



# Corruption and the Agricultural Sector

November 2002

Management Systems International  
600 Water Street, SW, Washington, DC 20024 USA

Authored by: Rodney Fink

## **Abstract**

Corruption in agricultural production poses problems for large and small landholders around the globe. Corruption issues affect land title and tenure, credit availability, quality of supplies, water allocation, marketing, and the development of agribusinesses. These problems are common to both developing and transition economies. In transition economies, however, the governments are more involved in supplies, production and marketing and so there are relatively more opportunities for corruption. Yet societies depending on survival agriculture are affected proportionally more by corruption as the bribes farmers pay impact a higher percentage of their already low income. Case studies of two projects with diverse outcomes are presented to illustrate how management style and design can help reduce corruption and improve outcomes. An emphasis on transparency, awareness, accountability, prevention, and enforcement can do a great deal to facilitate this cause.

## **Introduction**

Agriculture in developing countries employs a large percentage of the population and, for the most part, a very poor segment of the population. Farms in these countries tend to be small: in Africa, for example, over 90% of the farms are in the hands of small landholders. In transition economies, by contrast, the agriculture sector employs less than a third of the labor force and the average farm size is large. For both groups of countries, corruption issues affect land title and use, credit availability, quality of supplies, water allocation, product standards and certification, marketing, and the development of agribusinesses. In transition economies, however, the governments are more involved in supplies, production and marketing and so there are relatively more opportunities for corruption. Yet societies depending on survival agriculture are affected proportionally more by corruption as the bribes farmers pay impact a higher percentage of their already low income. What follows is a more lengthy discussion of the different manifestations of corruption in this sector. <sup>1</sup>

## **Land Title and Use**

Problems with land ownership, registration, tenure and sales impede agricultural development in many countries. Multiple titles exist on many parcels and the rights of family members, especially women and children, are not well defined in some societies. Moreover, registration of title is often a slow, complex, and costly process, which is vulnerable to bribes offered or demanded for service. Informal properties, that is parcels with no official documentation as to "who owns" or "occupies" the land, are common. According to Barnes,<sup>2</sup> the absence of property adjudication and

---

<sup>1</sup> Conferences with USAID employees and contract employees were used to gain insight into corruption issues facing the agriculture sector. Discussions included a look at corruption problems in a variety of countries and approaches to the problems. Contacts included USAID employees Madalene O'Donnell (phone), Raymond Morton, David Soroko, Jim Dunn, & Mark Winters. Contract (or previous USAID employees) John Mullenax and Lance Jepson.

<sup>2</sup> Grenville Barnes, David Stanfield and Kevin Barthel, "Land Modernization in Developing Economics: A Discussion of the Main Problems in Central/Eastern Europe, Latin America and the Caribbean." *URISA*

land market institutions is a major institutional weakness in the sector. This problem is particularly pronounced in transition economies, where properties rights were not recognized in the socialist system. The development of an active land market for buying, selling, leasing, mortgaging and inheriting the land is a major objective of privatization, but bribes and payoffs abound in the system.

### **Credit Availability**

Credit must be available for the agriculture sector to flourish in developing and transition countries. Yet corruption occurs in the allocation of government-subsidized credit. Most typically, unnecessary fees and percentage payments are ways that government officials garner funds when granting credit.

### **Supplies**

Corruption in government contracts or licenses for agricultural supplies is common. Poor quality, undelivered goods and high prices are typical outcomes from collusion between government officials and private sector firms. An example is a government agency buying fertilizer from a private sector company at an elevated price and receiving a share of the profit. This increases the cost of agricultural production and eliminates competition in the fertilizer industry as other firms have little chance of getting the government contract. Along these lines, the Egyptian chairman of the Agricultural Development Bank and Minister of Agriculture was recently arrested on charges of taking bribes from a company to whom he gave rights for importing pesticides.<sup>3</sup> In another example, the Philippine Center for Investigative Journalism has

---

*Journal* 12, 4 (2000). <http://www.urisa.org/journal/protect/Vol12%20No4barnes/10-10barnes%20extract.pdf>

<sup>3</sup> "Ministry of Agriculture Official Arrested for Corruption," August 26, 2002. (October 10, 2002). <http://www.arabicnews.com/ansub/Daily/Day/020826/2002082616.html>

documented that farmers receive low quality planting materials, unhealthy farm animals and undelivered farm equipment from the state.<sup>4</sup>

### **Water Allocation**

Irrigated agriculture is a favorite of bureaucratic and centralized governments and promotes "rent seeking."<sup>5</sup> Rent seeking is described as lobbying superior regulatory bodies to garner financial income not matched by labor or investment. Rent seekers use political soliciting, including bribery, as a means to get water or facilities to regions favoring them. The allocation of water and irrigation facilities, thus, often turns on connections and corruption rather than on economic and development policy. Renger summarizes some steps important for addressing irrigation problems.<sup>5</sup> These include the importance of involving farmers in regulating and monitoring financial responsibility so that resources are used for their original purpose.

### **Product Standards and Certification**

Product standards and certification constitute another source of corruption, as individual producers attempt to bribe produce inspectors to get the desired certification. The development of quality improvement centers in rural communities has helped support objective grading of products by pooling produce for inspection and eliminating the opportunity for individual producers to offer bribes.

### **Marketing**

The government's role in product pricing and the sale and purchase of produce create significant opportunities for corruption. In a speech to the U.S.-Russia Business Council's Ag Committee, for example, the president and CEO of Dow Agro Sciences spoke of the role of local oblast governments which try to control agricultural

---

<sup>4</sup> Prime Sarimienta, "Agriculture Weighed Down by Corruption and Waste." *Philippine Center for Investigative Journalism*, January 24-25, 2000 (October 11, 2002). <http://www.pcij.org/stories/2000/agri.html>

<sup>5</sup> Jochen Renger and Birgitta Wolff, "Rent Seeking in Irrigated Agriculture: Institutional Problem Areas in Operations and Maintenance," 2000 (October 10, 2002). <http://www.padrigu.gu.se/EDCNews/Reviews/Renger2000.html>

production and pricing.<sup>6</sup> Either they get directly involved in buying and selling produce, or they place quotas on inter-regional exports. In either case, this breeds corruption and graft. Many underpaid civil servants compromise their integrity and solicit bribes in return for favors, which may involve purchasing inputs or selling agricultural produce. Similarly, agriculture marketing boards create opportunities for corruption in the developing world. These parastatal boards provide a marketing avenue for producers, but often deliver smaller profits to farmers than a competitive market would provide because of embezzlement or because the boards hold down food costs to consumers. The ability to set price independent of market forces creates a further source of potential pay-offs. Finally, the sale of PL-480 commodities, by public officials, out of the country for personal gain provides another example of corruption in agriculture marketing.<sup>7</sup>

### **Agribusiness**

Private sector agribusinesses are necessary for supplying inputs, processing food, transporting and marketing of agricultural products, yet corruption also impedes agribusiness development. The licensing and permits for transportation, storage, processing and business startup are sources of corruption, which put a check on the development of competitive agribusiness.

### **Petty corruption in donor programs**

Many examples of corruption are often overlooked as a cost of doing business. Yet actions such as the following have a long-term negative impact on donor programs:<sup>8</sup>

- Local hosts fill their gas tanks at their government pumps and then partially drain the tanks at a third party residence for resale

---

<sup>6</sup> Charles Fischer, U.S.–Russia Business Council’s Ag Committee, 2000 (October 10, 2002).

<http://www.dowagro.com/newsroom/speeches/101200sp.htm>

<sup>7</sup> PL-480 provides for U.S. government financing of U.S. agricultural commodities to developing countries and private entities on concessional credit terms.

- Local employees of USAID missions direct programs to support their own and family farming operations
- Employees of an organization with a major "bricks and mortar" project build their own home and sell bricks to others with whom they have contact
- Local host bill the donor for transportation costs and hire local transportation at a greatly reduced price

On occasions where a donor project manager knows about such corruption and chooses to overlook it, he signals the acceptance of future indiscretions.

### **Risks of Corruption in Private Sector Groups**

Carrying out agricultural programs with private sector groups avoids the bureaucratic corruption that may exist in the government, but runs the risk of similar problems arising in these groups. Agricultural projects may use NGOs, PVOs, and private farmer organizations to deliver services and thereby bypass government, but these groups can also devolve into corrupt relationships with farmers, suppliers, and purchasers. Members of private sector organizations are often aligned with the government, and use their connections for self-dealing.

The Middle East Regional Cooperation Program (MERC) serves as an example of a private sector group operating a corrupt agricultural project. The donor project aimed to introduce modern plant propagation methods, initiate a pot-plant nursery, improve open-field production of tomatoes and ornamentals, train specialists and expand the agribusiness industries in Morocco. A US contractor managed the contract and Israeli and Moroccan partners ran the project. As it turns out, the private company was unwilling to account for funds and was reportedly corrupt. The table below outlines some of the problems with the project.

---

<sup>8</sup> The list could be extended but is beneficial and presented to show that allowing minor corruption only perpetuates the acceptance of greater involvement in future activities

<b>Action Taken</b>	<b>How was it done</b>	<b>Evaluation</b>
1. Project set up with private sector company	Little background work done with the company selected.	The president of the company, on background check, had deficiencies.
2. Management assistance by nine-member committees: Technical & Steering.	The two committees often disagreed on major items. Technical committee was to advise - steering committee didn't follow suggestions.	The structure was large and unmanageable. Each committee had members from 3 countries including Morocco.
3. Conflicts between company and contractor, steering committee and technical committee.	The company wanted a tissue culture laboratory but the technical committee said no. Steering committee said yes.	President of company declared a budget crisis because money promised had not come. Audits couldn't account for funds.
4. Technical advisor had conflict with company president.	Income not returned to the business. Income not regenerated.	Advisor left over conflict with work and questions of company integrity.
5. Involvement with country scientists	Project was to involve local scientists but few involved.	Little local interaction or accountability.

Transparency was absent as the books were not available and only the company president knew what happened to the money. Accountability was absent as the company did not account to stakeholders, the government or the donor for their actions and use of resources entrusted to them. Awareness should have determined the nature, extent and consequences of the corruption at an early stage and taken a position of terminating or redirecting the project. The technical committee and the steering committee lacked agreement and the technical advisor and company president didn't trust each other. Nepotism was likely as at least one family member was on the payroll. Prevention of corruption was absent as operation was a closed system and access to books closely guarded. Designing and implementation of a positive and open plan is the most effective way to prevent corruption. Enforcement of the objectives was not forthcoming because control rested with one person. Guidelines for implementing and



enforcing the strategy should have been in place from the beginning to see that the company was accountable. The project was a high profile project and some phases (transplant nursery, for example) were successful.

### **Lessons for Fighting Corruption**

One lesson from this example is that placing a large amount of responsibility on one person can make a project vulnerable to corruption. Few checks and balances were written into the project and being a private sector operation meant there was no oversight of the company. Chances for success might have been better working with a producers' group, which would have provided a built-in oversight from the many members of the group. Involvement of local scientists and producers in the planning and execution of the project could have provided a better threshold for success.

The procedure used by a small cooperative in Swaziland (Khutsala Poultry Cooperative) serves as a guide for consideration. This poultry cooperative was owned, managed and operated by women and consisted of a central production and service unit which provided genetic stock, veterinary supplies, feed and marketing<sup>9</sup>. Women received their basic stock from the central unit (which also provided a small loan if needed) and provided basic feed, animal health supplies, genetic stock and marketing on a fee basis. Each member had a share in the cooperative and shared in the profits of the central unit. Some of their procedures are described below:

<b>Initial action:</b>	<b>How accomplished</b>	<b>Evaluation</b>
1. Donor identified players.	Initial meetings were conducted and the program described.	Those women who had an interest signed on.
2. The operating document for the coop was prepared.	Meetings were held (under a big tree) with the 100 + women who became cooperative members.	Members were enthusiastic and wanted to participate.
3. Seed money was identified and payback set.	Donor agency presented their financing potential and a business plan adopted.	All coop members knew their responsibilities and accepted the conditions.

<sup>9</sup> The project was a joint USAID/Israel program implemented by the Israeli Embassy to Swaziland.

4. Accounting of central business.	A simple accounting system was designed and was available.	There were no secrets in accounting process.
5. Individual accountability.	Each member maintained books and provided a monthly report.	Children of illiterate parents did books.
6. Cooperative meetings.	Held on a regular basis (under the same tree).	Well received by all. Good participation.
7. Government involvement?	Yes, the Ministry of Agriculture was informed and helped.	Ministry representative gave technical support.
8. Did it work?	Yes. Major effort to provide a quality product and keep viable markets opened. Good communication and involvement.	Successful project and good organizational and working procedures were followed.

The project was a low-input project but carried out many of the steps that must be taken if corruption is to be reduced in donor-funded projects. The project had one technical assistant, some donor funds and was self sustaining after two years of operation. There was trust among those involved in the project and there was transparency in that open participation, access and information were provided. In this case, the transparency was both in the public and private sector. Accountability was an integral part of the process for the players, the manager and the donor. Accountability was built into the process for the central unit and each individual unit. When it was time to expand the central unit, all members had their say and eventual vote. Awareness of what was happening was one ingredient of the success of this project. The project had standards that were understood and totally open. Prevention was built into the design of the project. The entire strategy of the project was to decrease the tolerance for corruption by reducing and eliminating the chances for individual gain through corruption. Enforcement of this project was automatic as the rules of conduct had been established which kept everyone informed of what was to take place. When a member didn't live up to agreed standards, action was taken to ensure accountability. The concept of openness and transparency was built into this project from the

beginning. In the event the egg market soured, the same approach could have been used to establish another business. As a matter of fact, members of the group were planning a new cooperative for growing vegetables to sell in South Africa and local markets.

Certification issues are constant in Africa.<sup>10</sup> A US company working in West Africa dominated the baby food market with a good product and a successful marketing approach. They advertised the safety of their standards and quality, suggesting that local products didn't match in standards and quality (which was probably true). Products produced in these countries are often sold only if the marketers are willing to pay a bribe or fee to get the product on the market. Buyers, who resell, suggest the local product is of poor quality and they will only market it if they receive a bribe. Local people, led by women's organizations, put in place a local certification system to see that locally-produced baby food met product quality and safety standards, and by bonding together, they were able to have enough voice to be heard. The local government, marketers and producers were involved and assisted with the project. This intervention helped producers, improved food quality, lowered food cost, reduced corruption and helped businesses succeed.

The time to insure that a project can be successful is in the planning stages, before funds have been committed. Whenever possible, projects should involve all players in a non-confrontational manner to set up positive, descriptive and clear guidelines built around TAAPE. Full disclosure and knowledge of what is to take place will help bring about project success.

---

<sup>10</sup> Telephone conversation with Jeff Hill, USAID

## **Recommendations**

Efforts to fight corruption should emphasize TAAPE (Transparency, Awareness, Accountability, Prevention, and Enforcement). Within this framework, the following strategies have been useful.

- Evaluate corruption in a country's agriculture sector by starting at the market and working backwards to production (warehousing, transportation, licenses, grading, etc.). Join private and government sources to remove impediments such as road inspection points and replace them with effective "non rent-seeking" methods. Build the case for the government to monitor problem areas while privatizing as many of the steps as possible. Work to shorten the commodity chain from the producer to the market by introducing contract arrangements between the cocoa farmers (for example) and the ultimate processor of the product.
- Where commodity chains are shortened, explore the possibility of the processor granting credit to the farmer. Develop creative approaches for solving the credit problem and the supply chain simultaneously.
- Promote development of a land market by eliminating corruption in the registration and titling process. Facilitate simple and inexpensive procedures for transferring land title. Enhance involvement of the private sector in land survey, titling and real estate sales. Remove the legal and regulatory restraints to private ownership.
- Where marketing boards fail to be effective, encourage their entry into competition with emerging private sector businesses.
- Promote Quality Improvement Centers (especially in Africa). Work with private and public groups to facilitate standards, grading and certification.
- Develop projects with producers' groups and involve stakeholders. Develop a broad base of cooperating host workers.

- Promote oversight of private sector groups.
- Avoid projects that allow rent seeking via hidden subsidies.

Corruption in agriculture can be reduced by careful project selection and good procedures in project implementation. The key is to develop programs that have a wide range of support which, if properly implemented, can improve the quality of life and reduce corruption. Full disclosure between the public and private sector players (especially the farmers) can do a great deal to facilitate this cause.

## **Bibliography**

Barnes, Grenville, David Stanfield, and Kevin Barthel. 2000. Land Modernization in Developing Economics: A Discussion of the Main Problems in Central/Eastern Europe, Latin America and the Caribbean. *URISA Journal* 12, 4.

Fischer, Charles. A speech given to *U.S.–Russia Business Council’s Ag Committee*, Washington DC, October 2000.

Hill, Jeff. Telephone Conversation with author.

"Ministry of Agriculture Official Arrested for Corruption". *Egypt Politics*: August 26, 2002.

Renger, Jochen, and Birgitta Wolff. 2000. Rent Seeking in Irrigated Agriculture: Institutional Problem Areas in Operations and Maintenance. Deutsche Gesellschaft für Technische Zusammenarbeit.

Sarimientto, Prime. 2000. Agriculture Weighed Down by Corruption and Waste. *Philippine Center for Investigative Journalism*,