

Bronze Award Essay

The Mystery of Tradition: Why Tradition and Capital May Work Well in Africa and Not in the West

Abstract

This essay builds on two similar, and parallel, public private agricultural initiatives in Ghana to illustrate the potential of the private sector in working with existing traditional hierarchies and community structures. The entrepreneurs have used collaboration with the traditional hierarchies as a solution to common development problems, such as: technological innovation being undermined by superstitions, lack of cash and access to agricultural inputs, insecurity of loan repayments and cash transfers, speculative competition. Relevant examples from Malawi and other countries are referenced for comparison.

The argument is that the focus on formalizing assets and commercial exchanges, so that capitalism can eventually start working outside ‘the West’ has underestimated the capitalist potential of the existing diverse traditional systems. The general belief of many experts has been that the developing world needed to adopt the practices, institutions and mechanisms of commercial exchanges of the ‘West’ to secure similar economic prosperity. Using examples from Ghana, Malawi, and donor funded projects across Africa, this essay argues that small and medium size enterprises, run by skilled local people, have been uniquely successful where embedded in the existing traditional structures. This has benefited communities and generated profits where many other and larger businesses have failed.

The traditional hierarchies have shortcomings: inherent biases, subjectivity and inequalities and some are susceptible to corruption. All of these shortcomings could apply to the formal systems too, especially where independent and accessible institutions are absent and the average rural dweller cannot afford a phone call, or a bus ticket to the district center. The examples studied show that the traditional systems can be a strong, reliable and consistent partner for private capital, while benefiting the communities in question.

This essay aims to bring to attention the potential of ‘traditional capitalism’ that seems to have ‘slipped’ from the development debate, thus hindering the ability to build on successful enterprises.

Introduction

In 2004, the Independent Panel of a grant fund available to Ghanaian entrepreneurs¹ received two conceptually similar applications for agriculture based businesses from two fundamentally different entities. In short, both entrepreneurs had formed partnerships that aimed at improving the quality and quantity of small-holder farmers' production, processing the food locally and selling the processed product for a commercial gain.

The potential benefit for all parties involved was significant: the companies were to invest in the rural small- holders' (e.g. the poor and most vulnerable) skills, and correct the lack of access to cash, agricultural inputs, transport and a fairer pay than speculative traders offered. The processing plants needed trained personnel, construction and architecture companies, security, and supplies of packaging, cleaning and other services. All of these services and labor were to be sourced locally, thus generating growth for the local economy. Both products (soya bean and tomatoes) were in high demand on the domestic and international markets and the better quality and larger quantities of raw materials and the ability to process them locally promised a good margin and profit for the buying/ exporting entrepreneurs.

The only real differences among the two applications were in a) the crops: one focused on Soya bean, the other on tomatoes; b) the location- the Soya enterprise was targeting farmers in the most remote, underdeveloped and poor region of Ghana, while the tomato producers were close to existing processing facilities and infrastructure; c) the structure of the business partnerships- the tomato business was run by former high ranking public servants, with degrees in finance, economics and accounting, who had partnered with a big multinational company interested in buying their produce. The Soya scheme was suggested by a local entrepreneur, previously an importer of second-hand cloths, who had raised some commercial capital and had formed a partnership with an NGO focusing on agricultural training; d) different management backgrounds: the tomato company management came from the capital city and high- level office jobs, while the Soya entrepreneur came from the area of Kumasi, from a farmer's and a local Chief's family.

In three years both enterprises became sustainable and able to continue their existence and expansion without donor money. However, the soya enterprise had become profitable by developing on the original design, while the tomato business had abandoned the work with small-holders as too risky and unprofitable, and had moved to commercial farming blocks, owned by the company and relying on technology instead of local labor.

In interviews with the program evaluators, the management of the company that abandoned working with the small- holders declared that they found it impossible to change the farmers' habits and to ensure their loyalty. They were also skeptical about future work with small-holders and their ability to produce commercially interesting quality and quantity of produce. This was the management that consisted of highly-qualified financial experts and former, capital- based, public sector employees.

At the same time, the Soya bean farmers' outreach scheme and the processing plant had become profitable and expanded on commercial borrowing, relying entirely on the increase in the quality and quantity of the small- holders' production. The company developed more products and has captured a greater market share than originally expected. This was the result of a) a rapid and large increase of Soya production, more than 14, 000 tons in three years, and b) a significant increase in the quality of the Soya due to farmers' adoption of new techniques. The company also experienced competition from speculative traders, but the

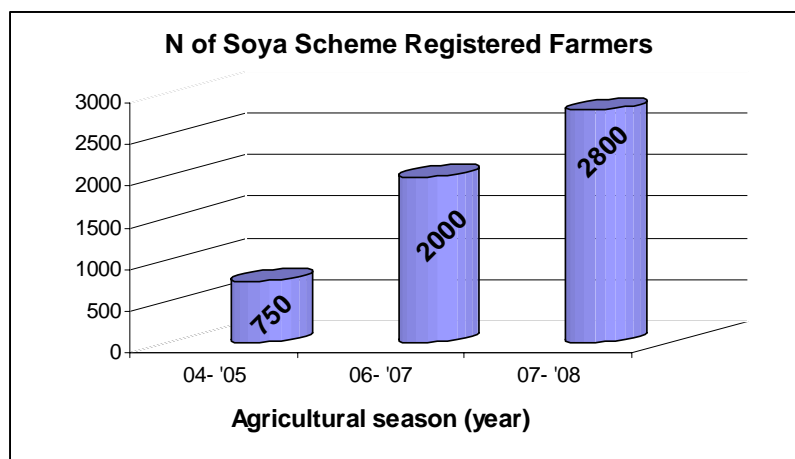
management moved quickly with programs and community engagement that strengthened the farmers' loyalty.

What did they do differently?

- **Farmer's resistance to adopting new agricultural techniques was overcome by engaging the traditional leaders, elders, government extension workers and larger community farmers in the promotion and supervision of the demonstration plots-**

Soya cultivation, as other crops farming, has been often influenced by superstitions and old habits that had to be overcome for farmers to endorse the new farm inputs and techniques. The company entrusted the supervision of the planting and growing of demonstration plots to the established farming leaders, namely, the traditional chiefs, the extension workers and the larger farmers. Their skills and knowledge were perceived as superior by the community. Once they were convinced that there was no witchcraft and that the techniques worked better, the smaller farmers joined the scheme in dramatic numbers (see Figure 1).

Figure 1: Number of registered farmers in the Ghana Soya Bean Program



Similarly, in Malawi, another agricultural outreach scheme funded by the private sector and the Business Links Challenge Fund (BLCF)¹, has experienced the same initial issues and consecutive significant growth of improved cotton yields. Farmers were hesitant at first to follow the advice of the company on new seeds, techniques, fertilizers and sprays, as they were distrustful and concerned about losing their crop- e.g. livelihood. The company started organizing community Cotton Clubs and peer demonstrations and that changed attitudes. The key to the success was that the Cotton Clubs' chairman, a locally respected farmer or often the traditional Chief, became a mediator of sorts between the company and the farmers.

The result was that farmers joined in large numbers, invested in fertilizers, sprays and improved seeds and followed the company's advice on planting and farming. In 2007, three years after the start, the small- holders who were registered for the cotton- treatment improvement program numbered more than 200,000, and the company running the scheme was able to not only recover its inputs, but to make good profits. By the end of its first season, the program could take full credit for the increase of Malawi's national cotton crop by

¹ Supported by the UK Department for International Development (DFID) and managed by Emerging Markets Group (EMG).

about 265 percent. The quality of the cotton was also significantly better and allowed for new contracts at better value. The company has since expanded and has trained and hired more than 400 permanent employees (all local), while continuing to secure steady markets and cash for the small-holders.

The key issue for both companies was that they were investing up-front and acquiring expenses that had to be recovered, while there was nothing to stop farmers from selling the much needed produce to speculative traders who were able to offer better prices as they did not make up front investments. The larger the schemes became, the more difficult it was for the companies to hold the direct relationships with the small-holders that previously ensured the trust and oversight needed for the company to be comfortable in taking certain risks and in making expansion and investment decisions. In addition, with the yields and quality improving the produce became of greater interest to speculative traders.

- **The issues about loyalty to the company and the program were addressed by educating the community elders and the traditional chiefs on the benefits of the program and by responding to community needs:**

To the Ghana soya enterprise, it was of vital commercial importance to sustain its access to enough of the Soya harvest to use the refinery to its full capacity; repay the initial investment in inputs and training; and to make a profit. The company, after investing in inputs, did not have enough cash at hand to buy the harvest at once. It had to raise money by first selling the initially purchased quantities to buy more. In the time-lag created, speculative traders who had not invested anything were offering slightly better prices, and farmers who did not want to take the risk of being left without a market at all, sold to them. This created an additional shortage of Soya for the processing plant. In the first year, the company management filled the gap with coconut processing and embarked on efforts to ensure farmers' loyalty.

Two main actions helped encourage farmers to stay with the company and the scheme:

- Firstly, the management held discussions with the traditional chiefs and larger farmers, proving to them that the company needed as much Soya as to buy everyone's' product. The company also explained that the price was slightly lower because of the investment in inputs and how the increase in productivity compensated it. The company disclosed the costs of running the inputs and training schemes and encouraged the chiefs to evaluate the impact of the void that would be left if up-front investment and training was discontinued. The resulting changes in behavior made the management believe that the message, in an appropriate and adequate form, has been passed on to the rest of the farmers and the community through natural channels of hierarchy and communication to which the company had no access of influence.
- The company started supporting an educational scheme for talented but needy children. As soya is predominantly farmed by female farmers and women are seriously concerned about their children's education, the company hoped to boost loyalty by supporting it. As the company could only help ten children per district (with shoes, uniforms and transport to school) it wanted to avoid being seen as biased in its selection. Thus, it asked the local traditional chiefs to decide on the ten children, and imposed only two conditions: a) six of the children needed to be girls and b) the chiefs could not choose their own children. The company management also made an effort to convince the traditional authorities' in the benefits of educating the most talented children and the program has run smoothly.

- **Issues of repayments of credits and safety of the company workers and the availability of cash were addressed by involving the chiefs and the existing hierarchical structures in the community.**

In both Malawi and Ghana, there was an initial concern about loan repayments. In both cases the larger farmers, often the traditional chiefs or members of their families played a key role in supporting farmers in their repayments and in creating the environment for the honest servicing of the loans. The companies also used the chiefs and larger farmers as financial trainers and councilors once more cash was available in the communities where no cash management skills existed before. .

In both Malawi and Ghana, the company representatives needed to go to remote rural areas, on bicycles or on foot, carrying large amounts of cash during the harvest season. There was a major concern about the security of the cash and employees, not uncommon in other businesses. In both cases, it was the endorsement of the traditional chiefs and the help of the larger farmers that ensured the safe and smooth transfers of capital. In the absence of local banks or credit institutions, security could have been a ‘show-stopper’ issue, and especially, for the small and family run soya program in Ghana that did not have any spare cash to risk.

To sum up, the Malawi Cotton Program and the Ghana Soya Venture, both exceptionally and uniquely successful for the regions and conditions in which they operated, have learned to work with the existing traditional hierarchies and community structures without sacrificing any of their commercial interests and viability. In fact, the management of both companies considered the role played by the traditional chiefs to constitute the main basis of their success in isolated areas of poor infrastructure and very limited farmer aptitude for change.

Why is this of relevance to development and of importance to the way we think of engaging the private sector and unleashing economic potential? Because in 2000, Hernando De Soto’s celebrated book ‘The Mystery of Capital’ galvanized a rush to ‘formalize’ assets or at least to pour money and intellectual effort in the developing world -- and traditional rights and holdings became seen as inferior and inadequate for the needs of economic growth. This trend was most notable in Africa, where international multilateral and bilateral institutions’ trends and priorities, translated in changes in funding flows, affected both the private and public sector disproportionately. Africa is also a continent of old traditional hierarchies and structures that, even if in need of modernizing, had a role to play that was undermined and overlooked by the advocates of formalization.

The excellent argument and research that de Soto offers was translated by many into the too simple equation of ‘formal is profitable’- assets with formal titles are secure and ownership is clear, and therefore they can be used for commercial borrowing, investment, exchanged for other assets, etc. Even if De Soto argued that titles of assets in themselves did not make a difference in the absence of: functioning and accessible dispute resolution systems, institutions enforcing codes and standards of business, predictability and transparency of the titling authorities -- many of the ‘capitalism’ advocates deemed all of this to be important but not necessarily essential for formalizing property rights and commercial exchanges.

The fact that assets could only be used for commercial exchanges where all sides involved accepted and honored the same rules of exchange was also acknowledged but underplayed. The fact that the traditional systems did exist and exercised strong powers did not stop reforms aiming at curtailing such powers without mitigation in place and has resulted at times in conflict, even in victims. In African countries, women were encouraged to challenge the

traditional inheritance structures favoring men, without being provided with any kind of protection when doing so. Naturally, the better off could afford lawyers and long court cases, while those women who most needed protection could not².

Land-titling programs in Africa were advocated, for example, without planning for: the conflict that would occur between traditional and formal powers, or for the resulting insecurity, the lack of dispute resolution mechanisms to solve claims, the lack of access to formal institutions and the lack of cash by the most vulnerable, and the corruption and lack of capacity in the same institutions that were supposed to formalize and manage such assets. There were also moves towards using the formal land titles as collateral in countries where land was often a family's only asset and where foreclosing on it would have been socially unacceptable. Thus, very few banks would have liked to get involved in such transactions.

The rush to 'formalization' was, of course, most welcomed by those who had the most to gain from it, namely, the respective countries' governments. Formalization of assets would have meant greater power and resource concentration in the hands of the national or local government officials. The concept definitely appealed to most of them: to some for their inherent preference of the public sector as a benevolent and enlightened guardian of the common people's interest, for others for the expanded rent-seeking opportunities, and for others for simple bureau- shaping and maximizing reasons.³ Coincidentally, the same government ministries and agencies happen to be the clients of the multinational and bilateral institutions which were generally supportive of the move towards 'formalization' of property rights.

It seemed to be a "win, win" situation until the promise failed to deliver in a number of countries. At the same time, businesses such as in Ghana and Malawi were operating and growing undisturbed by the lack of formal property rights. Their impact on poverty in the areas where they operated was also significant. In Ghana, the average income of a participating soya farmer is £531.24, or more than \$1,060 per season. The uptake resulting from the outreach scheme activities have increased average production to 2,000kg soybean per hectare, where inefficient farming methods used to result in 400kg per ha. In 2007, the company paid \$30 per 100kg of Soya and thus, farmers were able to make an average \$480 extra per hectare for the same land and effort. This benefits the less well-off farmers, as they were less able to afford seasonal labor or animal power; it has also benefited women as the demands on their labor are greater (e.g. child and home-care, fetching wood, cooking).

Similarly, in the case of the Malawi cotton outreach scheme, the newly earned farmers' wealth is visible (and recorded by evaluations): more bicycles, more children in school and more local vendors. Some farmers have even used their cotton cash to start a small business: a bakery, a small shop or other. In Ghana, the Soya Company has invested in helping farmers manage their new cash, as it was essential that farmers do not spend their cash but have enough left to pay for inputs next season. All of the above developments have happened in areas with no formal land rights- a fact that seems to be of no relevance to either the farmers or to the companies. It is also happening in areas where formal institutions such as courts and banks are missing and unknown. This has, of course, deterred others- but so do formal systems when they happen to be unaffordable or difficult to manage. A fraudulent system is fraudulent, regardless of whether it is formal or not -- and it needs to be regulated either way.

Even if a formal and functioning system seems to be considered the best option where the needs of the market are concerned, building such systems takes time. It takes even longer to

ensure that such systems are equitable and transparent. And it takes yet longer to build the capacity of civil society and the average voter to hold such systems accountable. It is especially so in the context of low literacy, limited access to information and democratic tradition. It is also important to remember that in many of the African countries in question, the State is still the most notable source of wealth.

The potential and adoptability of the traditional assets distribution and 'titling' systems existing in Africa has been grossly underestimated. There is no robust data showing that corruption is more common among traditional chiefs than it is among government officials. It is also unclear how government officials are more accountable in places where the average rural person does not have access to the capital city where most of the decisions are made, but has daily access to the traditional chief. There are also examples across Africa of traditional chiefs being elected and/or held accountable by community groups.⁴ There are also longitudinal studies that show how without a traditional chief, in the absence of other strong institutions, conflict and crime increases and common property deteriorates.⁵

In addition, studies commissioned by the World Bank and others also show that in some countries the security of land with title in an inefficient, dysfunctional and corrupt formal system is much lower than the security of land distributed under the traditional system.⁶ This is especially valid for those without cash and access to the provincial and national main cities, where the majority of the formal institutions are. Anthropological and other studies record that the traditionally assigned land belongs to families for generations, and even when family members decide to leave for another city or country to seek employment, they do keep their rights over their land⁷. Studies have also shown that the exact price of renting land is well-established among small-holders.

The catch is that this knowledge of and confidence in the traditional systems is usually available to local people who are rarely educated and entrepreneurial in large enough numbers to run all the potential medium and big businesses in a country. Big multinational companies working in agriculture in Africa are facing similar issues as are the soya entrepreneurs of Ghana and the cotton companies of Malawi, such as insecurity of cash transport, traditional farmers adopting new techniques and others. However they are often unable to solve the issues with such flexibility. Similarly, the big commercial banks, mostly branches of western banks, do not have a flexible enough mechanism to assess the strength, transparency and equity of any given traditional system. Is this a direction worth investing in the short-run -- in the name of poverty-reduction and reaching out to new clients/ developing new markets?

An analysis done by the author of this essay of public private partnerships in Africa², across sectors, shows that large multinationals and capital based businesses can learn from the successful small local entrepreneurs. In a number of sectors as diverse as mining and agriculture, there are stellar examples of locally grown capital, sustainability and private sector led poverty reduction. Such knowledge and lessons are, however, missed sometimes in the rush to bring the African capital into the structures and concepts of the 'capitalism' of the West. The question then may not be why capitalism triumphs in the West and fails elsewhere, but does capitalism, as known in the West, need to work elsewhere? The fact that an

² Most examples in the sample were from the Business Linkages Challenge Fund (BLCF), supported by DFID: <http://www.businesslinkageschallengefund.org/>

economy is not growing or that a nation is poor, does not mean that capital will only be productive if invested in a Western capitalist system. It may be a good time to invest intellectual efforts in thinking and talking about capital and capitalism with the following adjectives: traditional capitalism, centrally-planned capitalism, and others. Entrepreneurs as the ones in Ghana and Malawi may be able to give some initial tips as to where to start.

About the Author

Zlatina Loudjeva is a graduate of the London School of Economics (LSE). She is currently involved in the management and evaluation of the Business Linkages Challenge Fund, one of the largest and most mature private public funds supporting pro- poor private sector development.

END NOTES

¹ The Ghana Business Links Challenge Fund, supported by the UK Department for International Development (DFID) – the fund was later integrated into the Business Linkages Challenge Fund:
<http://www.businesslinkageschallengefund.org/>

² See Deininger, Klaus Land Rights and Administration in Africa, World Bank, Key Note:
http://www.iied.org/docs/events/Key_Note_Klaus_Deininger_World_Bank.pdf

³ As described by Patrick Dunleavy in Democracy, Bureaucracy and Public Choice: Economic Explanations in Political Science, PEARSON HIGHER EDUCATION, 1991

⁴ Research provides limited quantitative data on the issue but qualitative data exists, including interviews and data-collection done by the author of the essay. Nelson Mandela also describes in his book the decision making at community level in his tribe: Mandela, N, The Long Walk to Freedom, Abacus, 1994.

⁵ See Else Skjonsberg, Change in an African Village: Kefa Speaks, West Hartford,Connecticut: Kumarian Press, 1991

⁶ Skjonsberg, Else Change in an African Village: Kefa Speaks; 1989;