



House of Commons  
International Development  
Committee

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**DFID's Agriculture Policy:  
Government Response to  
the Committee's Seventh  
Report of Session 2003-04**

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**Fifth Special Report of Session  
2003–04**

*Ordered by The House of Commons  
to be printed 16 November 2004*

## The International Development Committee

The International Development Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for International Development and its associated public bodies.

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### Committee staff

The staff of the Committee are Alistair Doherty (Clerk), Hannah Weston (Second Clerk), Alan Hudson and Anna Dickson (Committee Specialists), Katie Phelan (Committee Assistant), Jennifer Steele (Secretary) and Philip Jones (Senior Office Clerk).

### Contacts

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## Fifth Special Report

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On 15 September 2004 the International Development Committee published its Seventh Report of Session 2003-04, *DFID's Agriculture Policy*. On 15 November 2004 we received the Government's response to the Report. It is reproduced as an Appendix to this Special Report.

In the Government Response, the Select Committee's conclusions and recommendations are in bold text. The Government's response is in plain text.

## Appendix: Government response

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We thank the Committee for its Report and offer the following response to its nineteen Recommendations.

**1. The creation of an enabling environment for agriculture is essential, but by itself it will not succeed unless services are also provided to farmers (by the private sector or the government). Farmers have to be able to take up the market opportunities which the enabling environment aims to create. In its policy paper, DFID have finally recognised the need to move beyond the mere creation of an enabling environment. (Paragraph 13)**

We agree that services are critical, but their provision must be seen in a context where states are often weak and the private sector poorly developed. In addition, if poor people are to benefit from agriculture, then actions to improve services must be matched by measures that improve poor people's ability to participate in markets and to access key natural resources (such as land and water), in which discrimination in terms of gender, caste or ethnicity are often significant constraints.

**2. Some commentators may have a romantic attachment to smallholder farming; if so, we do not share it. We are convinced that the process of economic development necessitates an eventual reduction in the role of agriculture, particularly small-scale agriculture. But the central issue is one of timing and circumstance. (Paragraph 17)**

We agree that as economies develop agriculture will, while remaining important, become a progressively smaller part of the overall economy.

**3. Where there is a decline in agricultural activity (or where it becomes less labour-intensive), policies should allow people to make what might be termed "good exits" from farming. (Paragraph 18)**

We agree and note the importance of supporting poor people to make these good exits.

**4. Aid agencies and national governments must re-emphasise the short- to medium-term strategic importance of labour-intensive agriculture and devise new strategies which take account of lessons learned and trends in the global economy. The role of smallholder agriculture has to be understood as part of a process of development in which small-scale agriculture plays a key role at the initial stages, but will ultimately evolve into medium- and large-scale farming. (Paragraph 23).**

Development agencies need not only to think again about agriculture, but also to think differently if the disappointments of recent years (particularly in Africa) are not to be repeated. New approaches are needed to get agriculture moving in order to stimulate economic growth, and to allow poor countries to develop the non-agricultural parts of their economies. This is the key to reducing poverty, and in many of the poorest countries smallholder agriculture represents the most likely source of this growth.

But the context for smallholder agricultural development today (particularly in Africa) is very different and less favourable to that of the Asian Green Revolution. International commodity prices are much lower; access to important markets are often limited by the effects of northern countries' agricultural and trade policies; new and more stringent quality standards and major changes in the international food industry all combine to make the task of developing smallholder agriculture more difficult. Today's approaches must recognise these realities.

**5. It is essential that agricultural strategies tap into the potential of the African domestic market, which in the short- to medium-term holds greater potential than the broader global market. (Paragraph 25)**

We agree. There is strong empirical evidence (including lessons from Asia) indicating that for many countries in Africa, locally and regionally traded food staples offer significant opportunity for productivity increases, and that those productivity increases are likely to have the greatest impact on poverty and growth. At the same time, however, it should be recognised that some countries stand to benefit from increased opportunities in international markets as a result of trade reforms and new areas of demand.

**6. New strategies for agriculture in the poorest countries must focus on the needs of smallholders. (Paragraph 26)**

The relationship between increasing agricultural productivity and poverty reduction is greatest in the poorest countries and this does indeed suggest a focus on the small-scale sector. But we raise two qualifying issues:

- i. agricultural efforts in the smallholder sector should focus on those in situations where the likelihood of productivity gains is greatest, as this will have the largest impact on overall poverty levels. But not all smallholders will be able to increase

productivity, and agriculture may not provide a viable livelihood. For poor people in these situations, the best route out of poverty may lie outside of agriculture, and we should support efforts that help them to access other opportunities, including those in urban areas. Agriculture alone will not solve the problem of rural poverty; and

- ii. we should be open to the opportunities which larger scale commercial agriculture offers in terms of developing commercial relationships (such as outgrower schemes) which provide small farmers with better access to markets and important inputs (such as seeds and fertilizer) than they would otherwise be able to achieve.

**7. Much more support is needed to enable small farmers to engage in the transactions which would be normal for most other businesses. What is needed is support for practice-based research across a broad front: from the practical difficulties faced by farmers, to working out how national and regional agricultural policies may be developed to reduce risk and provide incentives to farmers, at acceptable fiscal cost. We cannot emphasise strongly enough the need to bring sustainable solutions to the financial needs of smallholders. (Paragraph 27)**

We agree in principle, but note that in rural areas where the private sector is poorly developed and the state is weak the proposed responses may not be sufficient. Efforts to improve the functioning of markets are needed, under the framework of DFID's 'Making Markets work for the Poor' approach. DFID has piloted a financial access survey (through FinMark in South Africa) that provides information on the financial service needs of the poor, and which highlighted that the poor need access to remittances, transaction banking services, and savings, in addition to credit. DFID's financial sector country programmes and remittance country partnerships are addressing this need.

**8. We conclude that DFID's strategy for agriculture must include the promotion of mechanisms to increase smallholder access to inputs. In particular, smallholder access to fertiliser and seed is vital to increasing agricultural productivity in the majority of cases. (Paragraph 29)**

We agree, but we should improve on the poor performance of past efforts and initiatives in the light of lessons learned. We must start from the principle that state involvement brings risks that can be as severe as market failure itself. Discussion on mechanisms like subsidies must recognise the need to for them to remain affordable, to be targeted on those most in need and to aim not to displace the private sector.

**9. Micro-finance lending is usually provided on the basis of borrowers' track record and consists, at least initially, of very small loans with short maturity periods. To make a difference, agricultural loans have to be larger and longer than those typically offered to micro-finance starter-borrowers. Such services are generally not viable for commercial banks but there may be potential for state involvement in the provision of low interest,**

**somewhat longer-term loans. There is a role for donors and international agencies (World Bank/IMF) to play here. (Paragraph 30)**

We do not agree. The consensus among international and donor agencies, based on evidence and experience, is that subsidised low cost lending to agriculture has been an expensive failure, with benefits captured by the well-off and opportunities created for corruption and mismanagement. The recommendation for state involvement in credit provision also contradicts the recommendation for ‘sustainable solutions to the financial needs of smallholders’ in point 7 above.

DFID does however agree that microfinance lending is not always well-suited to financing agricultural activities, and that loans may need to be designed differently to reflect the seasonal nature of agricultural activities. But longer-term investment loans are not necessarily the solution, as these are riskier and more difficult for (often weak) rural financial institutions to provide. Savings and remittances can also finance agricultural investments, and better access to these financial services are needed. Again, DFID’s financial sector country programmes and remittance country partnerships are addressing this need.

**10. DFID has reduced its focus on land in recent years and should now seek to regain lost expertise. Detailed analysis of land issues need to be incorporated into agricultural and other development policies. (Paragraph 32)**

We do not agree with the conclusion that we have reduced our focus, or lost our expertise in land. We are currently collaborating with the World Bank and the European Commission on land issues. We do, however, agree with the Committee’s contention that land issues need to be better incorporated into agricultural and other development policies. A current area of policy work is on the development of well-defined, secure and transferable land tenure rights as a prerequisite to effective land markets. New approaches to land administration (such as land leasing) are needed that permit the efficient consolidation of land and facilitate mobility, particularly by those unable to realise an improving livelihood from agriculture.

**11. We recommend DFID scale-up its work on water technology and policy as it is vital to helping smallholders raise productivity. (Paragraph 33)**

We agree, and note that DFID has recently launched a Water Action Plan and created a new team focusing on water policy and management issues. Particular attention will be given to supporting debate within developing countries themselves (particularly but not exclusively in Asia) about water pricing policies that often subsidise the unsustainable use of water in a way that is neither equitable nor efficient. Through its funding for the CGIAR (see recommendation 19 below) DFID supports the work of the International Water Management Institute (IWMI) and the CGIAR’s Challenge Programme on Water and Food.

**12. We support DFID's focus on creating an enabling environment through infrastructure development, but there is now a pressing need for the policy to move beyond this. (Paragraph 34)**

We agree, noting the Committee's recommendation in (1) above that DFID accepts that an enabling environment approach is necessary but not sufficient to stimulate agriculture. We maintain that physical and communications infrastructure, together with effective transport services and supporting inputs, are critical to connect poor people to markets and to increase their opportunities to participate in agricultural growth.

**13. It is vital that any agricultural strategy considers emerging evidence about the devastating demographic and socio-economic effects of the AIDS pandemic. (Paragraph 35)**

We agree, but note that the evidence base on the implications of HIV/AIDS on agriculture is weak but evolving as the epidemic develops. Strategies will also need to evolve in response to this changing evidence base.

**14. The DFID-supported inputs for work programmes in Malawi are promising, and in our view warrant continuing support on an increased scale. Animal loan schemes (such as those for goats supported by Farm Africa in Kenya) can be very helpful in building up household assets, especially those under the control of women. Practice-based research into creating warehouse receipts systems, also DFID-supported, could develop the infrastructure of local commodity trade, thereby improving the competitiveness of local agriculture, and also provide farmers with tradable instruments which can pay for inputs. (Paragraph 36)**

The appropriateness of targeted inputs (described in para 36) clearly depends upon the context, and whether the objective is to develop poor people's capacity and agricultural assets to engage in productive agriculture, or to provide a form of social protection. There are many similar examples, and DFID will support locally-owned decisions and access to technologies. As a general principle, however, we do not believe that agricultural safety nets have allowed poor people to graduate out of low return, high risk agriculture. A recent evaluation of the inputs for work programme in Malawi shows that the current model does not guarantee household food security, nor promote growth, and technical capacity requirements (agricultural extension and infrastructure development) have implications for scaling up. In many contexts, cash transfers or cash for work that enable poor people to move out of agriculture may be more appropriate.

**15. None of the practical solutions mentioned are panaceas, but they will prove helpful to different segments of the smallholder population, and are examples of the kinds of innovation which should be strongly encouraged by DFID and other agencies. (Paragraph 37)**

We agree, but note that DFID's efforts must be firmly set within the framework of countries' own priorities as defined by their PRSP or equivalent statements of poverty priorities.

**16. We recommend that DFID urgently addresses the damaging gap in agricultural service provision. A greater role for government in funding agricultural services, despite its well-known drawbacks, may be unavoidable. We are convinced of the need for state involvement in service provision.[101] The World Bank is usually the lead agency in discussion with governments about the broader policy environment and, as such, we urge DFID to exert pressure on the World Bank to alter its policies. DFID should encourage national governments to reform their Ministries of Agriculture and to develop strategies for agricultural development following consultation with key stakeholders. DFID is in a very strong position to achieve this within the Poverty Reduction Strategy framework and in the light of increasing levels of budgetary support. (Paragraph 43)**

We partly agree, with the reservation noted in recommendation 8 above that state involvement brings risks that can be as severe as market failure itself. We must therefore approach this issue with caution and seek, wherever possible, to build the capacity of private sector service providers, to avoid the crowding out of the private sector or the servicing of elites. The Committee is correct to note the importance of the World Bank's view in this issue. We are working with the Bank both centrally and at country level to encourage renewed debate in this area.

**17. While venture capital is not likely to be an instrument that will drive agricultural development, it has the potential to work in some areas. Much of agricultural development will need to be supported by other instruments, which demand lower returns. (Paragraph 45)**

We agree, highlighting the importance of increased domestic savings in particular. Key constraints on investment in agriculture are risk (in both production and marketing) and a lack of profitable opportunities. These are often more pressing effective constraints to agricultural progress than farmers' difficulties in accessing capital.

**18. We encourage DFID to renew its efforts to make national governments understand the potential of NGOs. DFID should also ensure that its increasing use of budget support is not a barrier to smallholders benefiting from the way that NGOs work. It also appears that, relative to their importance in agricultural development, the NGO sector may be under-investing in lesson-learning and knowledge management. We recommend that DFID continues to support NGO activity in this area. This will require particular attention to strengthening NGO capacity. (Paragraph 47)**

We agree that national governments need to understand the role of NGOs and other types of civil society organisation, which can have an important role in delivering effective services to agriculture and we encourage this in dialogue with them. DFID in turn has much to learn from their practical experiences. Many DFID country programmes channel assistance through local and international NGOs, and we will increase our central funding through UK aid agencies by nearly 28% in 2005/6. This will include an extra £9 million for larger NGOs through Partnership Programme Agreements, and an extra £4 million through the Civil Society Challenge Fund, which supports UK NGO funding for civil society groups in developing countries.

We also agree with the Committee's observation about the importance of building NGO capacity. DFID's Agriculture Team and several country programmes are working closely with NGOs to see how lesson learning and experience can be better consolidated and effectively shared.

But we do not share the assumption that a move towards budget support will reduce the role and contribution of NGOs to improving farmers' livelihoods. NGOs have an important part to play in innovation, lesson-learning and supporting policy reform in developing countries. Their role in service delivery increasingly has to be seen within the context of agricultural sector reform as part of countries' own poverty reduction strategies.

**19. DFID has been in the forefront of encouraging new methods of funding agricultural science in poor countries, based on competitive bidding and peer review. We commend DFID's renewed commitment to agricultural research and offer the following observations for DFID to consider when formulating its policy:**

- i. The importance of finding the right balance between funding the international public systems (CGIAR), the national agricultural research systems (those that are pure public and those which are industry-controlled); and the development science capacity of the UK.**

We agree with the recommendation to find an appropriate balance between funding international public institutions and national agricultural research systems. As announced in January 2004, DFID will provide an additional £30 million for the CGIAR system over the three years 2004-2006. DFID's influence has already helped to strengthen the poverty focus of the CGIAR and the emphasis it gives to capacity building. Through its own bilateral programmes, DFID has extensive partnerships with national agricultural research systems. An evaluation of these programmes is currently underway, the results of which will inform the design of substantial new research programmes for commissioning next year. DFID is looking for opportunities to work with industry-controlled institutions in ways that capitalise on the strengths of both public and private sectors. For example, we are supporting the development of a global alliance for the production of vaccines against tropical livestock diseases important to the poor. We are also looking to strengthen links with the UK research councils and other key members of the UK's development science community; and to explore where there may be opportunities for co-operation, recognising the issues of different missions, practices, criteria and procedures.

- ii. **The need for CGIAR to build alliances with research centres in developed countries. The UK science base has a major role to play in supporting CGIAR, which lacks scientific capacity in many areas. Additionally, DFID should continue to use the UK science base to support National Agricultural Research Organisations which seriously lack capacity.**

We agree with the need for CGIAR to build alliances with advanced research institutes. DFID will continue to draw on UK science capacity, taking account of value for money considerations.

- iii. **The need to understand the reasons why DFID's Rural Enterprise Technology Facility initiative has been slow to bear results in terms of public-private partnerships to develop technology for the poor.**

We disagree. The Rural Enterprise Technology Facility study formed the basis for the African Agricultural Technology Foundation, which is now established and operating in Kenya. Negotiations over a number of public private partnerships, such as herbicide coated striga resistant maize seed, are at an advanced stage and they are carrying out valuable work on intellectual property and contract law.

- iv. **The need to determine how best to organise publicly-funded agricultural research to ensure that it is demand-led and relevant to the needs of smallholders. (Paragraph 50)**

We agree with the need to create mechanisms to ensure that publicly-funded research is demand-led and relevant to the needs of smallholders. One means is the Global Forum on Agricultural Research (GFAR), which aims to build opportunities for stakeholder consultation with farmers at local, national, and regional levels. As noted in the response to recommendation 19 i above, we are also evaluating our renewable natural resources research programmes to identify the most promising ways forward and to promote the lessons learned.

## **General Comment**

The report suggests that DFID had abandoned agriculture during the 1990s. We do not agree with this. Agriculture has been a significant and consistent element of our programmes both at the country and the international level. The report has an (understandable) focus on Africa. We would note that there are also considerable challenges to improving agriculture's performance in Asia, and many of the Committee's recommendations apply just as readily to the Asian as to the African context.

**Department for International Development**  
**15 November 2004**