories that anti-globalists tell over and over, part of the canon that supposedly proves the righteousness of their cause. Such tales rarely get fact-checked; nobody asks whether the moral of the story is really as clear-cut as it seems. So let's look at the truth behind this particular legend.

Krugman's true story, his "Real Nut Case", is the following: in Mozambique one quarter of rural families own cashew trees. To market the cashew nuts, farmers formerly had to sell to a "state monopoly at artificially low prices; the state company then processed the nuts, employing about 10,000 workers". Krugman continues:

> In 1995 the processing plants were privatized, bought mainly by foreigners, and the state monopoly was eliminated. But it was replaced by a stiff export tax levied on raw, but not processed, nuts. This in effect prevented the farmers from selling their product on the world market, and forced them to continue selling cheaply to domestic processors. *The World Bank demanded, as a condition for new loans, that this export tax be reduced.*[63]

According to Krugman, this was a justifiable policy imposition in order to counteract a third world government's tendency to "tax the rural poor to subsidize urban industries". Even though "relatively privileged" groups in the country itself, including factory workers, opposed the World Bank policy imposition, it would eventually favour the "much larger group of even poorer people".[64]

Over the years, the Mozambican cashew nuts case has been subject to a lot of debate both within Mozambique and internationally. Arguments have highlighted different aspects of the case and different perspectives on World Bank-initiated policy reform, interventions, and conditionality. A vocal critic of IMF and World Bank policies in Mozambique, Joe Hanlon, holds that the World Bank *could* have contributed to a discussion of how to revive the cashew production sector in the critical post-independence and post-war situation of Mozambique in the early 1990s. Instead the Bank decided to "impose a textbook free market policy"[65]. In Hanlon's view, the Mozambican cashew case shows that "World Bank staff sometimes have unchecked power to impose policies on poor countries, with no need to justify their actions".[66] One of Hanlon's main points with reference to this case is, thus, the lack of

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[61] Documents made available by Pamela Rebelo and personal communication with Dr. Dipak Jaiantilal, *Cruzeiro do Sul*, Maputo in November 2006, provided important inputs to this case study. Furthermore, essential background information was obtained through conversations with Carlos Cardoso and Lars Ekman in Maputo in 1999/2000.

[62] From *The New York Times*, April 19, 2000: "Reckonings: A Real Nut Case" by Paul Krugman; accessed 12.07.2007 at http://www.fair.org./articles

[63] Ibid. Italics added.

[64] Ibid.

[65] Hanlon (2000:29)

[66] Ibid.

accountability on the part of the World Bank. The question of *accountability* is of interest in this context, as the concept is defined by the World Bank itself as a key element in its *good governance* agenda.[67]

Other authors have focussed on other aspects of the case. In *When Economic Reform Goes Wrong: Cashews in Mozambique* it is asserted that "Mozambican cashews provide an illuminating case study of the misfortunes that have befallen the reforms that African countries undertook in the last couple of decades".[68] M.A. Pitcher, in her broad study of the politics of privatisation in Mozambique in the period 1975 – 2000, holds that the cashew case not only illustrates "the potential hazards involved in privatisation and liberalization".[69] She calls it "a tragedy and a travesty", but claims it is part of a much more complex national picture than either neo-liberal adherents or adversaries have actually recognised.[70] In fact Mozambique may be of particular interest in the comparative perspective of this report, since it is a country that has often been taken to represent:

> …the most successful case of post-conflict reconstruction, the most accomplished instance of the evolution from one- to multi-party system, the most diligent adept of World Bank adjustment policies and, finally, the most flourishing example of the benefits of privatisation.[71]

Thus the question of what happened to the cashew sector in Mozambique over the last two decades, and the role played by the World Bank policy in imposing privatisation and liberalisation, still merit some attention.

4.2. POLITICAL AND HISTORICAL CONTEXT

When the other colonial powers started decolonisation in Africa in the early 1960s, the Portuguese government under the dictatorial government of Salazar fought to hold on to its 'overseas provinces'. Portuguese presence in Mozambique dated back to Vasco da Gama's voyage to India in 1498, and south-eastern Africa was earlier given a central role in Portugal's strategy to control trade in the Indian Ocean. During the Scramble for Africa, Portuguese interests were challenged to assert territorial control in the region in fierce competition with the British. In 1891 Britain and Portugal signed a final treaty, defining the borders of present-day Mozambique. Not until the 1930s, however, under the Salazar government's *Estado Novo* (New State) administration was effective control of the whole territory secured by Portugal. The "new state" development policy of the Salazar government implied that:

> …the peasantry of Europe, Madeira and the Cape Verde Islands, as well as mainland Africa, were all to be squeezed – through taxation, diminutive social budgets, controlled prices for their products, and open or disguised form of forced labour – to provide the resources for industrial growth.[72]

During the 1950s and -60s a flow of Portuguese settlers and infrastructure modernisation initiatives actually transformed the 'overseas province' of Mozambique into one of the most industrialised countries in Africa. However, in contrast to the British colonies in Africa, Portuguese settlers also occupied most of the semi-skilled jobs. They were "the taxi drivers,

[67] See Harrison (2005:240) referring to: World Bank (1994) *Governance: The World Bank Experience.*
[68] McMillan et al. (2002:28)
[69] Pitcher (2002:208)
[70] Pitcher (2002: 207,225)
[71] Chabal (2003:804)
[72] Newitt (1995:448)

low-level government clerks, ticket collectors on trains, and … shopkeepers. Black Mozambicans were kept out of virtually all semi-skilled jobs”[73].

When Mozambique together with the rest of the Portuguese colonies finally obtained independence, it was only after the Armed Forces Movement – opposing Portugal’s war in the colonies – had overthrown the dictatorial regime in Lisbon in 1974. In 1975 political power in Mozambique was transferred to *Frelimo*[74]. And the Constitution of 1975, which established the new independent state as the People’s Republic of Mozambique, aimed at “the elimination of colonial and traditional oppression and exploitation structures and their related mentality”.[75] At this point most of the Portuguese were already leaving the country. Property and productive infrastructure were “sabotaged and abandoned”, and the “retreating settlers cashed whatever assets they could”. [76] In 1977 Frelimo declared itself as a Marxist-Leninist Party. With several factors contributing to a post-independence economic recession, the Frelimo government nationalised Portuguese businesses and installed managerial teams to run them.[77] The abandoned and nationalised infrastructure included major cashew processing plants, while the cashew trees themselves remained as the property of smallholder farmers.

Cashew trees had originally been brought by traders from Brazil to the coasts of Mozambique and the Indian Malabar Coast (now Goa and Kerala) in the 16th century.[78] Cashew exports from Mozambique – to India – started in the 1920s. From 245 tonnes in 1924, exports from Mozambique to India rose to 11,000 tonnes in 1933.[79] A shortage of domestic production in India led to imports of larger quantities, reaching 40,000 tonnes of raw nuts in 1937.[80] As a peasant crop, cashew rapidly became a major source of income in rural areas of Mozambique.[81] In 1950 the first industrial plant was established to process raw nuts into kernels ready for consumption. By 1972-74, the peak years of cashew production in the country, 14 processing factories were operating with a total capacity of ca. 150.000 tonnes per harvest.

At independence in 1975 Mozambique was known as the major producer of cashew nuts for the global market. However, raw cashew production rapidly declined, from 190,000 tons in 1974, to 160,000 tons in 1975 and 120,000 tons in 1976.[82] To protect the processing industry, the Mozambican government prohibited the exports of raw cashews.[83] At the same time nationalisation was initiated as part of a more comprehensive economic policy focused on large-scale state enterprises. Some cashew processing factories were nationalised shortly after independence, others were abandoned and subsequently ‘intervened’. A total of 7 of the 14 factories operative at Independence ended up being run by a state holding company, *Cajú de*

[73] Hanlon (1996:10)
[74] Frelimo – *Frente de Libertação de Moçambique* – since 1963-64 the movement representing the internal fight for independence in the colony.
[75] Constitution of the People’s Republic of Mozambique, Article 4.
[76] EIU – Economist Intelligence Unit (2000:5); Newitt (1995:551)
[77] Newitt (1995:552)
[78] Kanji *et al.* (2004:75)
[79] Newitt (1995:460)
[80] Leite (2000:296)
[81] Newitt (1995:460).
[82] Leite (2000:298). This means that by 1976, total production was below the industry’s processing capacity.
[83] There is considerable variation, not only in terms of perspectives and analytic language in the available literature on the cashew case. There is also some variation in facts and numbers/quantities referred to. According to Leite (2000), the export of raw cashew was prohibited by law in 1975, while McMillan, Horn and Rodrik (2003) assert that export of raw cashew was banned in 1978.

Mocambique, created in 1979. Four were not intervened, while the remaining ceased to operate, according to Leite (2000)[84].

In the immediate post-independence period many skilled jobs were filled either by *cooperantes* from solidarity groups in Western Europe or through technical assistance from Eastern Europe and Cuba.[85] Socialist principles "rooted in high modern vision of what could be accomplished in a poor country" guided development efforts[86]. By the early 1980s, however, "peasant living standards were being squeezed and peasants were failing to produce either the food or the export crops that were essential for the economy".[87] It can be argued that Frelimo's modernisation project continued the colonial government's "squeezing" of rural smallholders within a new ideological framework. Pitcher describes "the deleterious impact of industrial and agricultural policies" in this period. [88] Newitt in the concluding chapter of his exemplary history of Mozambique, however, holds that the full impact of Frelimo's post-independence one-party state economic policies cannot be assessed in isolation from the catastrophe of the war that followed, when "regular economic activity in most sectors ceased".[89]

In 1992 ten years of civil war (War of Destabilisation) came to an end through a negotiated peace accord between the Frelimo Government and Renamo[90]. A process of international negotiations for food aid, new credits, and debt renegotiation had run parallel to both war and peace talks. These negotiations, where the United States was a major interlocutor, started in the early 1980s and were accompanied with substantial policy shifts on the part of the Mozambican government. There were political conditions for much needed food aid and credit in a situation when droughts added to the effects of war: The abandonment of Mozambican support to ANC in South Africa and an economic recovery programme aiming at liberalisation of the socialist economy. This included negotiations to join the World Bank and the International Monetary Fund.[91] The implementation of an extensive structural adjustment programme, PRE, "approved and partly developed by the World Bank and the IMF," started in 1987.[92]

The rehabilitation programme had a clear liberalisation profile aiming to decrease administrative controls and promote production and trade through market incentives. Within the structural adjustment framework, in 1989 the Frelimo government started a process of

[84] The non-intervened were the Monapo factory in the province of Nampula, owned by the Portuguese-Mozambican Entreposto Group; two factories owned by the Anglo American Corporation of South Africa; and the Socaju factory in Nacala owned by the Portuguese CUF group (Leite 2000: 298, fn. 6; cf. Kanji *et al.* (2004:75)

[85] Hanlon (1996:10)

[86] Pitcher (2002:99)

[87] Hanlon (1996:13)

[88] Pitcher Ibid.

[89] Newitt (1995:555)

[90] Renamo – *Resistencia Nacional Moçambicana* – organised and armed the opposition to the Frelimo government with support from the exterior. The history of the war cannot be dealt with here, though its consequences definitely mark the context for the Bretton Woods institutions' involvement in Mozambique. What is worth mentioning is that although the rise of Renamo must be analysed within its a Mozambican setting, its role in (what the Government calls) the War of Destabilisation, can only be understood in the context of "the protagonists of the Cold War … fighting their ideological battles through surrogates in Africa" (Newitt 1995:577). By 1992 the international scene had, however, changed; the Berlin Wall had fallen in late 1989; in South Africa, Nelson Mandela had been released from prison in 1990, and was negotiating the transformation to democratic majority rule in RSA.

[91] Abrahamsson and Nilsson (1995:101); Hanlon (1996:16)

[92] The 1987-1990 Economic Rehabilitation Programme (PRE later PRES), Abrahamsson and Nilsson (1995:111)

restructuring ownership and privatising 'intervened' and state-owned companies. The privatisation of cashew processing factories was initiated in 1991, and in 1994 all the factories held by the state company *Cajú de Mocambique* had been privatised.

In practice it was the long-established group of Indian traders in Northern Mozambique who primarily responded to the economic opportunities in cashew exports. For them this was an opportunity to reactivate trade connections with India dating back to the 1930s.[93] According to Pitcher, the group of newly privatised factory owners included some old established Indian companies (Has Nur and AGT), a former state company called ENACOMO, in addition to several new entrepreneurs of both Indian African and African origin.[94] Marketed cashew production had, however, by the first half of the 1990s fallen to a level vacillating between 22,000 and 54,000 tonnes[95]. Only one processing factory, the Monapo factory owned by the Entreposto Group, was operating. In the meantime India and Brazil had become the main suppliers of processed cashew on the world market.

In 1995, the World Bank in its Country Assistance Strategy (CAS) Report called for a significant acceleration in the liberalisation reforms.[96] A study of the cashew sector commissioned to Hilmar Hilmarsson in 1994 provided the analytic basis for the specific liberalisation recommendations related to cashew in the 1995 CAS Report.[97] Hilmarsson argued for a total liberalisation of the cashew sector, with the abandonment of all protective state interventions. The Bank set a further liberalisation in cashew marketing, export and licensing as a condition for Mozambique to qualify for approximately USD 425 million of loan assistance.[98] That is, if these conditions were met, World Bank loans to Mozambique would increase from 240 million to 665 million USD.[99] The liberalisation requirements in the cashew sector were later concretised (or boiled down to) the issue of the export tax on raw cashew.[100]

The ban on raw cashew exports imposed by the Mozambican government in the 1970s had already been lifted (from the harvest season 1991/92). However, a surtax (on the difference between 'border' and 'factory gate' prices) had been imposed to protect the processing industry – just in the process of being privatised.[101] The parallel privatisation of the industry and trade liberalisation opened up for a certain conflict of interests between processing industrialists and exporters in relation to the export tax. According to the economic model

[93] Leite (2000:303)
[94] Pitcher (2002:225) cf. Leite (2000, Quadro VI)
[95] From 120.000 tons in 1976, cf. Leite (2000:298-99)
[96] The World Bank 1995 *Country Assistance Strategy* for Mozambique (Report no. 15067-MOZ) is a key document in the international debates on the cashew case. This document is for some reason, at the moment of writing, not available through the World Bank's websites. Neither can it be accessed through the www…
[97] Hilmarsson's study is in the literature usually referred to as a (draft) World Bank Working Paper called *Cashew pricing and marketing in Mozambique* (Hilmarsson 1994 or 1995). According to McMillan et al. (2002) it was incorporated as a chapter in World Bank (1995), probably in an abbreviated version. This is the only document it has been possible to access at the time of writing.
[98]Information based on Hanlon (1996:34). He describes liberalisation of cashew marketing, export and licensing as one of seven conditions; a second condition was the privatisation of *Banco Comercial de Moçambique* (BCM), another case of liberalisation that has been highly controversial.
[99] McMillan, et al. (2002:5)
[100] The liberalisation of internal trade in cashew by abolishing an old system licences for cashew traders, never became the focus of attention; it was neither hotly debated, nor followed up, either by the World Bank or by the Government of Mozambique.
[101] The process of privatisation and the negotiations between various interest groups involved has been described in considerable detail by both Leite (2000) and Pitcher (2002).

informing the World Bank's policy prescriptions, privatisation and liberalisation should lead to increased competition, boost 'farm-gate' prices for raw cashew, and thus increase incomes for smallholder farmers. However, an agreement between cashew traders/exporters and cashew processing interests was negotiated in October 1994, through the intervention of the Governor of Nampula, the main province of cashew production. According to this agreement, raw cashews would be exported only when the factories' demand for raw material was satisfied.[102] At the same time, a gradual decrease in the export tax was planned: from 30% for the 1993/94 harvest, to 26% in 1995/96, 20% in 1996/97, and 8% by 1999/2000.[103]

In 1995, intervening in this process of "negotiating" capitalism, the IMF, supporting the World Bank pressure for accelerated liberalisation, proposed a lower tax and a rapid phasing out: 20% in 1995/96, 12% in 1996/97, down to 0% by 1999/2000. The Mozambican government eventually accepted the 20 % surtax for 1995/96. In addition, it abolished the provision that the industry should be supplied with raw cashew before exports were permitted.[104] This was a controversial decision.

4.3. ENTHUSIASM VERSUS RESISTANCE – STAKEHOLDERS AND VOICES

The privatisation of the cashew factories under the structural-adjustment Economic Rehabilitation Programme had met with criticism in Mozambique. Some newspapers alleged that although the official buyers of most processing plants were Mozambicans, the big business behind the scene was controlled by foreign capital.[105] The government had, however, been concerned that the ownership of factories in the cashew sector should remain primarily in Mozambican hands. But neither foreign investors nor nationals had shown much interest in purchasing. In order to implement the privatisation, the government used both lobbying and promises to attract national capital. The result was that:

> Domestic investors "bought" most of the factories way below their listed sale prices. Domestic investors of four of the seven factories that were privatised only made down payments that averaged around 17% of the purchase price, and they received a grace period of one year … In addition, the government agreed to assume $12 million in debt that all seven companies had accumulated.[106]

In 1994 the recently-privatised factory owners assumed – or had been promised – a certain level of protection in order to rehabilitate the factories and make a profit. Then Hilmarsson's report on Cashew Pricing and Marketing appears on the Mozambican scene and is drawn into the focus of public debate through the Maputo newspaper *MediaFax* and its editor Carlos Cardoso. Both the views of cashew industrialists, exporters, and factory workers were given a voice in the newspaper. Some accused the World Bank of serving powerful Indian interests, since the world market for raw cashew basically consisted in one party on the 'demand' side: India. Cardoso himself was particularly concerned that the World Bank interference would eventually "destroy the formal sector of our economy".[107] Furthermore, the cashew export liberalisation case was used to highlight different development models: poverty reduction through liberalisation of trade vs. development through industrialisation and 'vertical

[102] Leite (2000:312)
[103] Hanlon (2000:36)
[104] Pitcher (2002:227)
[105] E.g. Anglo American Corporation and the Entreposto Group, cf. Hanlon (1996:78). The Portuguese João Ferreira dos Santos Group (JFS) on their part opened a new processing factory in 1995.
[106] Pitcher (2002:226) referring to Hilmarsson, see below.
[107] Fauvet and Mosse (2003:263)

integration' by processing domestic primary commodities.[108] It has been argued that World Bank pressure for full liberalization of the cashew sector spurred "the closest thing to a serious public policy debate that Mozambique has experienced".[109] Hilmarsson's report provided the basis for this debate. His arguments for an overall liberalization of the cashew sector were presented as follows:[110]

Both production and exports of cashew from Mozambique can increase significantly, but only if the cashew industry undergoes major restructuring. However, privatization/rehabilitation alone will not suffice to ensure the viability of the industry unless pricing and marketing distortions are removed. Installed capital-intensive technologies used to process the raw nut are not competitive *vis à vis* major producers like India and Brazil, where manual or semi-manual technologies are employed. As a result, Mozambique's cashew factories are producing marginal or negative value added, and thereby losing foreign exchange by exporting the cashew kernels.

Hilmarsson pointed out that lack of competition within the domestic cashew market, where a large number of retail traders depended on a small number of wholesalers/exporters, had kept smallholder producer prices down. However, low producer prices were also a result of the inefficient processing industry not being able to pay more. "It is not surprising that this inefficient industry has required high levels of protection in order to survive," he asserted. Recommendations were based on the following scenario:

Mozambique faces the decision of whether to: (i) continue directing marketed production to local factories for processing; or (ii) to liberalize the export of raw nuts in order to increase producer prices and thereby output recovery.

The conclusion is clear: liberalisation will lead to higher prices for farmers, an increase in the total output of raw cashew, and a substantial increase in foreign exchange earnings. However, it is admitted that:

Mozambican factories currently employing mechanized methods would not be able to survive under a liberalized trade regime, [but] there is no reason to assume that a more efficient industry could not be established in the short to medium term.

The report proposes the establishment of a low-technology processing industry as an alternative to the existing high-technology/mechanized factories, arguing that:

The adoption of more labour intensive technologies could gradually create many more jobs than are present in the current highly mechanized factories. Introduction of less capital-intensive processing technologies should be demand rather than supply driven and should be acquired through private sector entry only. In the short term … a temporary, low export tax on raw cashew nut for such a purpose should be examined.

Hilmarsson's conclusions were presented at an open seminar organised in Maputo in June 1995, with the support of the World Bank. A contesting paper was presented by the Association of Cashew Industrialists, AICajú, claiming that only a policy of protection in

[108] Cramer (1999); cf. Reinert ??
[109] Cramer (1999:1253)
[110] All quotes below are from World Bank (1995:77-89)

combination with support to the planting of new cashew trees could save the cashew sector.[111] Later the same year, a reported argument between the President of Mozambique, Joaquim Chissano, and journalist Carlos Cardoso at a press conference could shed some light on the problem perception on the government side.[112] When asked about the cashew case, the President answered that “We are rehabilitating other industries, not just cashew, and this money has to come from outside”. When Cardoso later said he was “deeply concerned at the fate of the cashew industry”, “What’s the alternative?’ the President asked him. “Was this really the right time to ‘say goodbye to the World Bank?’” Cardoso claimed that other donors would not follow if the Bank withdrew, and that the World Bank was “on its own over cashew”. Chissano, however, retorted that “in order to discover whether the Bank really was alone the government would first of all have to take the risk of ‘saying goodbye’ to the Bank.” Which it did not do. There was after all no unified internal pressure from the cashew sector on the government to do so. Capital investments in exporting cashew at the moment seemed to yield relatively high profits, and the new group of cashew processing industrialists even included cashew-exporting interests.[113] Furthermore, for the government it was definitely easier to reduce or abolish a tax than to support the restructuring and rehabilitation of a whole ‘vertically integrated’ cashew sector.

However, the debate continued. For 1996/97 the government eventually reduced the export tax to 14%[114]. In 1997, the World Bank commissioned Deloitte & Touche to carry out a new study, *Cashew Marketing Liberalization Impact Study.*[115] This study contributed to a certain shift in the agenda of the cashew debate. The study was critical to some aspects of liberalisation, and the perspectives presented did not always coincide with those professed by the Bank. The role of India in the international cashew market was again brought into the picture. India was the major exporter of processed cashew on the world market, and it totally dominated the demand side of the world market for raw cashew. At the same time, India also produced raw cashew for the domestic industry, and had a large domestic market for processed cashew.[116] If the Mozambican processing industry had to close down, India would be the only buyer of raw cashew. In India, the state of Kerala was the major producer of raw cashew. In Kerala both the producer prices, the raw cashew supply to processors, storage, and marketing were under the control of the state in collaboration with the cashew workers’ cooperative. In all India, the domestic market for processed cashew was protected by a 40% tax on imported kernels.[117]

What implications did Indian policies have for liberalisation in Mozambique? Indian development policies were aiming to increase production of raw cashew to a level that met the demand from domestic processing industries.[118] What the Deloitte & Touche study argued was, apparently, that through accelerated liberalisation Mozambique became highly

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[111] Leite (2000:319)
[112] As reported in Fauvet and Mosse (2003:261)
[113] According to Pitcher, in northern Mozambique not only wholesalers and exporters overlap, some companies involved in cashew processing were also involved in exporting raw cashew. “When the work price is high, the group sells raw cashews. If the world price drops, perhaps the value added by processing will look more attractive…” (2002:231).
[114] This represented a little more “protection” than what IMF/WB had required (12%).
[115] Deloitte & Touche ILA (Africa) and Deloitte Touch Tohmatsu Sisteconta, 1997. *Cashew Marketing Liberalization Impact Study.* This study has not been accessible through Norwegian channels during the writing of the present report.
[116] McMillan et al. (2002)
[117] McMillan et al. (2002:20)
[118] Hanlon (2000:35)

dependent on the Indian processing industry, which itself was protected and partly state-controlled.[119] By implication, while Mozambique was subject to the imposition of World Bank policy prescriptions, India was not and could subsidize both producers and processors. Deloitte & Touche concluded that protection for the Mozambican processing industry should be maintained.

The report was received with highly critical comments by the World Bank. According to an internal *World Bank Technical Note*, there were “several points which the consultants ought to more explicitly explain and justify”.[120] The note basically says that the report does not sufficiently recognise the beneficial effects of market liberalisation, and that it proposes measures that do not correspond with a full liberalisation of the cashew sector.

The report correctly notes the need to increase farm-gate prices to improve the incentives to invest in new trees and improve the care of the existing stands… To raise the farm-gate price, however, the report recommends raising the “reference price” for raw cashew at the farm gate, while maintaining the export tax at the current level (14 %)… We would note that experience from elsewhere demonstrates that administratively established prices cannot be maintained above market determined price without large-scale government intervention … In Mozambique, it has been government policy to withdraw from state marketing in agriculture, and fiscal constraints limit the scope for any large-scale market intervention.[121]

According to this internal World Bank Note, the Mozambican state does not have funds and no real policy space to opt for any other policy than full liberalisation. The note further questions the assumptions and calculations related to labour costs in the report, which seem “very high”. According to the Note, “it would seem that the high labour costs are driven by assumptions that all labour is regular staff for whom social insurance, leave, food and other benefits are paid … The analysis also assumes that all these workers work and are paid for working throughout the year …” By assuming regular salaries of USD 2,64 per person per day, the calculated expenses of the labour-intensive, low-technology processing proposed in the Hilmarsson report would become too high. The World Bank Note, by assuming a lower standard of labour conditions, could assert that the low-technology factories were more profitable and, in theory, more sustainable.

4.4. IMPACTS

According to a 1996-97 survey, 26% of rural families in Mozambique had cashew trees, while less than a quarter of these marketed the crop.[122] In 1997 the number of cashew trees in Mozambique was estimated to around 26 million. Mostly planted during colonial times, one million of these were estimated to lose production each year, while a high proportion of remaining trees were affected by pests.[123] Marketed production remained low, and low supply in turn affected the processing industry. After a couple of years above 50.000 tons, in 1999/2000 total production was again down to 35.000 tons.[124]

[119] Hanlon (2000:37); McMillan (2002:19-21)
[120] World Bank (n.d.) comments on the original draft of 1997.
[121] World Bank (n.d. p.1)
[122] The survey was carried out by the Ministry of Planning and Finance in collaboration with Eduardo Mondlane University and IFPRI, and extracts quoted in Hanlon (2000).
[123] Numbers are taken from Deloitte & Touche (1997:16) quoted in Hanlon (2000:32).
[124] McMillan et al. (2002, Appendix B)

In the wake of the Deloitte & Touche study, the government kept the export duty at 14%. Then in 1999 a *Proposed Bill for the Cashew Sub-Sector Re-Industrialisation in Mozambique* was submitted to the Parliament by members of the Frelimo Party. The Bill not only proposed a ban on exporting raw cashew, but also "that priority be given to first supplying the local processing industry, and that market prices be set at the producer level".[125] According to Hanlon, "government ministers put pressure on Frelimo members to opt for something less strong".[126] The law that was finally approved called for an increase in the export tax from 14% to a level between 18% and 22% for the next five years.

In the meantime, the large factories had been closing down. *Groupo Entreposto*'s two factories in the province of Nampula in northern Mozambique were both closed during 1999.[127] The Anglo-American Corporation's factory *Mocita,* which had reopened in 1996 and had become the major employer in the town of Xai-xai in southern Mozambique, had stopped production, and finally closed in 2001.[128] By 2002, only a couple of newly installed low-technology factories, which had been supported by the World Bank, were still operative, processing around 2,000 tonnes/year.[129] It was already evident that Mozambican state institutions, with support provided by the World Bank, had not been able to "provide a stable framework for such enterprises to flourish".[130]

In terms of impact, according to Pitcher, the real losers were both the smallholder producers and the workers in the cashew factories. Most of the factory workers finally lost their jobs, after years of "salaries in arrears, periodic layoffs, and the threat of dismissal … throughout the 1990s".[131] Whereas raw cashew traders and exporters, at least for some years, no doubt did profit.

4.5. A RECENT VIEW FROM ABOVE AND A QUESTION OF GOVERNANCE

The 2006 World Bank Report *Mozambique: Agricultural Development Strategy,* with the subtitle "Stimulating Smallholder Agricultural Growth" describes agriculture in Mozambique as "dominated by smallholders who farm in a risky environment that is vulnerable to droughts and floods, with 15 over the last 25 years".[132] According to the report, the agricultural sector in Mozambique has shown a remarkable improvement over the last decade, and agricultural growth has been a key factor in reducing rural poverty. However, this growth is primarily the result of an increase in the cultivated area, together with an increase in the labour force, mainly resulting from the return of more than a million migrants after the 1992 peace accord.[133]

What is the role of cashew nuts as a cash crop and marketed commodity in this picture? Under "Structural Factors and Institutions" issues related to price policy and marketing are

[125] Mole and Weber (1999:1)
[126] Hanlon (2000:40)
[127] By 2007 Entreposto's engagement in Mozambique is concentrated on import of vehicles, insurance businesses, and cotton production. Cf. *Groupo Entroposto* website, accessed July 2007
[128] Anglo-American sold all their shares in 2001. Cf. *Mozambique News Agency*, 1st October 2001.
[129] Kanji et al. (2004:82)
[130] Bayliss (2000:9)
[131] Pitcher (2002:232)
[132] World Bank (2006:3)
[133] World Bank (2006:xiii)

addressed. The 2006 World Bank Report has the following to say on the effect of the cashew market liberalisation on smallholders:

> The Bank argued that liberalization would significantly benefit smallholders and that the processing industry would still be competitive without protection. Researchers have, however, pointed out that although liberalization raised the prices received by producers, their short-term … gains have been quite modest… [134]

The Report continues with the following statements on the effects on liberalization in the processing industry:

> The processing industry suffered from liberalization in terms of a substantial loss of jobs: an estimated 90% of the sector's labour force of 11,000 workers (2001). Over the last decade, the cashew industry has undergone a major downsizing.[135]

When it comes to recommendations, the 2006 Report has no new suggestions aimed at maintaining a stable macro framework, as "Mozambique has open and competitive input and output markets for agricultural commodities" where, unlike its neighbours, "the government does not substantially interfere".[136] When it comes to the supply side of cashew nuts, the Report holds that:

> Many cashew trees are old and diseased, but farmers are reluctant to invest in new trees despite market liberalization… Without massive replanting, it is difficult to see how the cashew sector can again become an important source in income for smallholders.[137]

The economic liberalisation agenda of the World Bank has been accompanied, and at present to a certain extent replaced, by a good governance agenda. The concept of 'good governance' implies the presence of a set of checks and balances to control power. Here 'civil society' in general, critical scholarship, and a free press in particular have a clear role in demanding accountability.

The researchers referred to in the 2006 World Bank Report (above) are McMillan, Rodrik and Horn Welch (2002). Their analysis was carried out within a model framework close to those used by the Bank itself, but basically concludes that the economic reforms imposed by the Bank went wrong. Is this a case that contradicts the following more general claim?

The extensive body of critical literature … is rarely acknowledged in Bank publications. Instead, citations are dominated by Bank-sponsored studies which tend to be more supportive of privatisation.[138]

To a limited extent, one may say. Within Mozambique the cashew liberalisation case did give rise to a serious public development policy debate. It has also been argued that Mozambique has had a vocal opposition within civil society. "Nowhere has this been more evident than in the cashew crisis, where critics repeatedly condemned the influence of the World Bank and demanded that the state alleviate the crisis".[139] How has this critical debate been received and reflected upon on the World Bank's side? The answer is probably that the Bank sees "no

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[134] The Report here refers to the analysis in McMillan *et al.*(2002)
[135] The Report also in this case refers to the analysis in McMillan *et al.*(2002)
[136] World Bank (2006:55)
[137] World Bank (2006:73)
[138] Bayliss (2000:5)
[139] Pitcher (2002:235)

value added". And no efforts have apparently been made to make more critical documents relating to the cashew case available to the public.

The World Bank seems to have accepted a criticism based on economic analyses presented by McMillan et al. (2002), maybe in need of an acceptable explanation of what went wrong. What the World Bank is less interested in appears to be the policy debates that sought to challenge both the basic assumptions and the economic models informing the liberalisation reform policies. That is, the criticism that requested, and continues to request, policies based on in-depth knowledge of context and history.

More than anything, this case demonstrates the folly of elevating an instrument such as a tax, or its extinction, to the level of a non-negotiable objective. The enduring impression is of a bank lost inside a text book, trapped among pages dedicated to the potential adverse effects of an export tax, unwilling to listen to the arguments of a diverse and vociferous opposition, and unable to lift its gaze to wider economic objectives.

5. THE FOREST SECTOR REFORM IN UGANDA

5.1. BACKGROUND AND CONTEXT

This case-study looks into reform processes in Uganda after 1986, with particular emphasis on the recent forestry sector reform, which started around 1997 and is now still in the process of being implemented. When the present administration came into power in 1986, the Ugandan people had lived through 15 years characterised by dictatorships, coups, wars, civil wars, and unrest. The 1986 change in power spawned its own resistance movement in the north of the country, and there are still areas of substantial unrest, with implications for reform work, for poverty alleviation policies and for the forestry sector at large.

When reforms began in the late 1980s, it was thus in the context of a new regime with a group of dedicated and enthusiastic officials, with a new "one-party democracy," a strong leader, and plenty of executive power. However, they had limited political experience, the country was ravaged after years of unrest, and the new government was highly dependent on monetary assistance from abroad.

The reconstruction of the state and the re-establishment of Uganda's government, after the military take-over, have also had long-term bearing upon power bases, political life, processes and outcomes in Uganda. The development of urban-rural links and the evolution of new political movements have also been important for Uganda and the way policy reform processes have unfolded. Poverty is still prevalent in Uganda, with substantial regional differences, but with still as much as 58% living under a defined poverty line of 2 USD per day.

Uganda has experienced substantial economic growth after 1986, with an average of some 6% growth in GDP per year. An average population growth rate of 3.4 %, among the highest in Africa, means, however, that growth per capita is lower; some 2-3% per year.

Donors are conspicuously present in Uganda, and even today more than 45% of the state budget is financed by donors. The role of IMF and the World Bank is substantial in this context and Uganda has also been used by the Bank as one of the main display windows for "successful reform countries" in Africa. Such reforms have included stabilization measures, and structural adjustment elements such as public sector reform, foreign exchange reforms, privatization and divestiture policies etc. One of the latest reforms in Uganda is the forest sector reform, which we may term as a type of divestment policy, where all major Central Forest Reserves were put under an autonomous authority supposedly beyond direct political control and where the local forest reserves were put under district authorities and where only a very lean Forest Inspection Division was to be maintained under the ministry and state auspices. We return to this.

5.2. GENERAL REFORM POLICIES IN UGANDA

The state apparatus in 1986, at both central and local levels, was in shambles after 15 years of civil war and unrest. This puts the reform process in Uganda in a special light or context. As Harrison puts it, "government reforms have been as concerned with constructing the state as they have with reforming it".[140] In some ways, the lack of long term institutional history may have facilitated institutional change and reform.

After the 1986 take-over, pressure was on the government to immediately carry out various stabilization measures and public reforms. The government eventually chose a rather typical three-pronged reform strategy and implementation sequencing plan: stabilization, liberalization of markets and structural adjustment, and public expenditure reform.[141]

World Bank supported public sector reform programmes, Uganda, 1989-2005:

YEAR	Reform element
1989	Public Service Review and Reorganisation Commission
1991	Creation of Capacity Building Secretariat
1992	Civil Service Reform Programme
1992	Suspension of donor funds. Uganda fully liberalized the foreign exchange market
1993	Economic and Financial Management Project I
1994	Workshop on Ethics and Transparency Economic Development Institute (now World Bank Institute); Institutional Capacity Building Project
1999	Public Sector Management Project Economic and Financial Management Project II
2001	Privatisation and Utility Sector Reform *Public Expenditure Review*
2002	Capacity Building/Civil Service Reform Capacity Building II
2003	Capacity and Performance Enhancement Programme Local Government Development Project II

Uganda gained substantial macroeconomic stability by 1993, when stabilization measures of strict public expenditure control, reduced public loans and fiscal discipline had been enforced. Most of the initial reforms were carried out according to plan and most of the goals relating to stabilization were met, according to Ugandan authorities.[142]

The Uganda Revenue Authority (URA) was established in 1991 as a semi-autonomous authority and as such formed an important milestone for improved public management in Uganda. This implied separating it from more direct political control. URA also employed an expatriate Swedish director and introduced a range of policy measures to combat public mismanagement. URA became a much used symbol of Uganda's successful reform, at least from 1991 to 1997. In this period, revenues increased from 7 to 12% of GDP. After this initial period, performance fell and the director of URA at the time has later stated that corruption became the number one problem in the organization.

Uganda liberalized markets in all key sectors of society from early 1990, including the financial, foreign exchange, and coffee markets. Uganda also implemented reforms in the tax system, and initiated a substantial public divestment programme. The public expenditure reform focused on increasing government expenditure efficiency. The civil service was reduced from 352,000 in 1990 to 158,000 in 1997, a reduction by 55%. According to McCourt et al., these reforms were implemented under "pressure from the IMF and the World Bank to implement privatisation of commercial parastatals and agreed to do so as part of the wider reform programme linked to IMF ESAF and World Bank support".[143]

[140] Harrison (2005; 250).
[141] Tumusiime-Mutebile (2000).
[142] Tumusime-Mutubile (2000).
[143] McCourt et al. (2001: 86).

The overall aims of these reforms were to increase efficiency of administration and public service, to improve information management, to enhance the use of incentives within the public sector, and to reduce corruption. According to Harrison, these reforms were also encompassed by strategies relating to New Public Management ideals, and to principles of Result Oriented Management and Output Oriented Budgeting. Reforms also involved the introduction of the Medium Term Expenditure Framework, aimed at securing better fiscal control for the Ministry of Finance (MoF) in relation to line ministries.[144]

The privatization of Uganda's more than 150 parastatals, with its 30,000 employees, contributing 25% to all formal employment and 10% to GDP, was a crucial part of Uganda's economic reform programme. According to Tangri and Mwenda, the IMF and the World Bank had actively "decried Uganda's public enterprises, particularly for their operating losses as well as their high costs to the treasury". Tangri and Mwenda also refer to the substantial forces within the NRM government that were reluctant to the divestment, not least due to the weakness of indigenous business and lack of capital among Ugandans, leaving the doors open for foreigners and Ugandan Asians to dominate sectors of crucial political, economic and social importance. But, as they state, "in order to maintain the support of the multilateral organizations which where providing his government with considerable financial assistance, President Museveni committed the NRM regime to privatization". [145]

So what are the effects of the reform? The reforms paved the way for a sounder macroeconomic environment, resulting in low inflation levels, lower budget deficits, almost doubling private investment, and increasing GDP growth rates from 5.4% in 1989 to an average of 12-13% towards the latter part of the 1990s.[146] After 2000, growth rates have remained reasonably high, ranging from 5 to 8% for GDP and some 2 to 3% growth in GDP per capita. Economic growth resulted, of course, also from peace and restoration of law and order in the early reform years (Dijkstra, 2002) and high coffee prices later. Still, as Kiiza et al. state, the reform also generated stability and reduced inflation from 232% in 1987 to 6% in 2004.[147]

During this period poverty has declined, not necessarily in a smooth manner, but in some steps and despite some temporary set backs. Uganda faced a high poverty headcount of 56% in 1992, which dropped to 38% in 2003, increased the following years, but went down to 31% in 2006[148]. There is however a steadfast rural bias. Poverty was lower in urban areas in 1992 and has even decreased more here than in rural areas.

The fiscal impact of privatisation was lower than anticipated, since (as might have been expected) most of the non-profitable public enterprises proved hard to sell while the opposite applied for those that generated revenue. Development within the domestic private sector was disappointing, since the sector at the time of reforms was weak and lacked any ability to invest. Instead, foreign investors entered the fray. Privatisation thus also in some cases resulted in private monopolies rather than more efficient markets in Uganda, pointing to both a lack of market regulations and willingness to enforce those that exist.

[144] Harrison (2005).
[145] Tangri and Mwenda (2001: 118).
[146] Tumusime-Mutubile 2000, Villanger (2003)
[147] Kiiza et al. (2005).
[148] UBOS (2006)

5.3. THE FOREST SECTOR: BACKGROUND

The fact that forests provide large, indirect and informal benefits (not recorded in national statistics), as well as high levels of public goods in the form of environmental services, requires special attention in policy. Furthermore, at the micro-level, many studies now indicate that forest environmental incomes are economically important in many developing countries and may constitute more than 20% of total household incomes in rural areas.[149] Forests also constitute potential agricultural land and grazing areas and this leads to resource use conflicts in many arenas.

From a governance perspective, there are several different ministerial and government bodies (agriculture, forestry, wildlife, tourism, energy, water supply etc.) at different levels involved in planning and management of the sector, creating particular conflicts and co-ordination challenges. The direct role of governance is to some extent weaker than for sectors like transport, health and education and the role of the state in governance becomes more contested. The forest sector also holds a particular potential for development of communal governance systems and for empowerment of local communities through devolvement of management powers to the local level. The traditional power-holders such as public forest officers and politicians can often be found to oppose such devolvement as it threatens opportunities to harvest forest values through commissions, bribes and other types of clandestine activities. Such factors condition policymaking and demand sector-overarching policy frameworks and packages.

Given diverse interests, the stakeholder picture becomes complex with a variety of individual, local, regional, national and international actors with different and often competing interests. Interests are furthermore framed by complex patterns of ownership, usufruct rights, lines of power and authority and are open for strategic games and tugs of war. Forests are under a variety of tenure systems, but costs of exclusion are typically high and there is often a lack of complete control over the resource base by any single users or actors. Most forest products yield low economic returns; the few that yield substantial returns are typically extracted by wealthy groups.

The forest estate constitutes about 24% of the total land area in Uganda, some 4.9 million ha. The majority is woodlands (81%), 19% is tropical high forests and less than 1% is plantation forest. Uganda's forests are, as in most African countries, on the decline. From an estimated 52% of Uganda's surface in 1890, it is now only 24% of the land, with deforestation at a rate of 55,000 ha/year basically due to land clearing for agriculture.[150] In addition to deforestation, there is also degradation of existing forests. The NFP estimates that 280,000 ha of tropical high forests are severely degraded, most woodlands are heavily degraded, and most of forest land losses also occur here. Also in the Central Forest Reserves (CFRs) some 35% of the forest cover is now lost.[151]

Despite deforestation and degradation, the forestry sector in Uganda still has substantial economic importance, both for the national economy and for poor small-scale farmers. Commercial forest products represented 6% of GDP in 1999 and the turnover in forest businesses was some 356 billion UShs, environmental services were valuated at 112 billion UShs, forest cover more than 90% of national energy demand, more than 100,000 are

[149] Vedeld et al., (2004).
[150] FAO (2000).
[151] MWLE (2000).

formally employed in the sector, and forests are also crucial to the substantial tourism industry.

The permanent forest estate in Uganda was well managed from the 1930s to the early 1970s by the Forest Department (established in 1930) through "carefully prepared forest management plans" in a system characterized as one of the "best forest management practices in tropical forestry".[152] The forest management service in Uganda was, until the military coup in 1971, considered to be one of the best forest management services in Africa. In the period 1970 to 1986, forest resources and conservation areas became a political arena and battlefield. Idi Amin opened up both forest reserves and national parks for various groups of encroachers in a bid to increase his popularity. These encroachers in many cases now have more than 30 years of residency and form a politically sensitive issue in the reform process. Massive reduction in forest cover, and a major erosion in the Forest Department's (FD) effectiveness was also experienced.[153]

In 1986, the forest sector was in a bad shape and the performance of the FD was under attack from several directions. The new government established a Ministry of Environmental Protection to "coordinate and enhance natural resource management". But the FD was still lacking resources and personnel to efficiently manage the diverse forest estate and encroachment and illegal activities were major problems.[154]

In this period, there are several milestones of importance for the future sector reform. The World Bank Forest Rehabilitation Programme injected a lot of money into the forest sector (35 mill. USD), but did not have a sector policy approach and did not produce any lasting sector effects. The 1988 Forest Department Support Programme (EU funded) was linked to the World Bank and started activities to improve forest management, rehabilitate reserves and evict encroachers. In 1993, forest management was again decentralized through the Local Government Statute, but again centralized (all forest reserves greater than 100ha) through an Amendment in 1995 upon the perception that the district level was not ready for the responsibility and that they had started a rapid depletion of forest resources to secure incomes.[155] This created substantial conflicts and people locally started to encroach upon the forest Reserves, and over time also local FD staff were involved in activities such as illegal timber trade, charcoal production and also direct encroachment and settlements.

A major process went on from 1989-93 with first of all the major reclassification of the FD forest estate into National Parks, a process "spearheaded by USAID", as they themselves state in a report.[156] Under considerable pressures from donors, in particular USAID, the World Bank and some International NGOs, some 50% of the CFRs were converted. Uganda was offered 30 million USD by USAID to finance this conversion and park establishment. This process can also be interpreted as the first step in dismantling the FD regime over Ugandan forests and preparing the ground for the Forest Sector reform to come.

This process was partly a battleground between donors, where USAID supported UWA/MWLE and where the EU and other donors (Norad) supported the FD in their attempt to direct the process and maintain the FD by improving public governance and developing

[152] MWLE (2000).
[153] Acode (2005).
[154] Acode (2005).
[155] Nsita (2005).
[156] USAID (2003).

clearer plans for a forest sector to provide for broader sets of public goods.[157] In the public sector reform, it was also approved in 1993 to start the process divesting FD to an Authority and a long term "battle" started on this issue. By the beginning of the major sector reform in 1997, substantial elements of the forest estate had been shifted to UWA and national parks and substantial parts of the forest estate were under central control and not local control and the FD had been shifted to MWLE.

But the sector was still under heavy criticism for not delivering sound forest management and for widespread corruption and misuse of funds and resources. Pressure for more comprehensive reforms were evident, both from within segments of the government and from donors, although there were different opinions about the direction and scope of reform.

5.4. THE FOREST SECTOR REFORM 1997 - 2004

5.4.1. The nature of the Reform

The forest reform contains elements of divestiture processes, of privatization and liberalization themes, of public sector reform and contraction of public bodies, and of decentralization and deconcentration elements meant to reduce the powers and roles of the central state. The World Bank and IMF did not have an explicit leading role in the 1997-2004 forest reform, but supported heavy investments prior to this, also in the forest sector. They have led the donor coordination processes for the general reforms and dominate the donor environment in Uganda. They have, over the last 15 years, created a common set of perceptions of policy goals, instruments and implementation, both with other donors and with the government itself, so that the policy style of forest reforms is definitely one of structural adjustment and privatization.

The previous forestry policy of 1988 was seen to need updating on several items. It was perceived as lacking in specifics with respect to policy implementation and the separation of roles between government and the private sector. The new forestry policy attempts to fill such gaps and also suggests new approaches and political directions to development of the forest sector. The vision for the new policy is: "An integrated forest sector that achieves sustainable increases in the economic, social and environmental benefits from forests and trees by all the people of Uganda, especially the poor and vulnerable".[158]

[157] USAID (2003), Gosamalang (2003).
[158] MWLE (2001).

Milestones in Uganda's Forest sector, Uganda 1997-2007

Year	Formal policy/ process/ document/ project	Content and impact
1997-2004	The Forestry Sector Umbrella Programme (FSUP)	- Multi-donor support programme with major goal to produce a New Forest Policy (NFP). The reform process started in 1999 with a forest sector review - Supported formulation of the NFP (2001), new forest act, development of a new comprehensive forest management plan, creation of NFA - More emphasis on private sector and civil society, and local governments and communities -Substantial forest encroachment in same period due to transition
1998	Forest Service Declaration Order (Statutory Instrument No.63.1998	Split forest estate in two: - CFRs to be retained by the central government (FD) - LFRs control by Districts (management and control functions, can issue licences, fees etc. also in open areas, not CFR areas. In buffer zones to CFR co-management with FD) - FD transferred from MoNR to MoWLE
1998	Forest reserve orders	Led to increased reclassification of forests from local to central forest reserves and many local reserves were privatized; transferred to kingdoms. Little left to local governments.
1998	FD staff situation	160 professionals, 329 technicians, 180 support staff, 34 common cadre. By July 2000, 154 rangers, 283 forest guards 700 patrol persons and 25 forest officers were retrenched. Less than one staff/county)
1999 1999 1999-2004	National Forest Programme Forest Sector Review Uganda Forest Sector Policy and Strategy Project (UFSPSP)	The overall Ugandan forest reform programme including both policy, organisational and institutional reforms. Overview of forest sector Support programme linked to the FSUP to develop the National Forest programme. Supported the Forest Sector Review, and the development of the Forest Policy, Forest Plan and Forest Act, NFA, DFS and the extension service development.
2000	Plan for the Modernisation of Agriculture	Important in relation to DFS and provision for extension and field investments potentially also in forestry and broader environmental issues
2001 -2002	New National Forest Policy approved	The Forest Inspection Division (providing oversight of sector policy, and regulatory functions) The National Forestry Authority (responsible for the management of Central Forest Reserves), District Forest Service (responsible for the management of Local Forest Reserves and provision of advisory services and regulatory oversight to forests on private and customary land).
2002	The National Forest Plan approved	An integrated forestry development plan. With seven operational programmes (FID, NFA, DFS, private sector commercial forest business and plantations, urban forestry, research and education)
2003	National Forestry and Tree Planting Act approved	Enshrines the NFP from 2001 with emphasis on regulating control and use of CFR, LFR, Community Forests, private forests and wildlife conservation forests.
2006	NFA Director and Board is replaced	

The major guiding principle is an explicit ambition to combine economic development of the sector with poverty alleviation and a livelihood improvement focus also involving gender, culture and biodiversity management values. It explicitly states that "the central government should withdraw from activities that can be carried out more effectively by the private sector or other stakeholders, but maintain core functions of policy development and regulation" and that "The role of the private sector is that private sector investment should be maximised in the development of the forest sector".

Up to the civil war and unrest period in Uganda, forest resources were controlled and managed through a traditional (and by most standards well functioning) public Forest Service, under the auspices of a Forest Department. After the reform, three separate functions were channelled to three different organisational entities: the overall coordination of forest resource use within a Forest Inspection Department (FID) in the MWLE "providing oversight of sector policy, and regulatory functions"; a District Forest Service (DFS) responsible for the management of local forest reserves and provision of local forest advisory services; the National Forestry Authority (NFA) responsible for the management of central forest reserves and plantations.

The main divestiture process has been along the following lines: establishing an autonomous NFA with controls over the CFRs, with wide authorities to lease out CFRs for privatized commercial plantations and with a mandate to strengthen private sector involvement in the forest sector, placing part of the previous FD forest estate in the NFA while converting other parts to national parks under the MWLE and Uganda Wildlife Authority (UWA). The public sector reform has implied a significantly reduced number of civil servants within the forestry sector and a privatization of elements of the extension system, based on private sector bidding.

5.4.2. Results of the Reform

The general attitude found among donors and their consultants is that the reform has been successful, at least for the NFA, but that there has been too little support for FID and for DFS, so that the reform output is still both unbalanced and not yet realized to its full potential. Hobley approves of the planning process but warns that a lack of funding of the local level elements may destabilise the reform in the longer run; Namubiru supports this view, noting that effective decentralisation and local support systems are necessary if poor people are directly to benefit from the reform; Heuch and Walugumbe produced a fairly positive review of the NFA after 1.5 years of its operation, but see challenges in terms of making operations self-financed, developing markets, and dealing with encroachment in an acceptable manner.[159] They note that the NFA has delivered more on infrastructure development, eviction of encroachers, and commercial enterprise than on collaborative management and provision of public goods.

On the FID part of the reform, Namubiru notes that "despite its important position, the FID has only six personnel based in Kampala, the capital city, and operating on very limited financial resources. It is difficult, therefore, for the FID to take action even when they identify discrepancies between policy objectives and what is happening on the ground".[160] This means that there is no strong, central coordinating force overseeing the implementation and results of the forest sector reform, a problem also seen for other Ugandan economic reforms.

5.4.3. Effects on economic growth and poverty alleviation

In very general terms the forest sector reform has so far been quite successful in improving the state of many CFRs and in generating a new speed in forest plantation establishment, both through NFA and the Sawlog scheme where also private capital has been attracted to invest in

[159] Hobley (2004), Namubiru (2006), Heuch and Walugumbe (2004).
[160] Namubiru (2006).

forest plantations. The DFS reform is so far not yielding economic growth, but has led to a redistribution of benefits away from districts and actors involved in the previous structure and over to private actors and, as in the case of Masindi District, to traditional kingdoms.[161]

It is difficult to see any poverty alleviation following the reform so far. On the contrary, NFA's demarcation of boundaries and processes of eviction has most likely led to more deprivation and loss of income for people in the vicinity of the CFRs. In addition, NFA has not spent many resources on collaborative management, a strategy that could have served to improve the poverty profile of NFA's work so far. Also for DFS, to the extent that forest resources have been privatized, and to the extent that the LFRs are more or less degraded and encroached, the reform has not yielded much poverty alleviation. In general, we may talk about a forest reform where, at least for NFA, the forest resources have been improved. It has not been a social reform, judging by the results on poverty alleviation and on improved governance.

NFA has some 560 CFRs to manage. They started demarcating the boundaries and registering the number of encroachers by each CFR. In a thorough report to the President in 2005, they state that NFA is committed to finding lasting solutions, but stress that "NFA is not evicting, but only determining the extent of the problem to present to the government".[162] They estimate that some 130,000 encroachers, some 45,000 ha of cultivated land and some 100,000 livestock are found within the CFR boundaries. They have developed guidelines for eviction, with rules for sensitization of stakeholders, boundary resurveys and registration of encroachers. Their policy is to strictly protect most CFRs but be more lenient in cases of forest industrial interests (108) and plantation establishment and also in some cases where encroachment is substantial (53), develop other approaches.

The encroachment issue is a major concern for NFA, and they have been heavily criticized in newspapers, by local politicians and by NGOs for being too strict and inflexible. Acode argues that although there is a need to strike a balance between forest conservation and development, "the method of eviction adopted by NFA conflicts with the legal position of the right of occupation of land by virtue of long use, the right to property, the right to life and livelihood recognized both at national and international level. The process of eviction is not in harmony with the spirit of the Forest Plan".[163]

This problem is a major challenge to NFA and has substantial political connotations in that evicting local constituencies from the land where they are settled is highly controversial in Uganda. When Mt. Elgon was transformed from a rather open Forest Reserve to a National Park in 1993, with no legal access for local people, research findings indicate a loss of some 20% of total incomes for local people.[164] Similar figures can be expected for a strict CFR management scheme.

This problem is not unique to the forest sector; privatization of previous public goods and utilities often lead to stricter exclusion strategies and firmer action. A valid point made by Bayliss is that poor people can both win or lose on privatization. In many developing countries there are no effective social safety nets and public sectors have implemented a kind of welfarism through, for example, tolerance of illegal connections to utility services and

[161] Muhereza (2003).
[162] NFA (2005: 15).
[163] Acode (2005: vi).
[164] Gosamalang (2003), Katto (2006).

overstaffing in public enterprises. Such policies are widely condemned as inefficient, but their removal constitutes a significant welfare loss to many.[165] This point is highly relevant for the forest sector reform in Uganda.

In general, the exclusion of access reflects a typical side-effect of a privatization process; resource management efficiency improves, but uncompensated, poor people easily become losers in the process.

5.4.4. Change in donor policies

There has been a substantial change in donor policies on how to deal with issues of conditionalities and of cooperation both between donors and with the government.

Following Harrison, 2001, the move from conditionality to post-conditionality is a subtle one. "Post-conditionality regimes exist where extreme external dependence and economic growth produce a set of political dynamics in which there emerges a set of unequal mutual dependencies and in which donor/creditor involvement becomes qualitatively more intimate, pervading the form and processes of the state".[166] He sees the change as a move from doctrine to ideology: "It is less force from outside to alter than it has become a dialogue, where support is given more intrinsically to government to promote change from within". In the case of the forest reform, the opposition against privatization, divestiture and state contraction had fizzled out; the dialogue has altered from opposition to one of shared perspectives especially through securing that the negotiators basically shared a main view on the form and direction of the reform.

This does, however, not mean that there is no national opposition to the reform, but that this opposition is not internally involved or invited into the reform process. As Reed, points out; "Coercion has also been used frequently by national governments to repress civil society as it has risen up to protest the social, political and environmental costs of the reform programme".

There is also a harmonization agenda where the World Bank holds a key role. The World Bank as the largest donor has a lead function in Uganda, and the Bank also heads the Local Development Partner Group where the harmonization work will be carried out. The harmonization work implies rather comprehensive donor coordination where comparative advantages and competences will be assessed prior to a division of support between themes and sectors. The rather close cooperation between donors in Uganda also forms particular sets of more or less joint understanding of problems, of development challenges, and not least on how to approach and solve issues. There are also monthly meetings between donors and representatives form the office of the Prime Minister and the Ministry of Finance.

Close relations are reflected not only in frequent meetings and dialogue, but also in the hiring of expatriates to the various sector ministries and donor assistance in development of sector reports and policy documents. In the case of the forest sector report, a DFID programme was launched to help develop and prepare the reform and Norwegian consultants were also instrumental in planning and early stages of implementation of the reform.

From a post-structural theory point of view of the African state, Harrison argues that it contrasts strikingly and profoundly with the World Bank's approach. "Most obviously,

[165] Bayliss (2000: 619).
[166] Harrison (2001: 657)

institutional change is not what it appears to be: new procedures, agencies, projects and initiatives are likely to be façades for an ongoing and innovative set of strategies of clientelist manoeuvring (Hibou 1998). State elites please external agencies in order to receive their funds (international patronage?) with plans for good governance and institutional reform, but with the intention of using the political prestige and money that they receive to consolidate a power base, a clientele and a series of private ventures".[167]

5.4.5. Good governance

It is a major challenge for Uganda to improve the record on governance and corruption issues. As we saw for the general reforms, governance quickly became the major obstacle for both implementation and for the successful outcomes of the various reforms; especially the divestiture reform, but also the URA reform and the general Public Service Reform met with such challenges.

There are at least two major "hotspots" in the forest sector reform in this context. The first relates to DFS and how assets and revenue sources have been handled and distributed. The second relates to the NFA reform and how and by whom the CFR estate is managed and also to some extent how issues of eviction of encroachers, compensatory questions and also the handling of collaborative management have been addressed.

In the DFS reform, Muhereza, 2003, gives several examples of how protected areas (LFRs) are being transferred to private persons and to Kingdoms, leaving the Districts with very little forest estate. Muhereza shows that the decentralization reform has in fact led to privatisation rather than decentralization. Very few of the resources are maintained under local government.

The Norwegian Head of NFA had to resign when ordered by the President to issue a license to the private company BIDCO to develop a CFR to a palm oil plantation on Bugala Island in Kalangala District. In addition, three other leaders of NFA resigned over the same issue, as well as the chairman of the Board.[168] This is thus both a concern in relation to good governance and following the law, and also in relation to the distribution of costs and benefits in open, transparent and legal ways.

An interesting twist on conditionality appears in a similar case where there was pressure on NFA to convert part of the Mabira Forest Reserve to a sugar producing company. This pressure was accompanied by public statements reminiscent of Idi Amin, that forests should be returned to the Ugandan people, effectively using the population as a straw man for blatant commercialisation and personal greed. The project was stopped following an intervention by the World Bank pointing to an agreement from 2001, where the preservation of the Mabira Forest Reserve was a condition for financing a major hydropower project of the Bujagali dam.[169] The President has now ordered the degazzeting to stop.

[167] Harrison (2005: 252).
[168] New Vision Uganda (2006).
[169] PDO (2007).

5.5. CONCLUSION

The general economic reforms in Uganda have contributed to beneficial outcomes in terms of overall economic performance, as measured by various macro-economic indicators, including GDP growth, private investment, inflation, and budget balances.

Development in terms of reduced poverty, as measured by conventional macro indicators, was also promising until around 2003, but has over the last three years regressed. Very large inequalities across regional, rural-urban, and ethnic lines have persisted throughout the reforms. In terms of the forest sector reform, results have been impressive with respect to plantation management and revenues, CFR management, and boundary demarcation. Results have been far less impressive when it comes to provision of local support services and protection of the civic rights of forest "encroachers," some of which can trace ties to the land from which they were evicted over several generations. In short, Ugandan reforms – both the general economic and the forest sector reforms – have delivered in terms of commerce and contribution to overall economic performance but have failed to benefit, and have in some cases adversely affected, Uganda's more vulnerable groups.

According to the World Bank, aid was used systematically to generate and implement reforms in Uganda. They state that "financial aid and conditionality became a main and most powerful cause for the reform undertakings. It was used by pro-reformers within the government to help push the reforms". [170] The Ugandan case seems, however, also to reflect some recent developments that have wider application. From a beginning characterised by old-fashioned conditionality, where donors stated demands and requirements and then stood back, the reform process in Uganda has increasingly reflected a dialogue between government and donors, where donors actively participate in the policy process rather than dictate certain terms. The forest sector reform in Uganda, succeeding more general economic reforms, reflects this development.

A further aspect is the greater coordination among donors. The World Bank could, as the most powerful single international actor, articulate positions on its own and act on these. In recent years, however, greater coordination among donors has evolved, and donor positions are now taken and communicated after extensive consultations and consensus building between multilateral and bilateral donors. Despite the World Bank's leading position, it has become more difficult to identify conditionality as originating within any particular bilateral or multilateral donor organisation; increasingly, whatever conditionality may exist has seemingly emerged from a consortium of donors, and this has also become the case for reforms in Uganda.

There was, in any case, little internal public resistance against the donor-supported forest sector reforms. In part, this is because the forest sector reform succeeded earlier, more general (and, at least as far as the elite was concerned, successful) economic reforms, and by the time the forest sector reform emerged, resistance among leaders had fizzled out and the type of neo-liberal instruments that characterised reforms had already entered the mainstream. As noted by Harrison, African leaders have, over the last 20 years or so, learned that seeking out opportunities within donor-supported reforms is a more profitable strategy than resisting them.[171] Whatever resistance might have emerged in the Forest Department and Forest

[170] Holmgren et al. (1999: 35).
[171] Harrison (2005).

Service, in light of retrenchments, was not given much of a chance to influence proceedings in the top-heavy arena of Ugandan politics.

The top-heavy aspect of politics severely limits the number of actors that possess any real influence. The list of stakeholders within the forest sector is long, and includes peasants, forest dwellers, private entrepreneurs, processing industry, conservationists, NGOs, and various government departments at local and central levels. It appears, however, that international donors and close business associates are more capable of really bending the President's ear.

Recent events reveal a very fragmented picture of the Ugandan forest sector and also shed interesting light on recent reforms. On the one hand, the NFA has been busy demarcating forest reserves and CFRs and evicting peasants residing within these boundaries; on the other hand, the central government has recently been trying to degazzet protected areas for the purpose of allowing establishment of private palm oil and sugar cane plantations. In one of the latter cases, the World Bank successfully intervened to protect conservation interests.

The eviction of peasants is, of course, a manner of re-establishing government authority in these areas; whatever else it represents, it is also "the opposite" of privatisation of state lands. The degazzeting of protected areas, on the other hand, can be seen as a classic case of privatisation. Interestingly, the World Bank and other donors have actively supported the reforms that precipitated the evictions and vehemently resisted degazzeting. The pursuit of neo-liberal ideals, it would seem, is sometimes trumped by environmental concerns, also when the environment is protected at the expense of rural livelihoods. The Ugandan government is even more inconsistent, favouring strict boundary enforcement in some cases and degazzeting in others. Its commitment to liberal ideas is clearly less important than the investment potential of the actors involved and the opportunities for immediate material gain.

Reed has concluded that "Rather than promoting economic and political democratization, the ostensibly neo-liberal economic reforms have too often created a new basis for the collusion between economic and political elites through control of natural resource wealth while diminishing access of the rural poor to environmental assets on which their livelihood depend". Along a similar line of argument, but from a welfare perspective, Reed argues that "Simply replacing an inefficient public monopoly with a more efficient private monopoly, did not and will not respond to the needs of resource based economies trying to increase overall public welfare through economic reforms".[172] These comments are highly relevant to recent Ugandan experiences with reforms.

[172] Reed (2005).

6. CONCLUSIONS

6.1. DIFFERENT CASES, DIFFERENT LESSONS?

The three cases provide lessons that to some extent are different, to some extent overlapping. The historical context in which donor conditionality and privatisation efforts are put into practice are naturally of great importance. While Mozambique and Uganda have both been through extended periods of extreme turbulence, Malawi has been comparatively peaceful. Thus, in Malawi, liberalisation and privatisation efforts were initially confronted with a degree of institutional inertia and political resistance; implementing radical change in Mozambique and Uganda was easier, given the institutional vacuums in which years of civil war and tyranny had resulted. The Malawi Government's strategy towards liberalisation has fluctuated between support and resistance; their main goal has been to promote their own agenda of self-sufficiency in food crops and promotion of cash-crops for export. When they could negotiate a solution with donors promoting these objectives they were ready to compromise on other issues.

The case from Malawi concerns liberalisation of agricultural input and output markets, and associated privatisation. A main feature of the Malawi case is the fluctuating positions of both the World Bank and the Malawi Government with respect to agricultural subsidies. The problems that put the Agricultural Development and Marketing Corporation (Admarc) of Malawi under such strain are in part a reflection of the costs of frequent policy changes. But the problems also highlight the difficulties faced by an organisation asked to reconcile the sometimes conflicting objectives of two different "masters" – the government and the World Bank. And both of these can to some extent be attributed to the World Bank's extreme focus on budget deficits and the constant need to renegotiate its position with respect to policy practises, as drought years and bumper harvests succeed each other.

The Mozambique case specifically concerns the marketing of that country's cashew nuts. As such, it is perhaps an extreme case, in which the dogged insistence by the IMF and the World Bank on the phasing out of an isolated intervention (an export tax) led to the collapse of the domestic industry.

The Ugandan case investigated in this report differs from the other two. Rather than ownership and control of marketing organisations and activities, this case concerns ownership and control of the resource itself. And the reform under scrutiny is not seen as an isolated issue or policy, but rather a more specific follow-up to a very general process of economic reform. Still, there are spaces in which the lessons to be drawn from all these cases are surprisingly similar.

6.2. IMPACTS FOR VULNERABLE GROUPS

The cases vary considerably in terms of the macro-economic impacts of the reforms. While the liberalisation of agricultural markets and marketing in Malawi had both positive and negative impacts – varying between sub-sectors as well as through time – the macro impacts of the Ugandan forest sector reforms were largely beneficial. The liberalisation of cashew nut marketing in Mozambique, on the other hand, has been described as a disaster.

Despite this variation, however, the cases are largely uniform in terms of impacts upon vulnerable groups. The collapse of the cashew nut industry in Mozambique led to a loss of productive opportunities for farmers and a loss of jobs for workers in the processing industry. Benefits of agricultural market liberalisation in Malawi were to a large extent reaped by foreign investors and domestic elites, with capital to invest, but also small scale traders and smallholders in central areas. It was the marginalised groups, especially smallholders in remote areas, who suffered from reduced profitability of agricultural production. Also in the case of the Ugandan forest sector, where the reform was largely successful at the macro level, regional and demographic inequalities were generally exacerbated through reforms, with evictions of smallholders from forest reserves and with private investors gaining access to communal resources.

A common lesson from these three cases is that liberalisation and privatisation, in the absence of compensatory measures, will tend to favour those social groups that can already be described as fortunate, and that effects on more vulnerable groups are either nonexistent or adverse.

6.3. STAKEHOLDERS, VOICES, AND GOVERNANCE

Another space in which the cases differ is in the degree of resistance and enthusiasm with which reforms were met. Liberalisation of agricultural markets in Malawi has been a stop-start and inconsistent process with government and donor objectives sometimes converging, sometimes not. The forest sector reform in Uganda hardly met with significant resistance at all – all the necessary battles had been fought and won in connection with the prior general economic reform. Common to both of these cases is the virtual non-relevance of grass-roots interests or voices in the decision making process. Insofar as policy outcomes represented compromises, they were negotiated largely between government and donors, with little or no interference from below. In Mozambique, on the other hand, the reforms in the cashew nut industry spawned a public debate. The issue was given generous and prolonged coverage by the popular media, and even the interests of those groups often described as "marginalised" – e.g. peasants and factory workers – were in fact heard. Despite being heard, however, these voices did not win through.

The cases also reflect another development in the role of donors over the last decade or so. One change concerns the increased coordination and collaboration between bilateral and multilateral donors. These days, meetings designed to form a consensus between donors are frequently held prior to communication of any important position. Although the World Bank and the IMF often play leading roles in these groups, major policy reforms are often supported broadly and vocally enough to effectively spread responsibility in a thin layer across a number of international organisations. This is further affected by the changing nature of donor influence, in which donors have increasingly become active participants in national policy articulation, and where conformity is ensured through such participation rather than through rigid targets, monitoring, penalties, and rewards.

The exception to this is the cashew nut case from Mozambique, still a recent development, where the IMF and World Bank to a much greater extent went their own way. The Malawi case also reflects some donor divergence in terms of how far to push for privatisation and the emphasis given to various policy objectives such as food security, self-sufficiency, and increased exports; this divergence is, however, mirrored within the Malawi government itself. Also in Malawi, donors are now moving towards closer collaboration.

As noted earlier, African politicians and officials have, over time, learnt to live with liberal reforms. Popular mobilisation is still weak in many African nations, particularly in rural areas. With political representatives that are increasingly supportive of liberal reforms, and without popular movements to turn to, those groups that are often adversely affected by privatisation and liberalisation efforts may end up without any voice at all beyond distant international organisations and protesters at G8 meetings. Of the cases reviewed here, those of Mozambique and Uganda – with recent histories of major conflict – are ones where further marginalisation could potentially have disastrous effects.

"Living with liberal reforms" may be easier if one is able to take advantage of these reforms for personal gain. Privatisation processes – in the sense of the transaction of public assets and responsibilities – are often attended by substantial opportunities for corruption. Of the cases covered in this report, only the forest sector reforms in Uganda can be said to have provided substantial opportunities for personal material gain; mainly through the divestiture of extensive public assets.

Both the World Bank and independent observers agree that the focus of conditionality has shifted towards good governance. Significantly, the World Bank, through reference to an established condition, was able to intervene in a recent case where the Uganda government sought to convert a protected area into a privately operated sugar cane plantation. The extent to which an emphasis on governance is able to offset opportunities arising from reforms more generally is, however, in need of further research.

6.4. THE SMALL PICTURE

Privatisation is an ambiguous concept. Depending on meaning and context, privatisation can be anybody's friend, from the neoclassical economist masterminding government withdrawal from public service provision to the old revolutionary applauding the restoration of peasant rights to land seized by a racist regime.

The above-mentioned example of the unsuccessful attempt by the Ugandan government to convert a protected area into a private plantation is instructive. Effectively, the World Bank stepped in to prevent a clear act of privatisation of a public asset. And while the Ugandan government planned in the name of "returning land to the people" the World Bank intervened on behalf of (mainly international) conservation interests. In Uganda, the World Bank and other donors have also been supportive of a forest reform that led to eviction of thousands of peasants for the purpose of restoring public control over forests. Regardless of whether or not one supports these positions, it is clear that the World Bank and other donors recognise the potential usefulness of public control of assets in certain situations; that private sector control cannot have primacy over all other concerns.

The narrow focus of donors revealed in the two other cases discussed in this report may thus seem inconsistent. A telling problem in these cases has been either the absolute belief in an isolated instrument (such as tax abolition) or the single-minded pursuit of an individual benchmark (such as a balanced budget, or private asset control). This focus has come at the expense wider goals and concerns – such as a stable policy environment in Malawi – or in the face contrary public opinion, as in Mozambique. Instruments and benchmarks have, essentially, become objectives in and of themselves. Under such circumstances, diagnosis of problems and prescription of cures become automatic, and context is ignored. The need to avoid this would seem obvious. Unfortunately, however, a tool such as privatisation continues to serve mainly as a positive or negative metaphor in ideological debates, and therefore continues also to be adopted or rejected wholesale.

6.5. LOOKING AHEAD

At the end of 2006, a World Bank insider, Dani Rodrik[173], wrote the article *Goodbye Washington Consensus, Hello Washington Confusion? A review of the World Bank's Economic Growth in 1990s: Learning from a Decade of Reform*. He concludes his article in a "Practical Agenda for Formulation Growth Strategies" in the following three steps:

- Growth diagnostics
- Policy design
- Institutional reform

He stresses the need to identify the problems and loopholes, design a policy for handling the problems identified and the need to take time to implement the reform.

His article illustrates two of the main problems identified in this report: policy reforms are designed on the basis of general theoretical arguments rather than analysis of the actual context; and policy emerges as a result of negotiation, accommodating main priorities of all the separate actors, and not as an attempt to utilise the opportunities and overcome the obstacles identified by a single accountable authority. Furthermore, with a policy process characterised by negotiation, and with tighter donor collaboration, neither the government, the World Bank, the IMF, nor bilateral donors can be held fully accountable. A failure can always be blamed on other actors. This encourages political games towards the constituencies.

This report has highlighted some further problems. First, a theoretical approach to diagnosis leads to a neglect of identification, comparison, and analysis of policy alternatives. When any given public solution fails, the cause is automatically seen as public ownership, and the remedy must necessarily be privatisation. Policy analysis becomes unnecessary. Second, when a policy instrument or benchmark is elevated to the status of a rigid, non-negotiable policy goal, instability rather than stability may ensue; in a world where both natural and economic environments are constantly in flux, inflexibility with respect to an isolated instrument or benchmark will cause volatility in others.

Rodrik has put forward a proposal for how to prepare policy reforms. A historical implementation of text-book recipes is a high-risk strategy, and policy reforms based only upon theoretical arguments are inadequate. Inspired by Rodrik, as well as our findings in this report, we put forward the following suggestions:

Policy reforms require:

- contextualized knowledge
- a diagnosis of opportunities and obstacles
- an evaluation of the adaptation of current institutions versus creation of new ones
- review of proposals by main stakeholders

[173] Rodrik was also a co-author of the paper *When Economic Reform Goes Wrong: Cashews in Mozambique* (McMillan et al. 2002), presenting criticism in a form that a later World Bank publication such as World Bank (2006) seems to have accepted (cf. chapter 4.5).

- sufficient time for sound implementation
- rigorous monitoring and evaluation of input-output implementation and impacts
- downward accountability of policy implementers

Large or controversial policy reforms require:

- testing alternatives under proper monitoring.
- broad based policy design teams followed by a review process among main stakeholders

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