



**MARKET  
DEVELOPMENT  
IN THE NIGER DELTA**

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# DESIGN PHASE: POLITICAL ECONOMY ANALYSIS

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# **DESIGN PHASE: POLITICAL ECONOMY ANALYSIS**

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We believe the information will contribute to sector dialogues and conversations around development in Nigeria.

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## Summary and recommendations

This report provides an initial political economy assessment to inform the design phase of the Market Development in the Niger Delta (MADE programme). It provides a broad overview of the political economy of four states in the Niger Delta states (Delta, Bayelsa, Rivers and Akwa Ibom), and begins to map out some of the key political economy issues affecting the value chains in commodities where the MADE programme is likely to operate (cassava, palm oil, aquaculture and poultry). Political economy analysis is particularly useful to assess and manage two major risks facing the programme: (1) that MADE will not obtain sufficient political acceptance and support to be able to operate effectively, and (2) that the benefits of market chain interventions will be captured by powerful market actors and the politically well connected.

### Part 1. The Political Economy Context of the Niger Delta

The political economy of the four states is fundamentally influenced by the effects of oil and gas extraction and revenues. These include environmental damage, criminality arising from bunkering, very modest employment benefits, and the effects of Dutch Disease, which undermines the international competitiveness of non-oil sectors (including the four value chains). Easy access to oil revenues by political elites undermines public accountability and a sense of social contract (resource curse). There are limited pressures on government to use revenues to deliver public goods and growth, and instead resources are diverted by elites for personal or political aims, in particular to fund a system of political patronage that is used to reward supporters, buy votes and co-opt opposition.

In this context government sponsored development projects tend to focus heavily on distribution of patronage in the form of loans (with little expectation of repayment) or training (often associated with generous per diems and business start-up grants or loans). This has had a profound and damaging effect on popular expectations about what government should deliver in the agriculture sector. There is a culture of entitlement amongst farmers that government should provide them with a share of the national cake, and a behaviour of 'learned dependency' that will be difficult to break. Most producer and marketing associations have been set up purely for the purpose of receiving state patronage through hand-outs and subsidised loans in exchange for votes and political support.

The consultants judge that countering expectations of hand-outs is probably the most important political economy risk facing MADE. To manage this risk, MADE will need to choose its implementing partners carefully. Group selection should not be hurried, and a period of sensitisation to MADE's approach will be needed. This has implications for the length of the start-up phase for MADE since a rush to begin programme activities will create serious risks of selecting inappropriate partners.

**Recommendation.** As MADE moves into the implementation phase, it will be important to undertake a detailed mapping of producer and marketing associations to understand their motivations, political alignment and genuine interest in value chain development.

**Recommendation.** Invest in developing good relations with community gatekeepers, in particular Chiefs and LGA Chairmen. This means that the programme will need to be geographically settled and should not change its target localities too frequently<sup>1</sup>.

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<sup>1</sup> The report was prepared and submitted to MADE by: James Zasha

Although MADE is primarily a private sector development programme, it will need to build good relations with government in order to operate freely and to ensure that government provides the necessary enabling environment including appropriate regulation, infrastructure and public-private partnership arrangements. Managing these relations will be a major challenge for MADE because the political economy of the Niger Delta has not created conditions that are conducive to developmental governance and leadership.

There is a relatively limited risk that state governments will actively seek to block MADE's work. MADE's activities are unlikely to be perceived to be an immediate threat to vested interests, and they do not prevent state governments from engaging in business as usual agricultural programmes. However, it will be difficult to gain more active support from state governments for MADE's approach, which will be required to bring about changes to regulatory frameworks, provide complementary infrastructure, engage in strategic public-private partnerships and to curtail hand-outs. The following recommendations should help MADE to increase the level of support it receives from government:

**Recommendation.** Avoid directly competing with government programmes. Select intervention areas based on a careful mapping of past, existing and planned programmes.

**Recommendation.** Clearly communicate the MADE approach to state and local government to explain its approach and to manage expectations that the programme will be spending large resources.

**Recommendation.** Engage in advocacy work to explain the merits of private sector led and market based development strategies. Advocacy work will need to be undertaken sensitively avoiding an adversarial and lecturing approach, and working to a large extent through local organisations who share MADE's perspective.

**Recommendation.** Make strategic choices about where it should begin its work based on where the political economy context is more conducive to obtaining active support for its approach. The states can be ranked in rough order of suitability for working with MADE: Rivers (most suitable), Akwa Ibom, Bayelsa, Delta (least suitable). Present political instability and violence in Rivers State is a cause for concern, and will need to be carefully monitored before committing resources to this state.

**Recommendation.** Commission a short paper on the politics and economics of each state at the start of the implementation phase. This would mainly focus on deepening and elaborating the information provided in this report (see Table 1). Templates for the report structure developed by SPARC and SAVI could be studied and adapted to MADE's needs.

## **Part 2. The Political Economy of Value Chains**

Initial findings on the political economy of the four value chains indicate that the critical issues centre on (1) market distortions arising from Federal and State level policies, (2) institutions and social relations governing access to land, and (3) organisational arrangements for marketing which may confer market power on particular actors. Examples of how these issues affecting the four value chains are provided in part 2 of the report. The challenge for MADE will be to promote institutional arrangements or technologies that change the terms by which producers and processors can gain access to land and markets.

**Recommendation.** Engage in a systematic approach to understanding the key actors and relationships in the value chains and the institutions governing market transactions and the exercise of market power. It will be important to identify the causes of consequences of market

and government failures. A suggested framework for applying political economy ideas to value chain analysis is provided in Annex 2.

**Recommendation.** For each proposed value chain intervention, MADE should undertake an initial screening using political economy tools for the purpose of understanding who is likely to benefit and how risks can be assessed and managed. A suggested tool for this initial screening and ongoing monitoring of value chain interventions is provided in Annex 3.

**Recommendation.** Pursue a geographically balanced approach recognising the need to support development in both upland and riverine areas. These have different needs, and strategies that benefit one may harm the other.

**Recommendation.** When selecting priority activities, ensure a balance between rapidly scalable, quick wins, and more experimental, higher risk interventions and activities that require longer lead times. Many of the interventions required in riverine areas fall into this category (e.g. aquaculture development, environmental rehabilitation).



## Introduction

Market Development in the Niger Delta (MADE) is a new DFID programme applying the Making Markets Work for the Poor (M4P) approach to generate pro-poor and inclusive economic growth in selected non-oil value chains in the Niger Delta. The programme's stated objective is to raise the incomes of at least 150,000 poor people, of whom 50 per cent will be women, by at least 40-50 per cent.

The programme is currently in its design phase, and a business case will be presented to DFID in February 2014. The design and implementation of the programme will be based on political economy analysis examining the incentives, interests and institutions that affect actors in the value chain and shape market outcomes. Political economy factors will determine whether value chains develop in ways that boost efficiency and competitiveness and whether they are able to deliver equitable outcomes that are favourable to the poor and women. Political economy factors must also be understood to assess and mitigate the risks facing the programme. This relates in particular to two questions: First, will MADE obtain sufficient political acceptance and support to be able to operate effectively? Second, will MADE deliver its expected outcomes, or might the benefits of the programme be captured by powerful market actors or the politically well connected?

This report provides an initial assessment of important political economy issues that need to be reflected in programme design. It aims to:

- provide an initial scoping and broad overview of the political economy of four states in the Niger Delta states (Delta, Bayelsa, Rivers and Akwa Ibom) in order to understand the operating environment for the MADE programme, and the likely challenges and opportunities that will be encountered.
- begin to map out some of the key political economy issues affecting the value chains in commodities where the MADE programme is likely to operate (cassava, palm oil, aquaculture and poultry).
- make general recommendations for programme design and to identify next steps for political economy analysis

This report is based on a two week mission (11-22 November 2013) to four states (Delta, Bayelsa, Rivers and Akwa Ibom) led by Gareth Williams (only one week in country) and supported by Sunny Kulutuye and Dr Ibaba Samuel Ibaba. The mission overlapped with a complementary conflict assessment mission led by Sebastian Taylor.

The research for this report is mainly based on key informant interviews with business people in the four value chains, as well as meetings with civil society organisations and officials at State Ministries of Agriculture.<sup>2</sup> The mission schedule and list of appointments is provided in Annex 1.

The report is structured in two parts. Part One examines the political economy context of the Niger Delta in broad terms, and differences in political dynamics between the four states.

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<sup>2</sup> Meetings with state government somewhat limited due to challenges in gaining access and an unexpected long public holiday declared in Rivers state (14-22 November), which limited the interactions in Rivers State to mainly non-government persons and institutions. Meetings with government officials in some states were hampered by lack of availability, as well as heavy bureaucratic and protocol requirements to obtain appointments, which may be indicative of limited interest and development commitment in some states. The response to the mission by State Governments varied from state to state, with a notably positive reception encountered in Rivers state.



Part Two provides an initial exploration of the political economy issues affecting the value chains of the four commodities, which arise from national, state level and local processes. Each part includes a discussion of implications for MADE and suggestions on next steps for taking the analysis forward. Reflecting the Terms of Reference and the limited time in the field, this report provides more information on part one than Part Two. The analysis in Part Two will need to be further developed according to the suggestions in section 2.6 and the frameworks provided in Annexes 2 and 3.



## Part 1 - The political economy context of the Niger Delta

This section analyses the broad features of the political economy context of the Niger Delta, focussing in particular on the effects of oil production and revenues, and its impacts on political competition. Generally these factors have a negative impact on the business climate, and are unlikely to change in the short- to medium-term. MADE will not be able to change this context substantially, but it must take these factors into account in determining which value chain interventions are likely to generate results.

### 1.1 Effect of oil and gas production and revenues

The effects of oil and gas can be divided between: (1) local effects arising from oil and gas extraction, and (2) broader effects on the politics and economy of the Delta arising from the collection and use of oil and gas revenues.

The **local effects arising from oil and gas extraction** in the Niger Delta include environmental damage, criminality arising from bunkering and very modest employment benefits. The environmental damage suffered by Delta communities has been well documented and includes the effects of numerous oil spills, as well as air pollution and acidification in the proximity of gas flares. This has negative impacts on critical value chains that support livelihoods, in particular creek and flood fishing, which is very vulnerable to the toxic effects of oil spills. Local farmers also complain about reduced crop yields caused by oil spills on arable land and air borne pollutants.

Communities in the Niger Delta have not been adequately compensated for the environmental and economic damage caused by oil spills. Compensation from oil companies (where available) has been targeted at communities closest to oil spills ignoring the spread of pollution through the delta as a result of river flow and seasonal floods. For those who receive compensation, the amounts are usually meagre. Although spills displace fishermen and women for upwards of three months depending on the flow of the creek, compensation received does not match the lost income over this period.

There is also a major problem of theft from oil production facilities and pipelines (bunkering) linked to organised crime. The resulting pipeline leaks and pollution caused by illegal refineries cause additional environmental damage. As discussed in the accompanying Conflict Analysis (Sebastian Taylor report), the criminality surrounding oil theft is a major cause of insecurity, local militancy and corruption amongst complicit government officials.

Judged against these very large costs, the economic benefits of oil and gas extraction for local communities in the Niger Delta have been meagre. The oil and gas industry is not labour intensive, and local employment benefits have been mainly limited to low skilled occupations (e.g. security guards and catering). Local development projects funded by oil companies have done little to provide sustainable livelihoods and have tended to focus on the communities in the immediate proximity of oil facilities. The exclusion of neighbouring communities has been a source of tension.

All of these factors have bred considerable resentment amongst Niger Delta communities about the lack of development and the impact of pollution and insecurity brought by the oil and gas industry. The mismatch between the value of natural resources extracted from Niger Delta, and the benefits flowing back to local communities is a major grievance that shapes attitudes and expectations. The usual response of government and the oil industry has been to quell protest by selectively buying off affected parties and influential individuals through compensation and

amnesty payments. This is evident in the present amnesty, which has helped to reduce insecurity and militancy (see conflict analysis), but does little to address the underlying source of grievances, and creates new feelings of resentment amongst those who refrained from militancy and are not receiving support.

**Broader political economy effects** arise from the collection and use of oil and gas revenues. These include the effects of ‘Dutch Disease’ and the ‘Resource Curse’. ‘Dutch Disease’ describes the macroeconomic effects of booming oil and gas exports, which have led to an appreciation of the Naira undermining the competitiveness of non-oil sectors. Consequently, domestic and foreign investment has tended to flow to the oil and gas sectors, and has neglected the non-oil sectors. Non-oil sectors have suffered declining competitiveness both because of exchange rate appreciation and underinvestment.

Most of the value chains under consideration for support by MADE are far from achieving international competitiveness and are oriented towards supplying the local market. However, they are still affected by exchange rate appreciation because they are under competitive pressure from imports. In the case of palm oil, Nigeria has slipped from being the world’s largest producer and exporter in the 1960s to a net importer. This is in spite of the significant protection provided by the 35% tariff on palm oil imports.<sup>3</sup> Imports continue at a large scale as a result of official duty waivers, transshipment from other members of the Economic Community of West African States (ECOWAS) with lower tariffs on palm oil, as well as smuggling.<sup>4</sup> Thus protection has proven to be fairly ineffective, and imports are likely to continue to grow unless the sector can regain competitiveness. The unfavourable exchange rate arising from ‘Dutch Disease’ makes this task particularly difficult. Other value chains under consideration by MADE have also been afforded significant levels of protection, for example there are import bans on poultry meat and eggs, and cassava flour. In spite of this protection, competitive pressure from imports is likely to remain an issue under the exchange rate conditions caused by Dutch Disease.

The effects of Dutch Disease are compounded by broader governance problems often labelled as the “**Resource Curse**”. The dominance of oil and gas has provided an easy source of funds for the state and elite groups to sustain themselves. There is consequently little political incentive to nurture economic growth and tax revenues from non-oil sectors. Because the state has not had to rely on taxpayers there is little pressure for accountability in the use of public resources. All of these factors limit the extent to which government and the political leadership is likely to be responsive to citizen demand and the development needs of sectors outside oil and gas.

## 1.2 Patronage politics

The resource curse has a profound effect on the nature of political competition in the Niger Delta. The lack of pressures for public accountability has enabled politicians to use public resources derived from oil for their personal and political needs. Rather than providing goods and services for the public benefit, government budgets derived from oil and gas revenues have been used for political patronage to reward supporters, buy votes and co-opt opposition. Patronage politics is evident across Nigeria, but is particularly extreme in the Niger Delta for two main reasons: First, there are more funds available for patronage because the Niger Delta states receive an additional

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<sup>3</sup> PIND estimates that a 35% tariff offers the Palm Oil sector sufficient protection to compete with imports. PIND (2011) A Report on Palm Oil Value Chain Analysis in the Niger Delta. <http://www.pindfoundation.net/wpcontent/plugins/download-monitor/download.php?id=28>

<sup>4</sup> <http://www.thisdaylive.com/articles/ikoro-fg-s-import-duty-waiver-is-killing-palm-vegetable-oil-industry/159327/>

share of oil and gas revenues under the 13% derivation formula. Secondly, there is a high level of social and ethnic fragmentation, which creates pressures on politicians to spend resources on their home localities, personal networks and ethnic groups, and in ways that help to contain political volatility and unrest. Social and ethnic fragmentation also weakens the ability of society to articulate common interests and to put pressure on politicians to work in the broad interests of citizens. There is consequently hardly any sense of a social contract between government and citizens. In this context, public expenditure is primarily targeted at narrow, sectional interests who benefit from public employment, provision of subsidies and hand-outs, and corrupt public contracts. There is little commitment to address the critical deficiencies in infrastructure and social services holding back economic development and poverty reduction.

The issue of political patronage is not limited to government. Oil and gas companies adopt the same strategy by selectively paying influential persons who are engaged to protect company interests and to negotiate and interface with local communities.

Patronage politics is reinforced by the nature of political and electoral competition. Power is concentrated in the hands of the State Governor. Institutions providing checks and balances (e.g. the State House of Assembly and Civil Society Organisations) lack capacity and influence, and are often co-opted into patronage networks. Political parties exist mainly as a vehicle for the promotion of individual/sectional interests rather than a particular policy programme.

The winner-takes-all nature of state elections create intense competition to win and retain political office. Winning state elections depends on access to finance and political backing from godfathers (who may be the incumbent Governor or other politically connected individuals). Voting behaviour is based heavily on local and ethnic ties, a tendency that has become more apparent following the 2011 Presidential elections which reignited contentious issues about the rotation of power between Nigeria's geopolitical regions and mobilisation of votes from ethnic blocs. Elections can also easily be manipulated either through vote rigging or intimidation of opposition candidates and supporters. Links between politicians, vigilante groups, area boys and organised crime have been evident in past elections, with lasting negative consequences for security and the rule of law.

In highlighting these features of the political economy of the Niger Delta states, it is important to avoid overgeneralisation, and to acknowledge that some Governors perform better than others. Although the pressures on state Governors to deliver on development goals are fairly weak, there is an expectation that Governors should be seen to be doing something, which results in spending on high visibility projects, especially transport infrastructure. State elections only create weak pressures on Governors to perform, although in some cases this can be an important factor. Performance was the primary factor in the re-election of Edo state Governor in 2013.

### **1.3 Effects of the political economy on agricultural policies and the investment climate**

All four states are able to provide well elaborated agricultural policies on paper, but in practice these have not been implemented adequately, or have been captured by politically powerful actors. Agricultural policies have most often been used as a mechanism to distribute state patronage. There have been numerous agricultural lending programmes characterised by highly concessional lending terms and low expectations of repayment.

Patronage politics is also evident in the creation of state owned enterprises (e.g. government owned palm oil plantations) and subsidised fertiliser distribution. The performance of these

programmes has generally been very poor, and the absence of proper M&E systems makes it easy for politicians to conceal the extent of waste.

Compensation and development programmes funded by oil companies often take on a similar character to government programmes, and have exacerbated the hand-out mentality. With some exceptions (e.g. PIND) the development programmes funded by oil companies often resemble a pay-off or compensation directed at communities in closest proximity to oil facilities, rather than a genuine engagement in a long-term development process.

Past policies and programmes have had a profound and damaging effect on popular expectations about what government should deliver in the agriculture sector. There is a culture of entitlement amongst farmers that government should provide them with a share of the national cake, and a behaviour of 'learned dependency' that will be difficult to break. Most producer and marketing associations have been set up purely for the purpose of receiving state patronage through hand-outs and subsidised loans in exchange for votes and political support. Others have been captured by politically connected individuals seeking to extract patronage. For example, the Delta State chapter of the All Farmers Association of Nigeria (AFAN) is undergoing a leadership struggle that is presently subject to a court challenge. This appears to be an attempt by politically well-connected individuals without farming backgrounds to gain control of the association and the political patronage this entails. Associations are often aligned with particular parties and politicians, and such allegiances are used to mobilise votes and distribute patronage. The fortunes of these organisations change with those of their political patrons. For example, the Bayelsa Women Forum had been aligned with former Governor, and has received no support since the election of the new Governor.

Government sponsored development projects tend to focus heavily on distribution of patronage in the form of loans (with little expectation of repayment) or training (often associated with generous per diems and business start-up grants or loans). This is particularly evident with the Niger Delta Development Commission (NDDC), which has supported 365 Cooperatives across the Niger Delta states with each cooperative receiving soft loans of a minimum of N3.4 Million. An interview with the NDDC indicated that the organisation places little emphasis on repayments, and intends to scale up the programme to cover 1,000 cooperatives. The Akwa Ibom State Government has spent heavily on training 4,500 persons to enter the poultry business. While trainees were intended to receive financial support of NGN 250,000, some civil society groups suggested that beneficiaries received far less than this amount, and, that like many other public programmes, the scheme had been affected by corruption and fraud.

Most government agricultural development programmes fit this patronage model. However, there are some indications of change, particularly at Federal Government level where the Agricultural Transformation Agenda (ATA) appears to place more emphasis on providing public goods and promoting private sector driven agriculture. ATA programmes still offer large scale hand-outs and subsidies, but with a somewhat reduced scope for corruption and rent seeking. For example, the introduction of a voucher system for fertiliser subsidies will enable government to patronise farmers, but should curtail the very large rents that were previously extracted in the distribution chain for subsidised fertiliser.

#### **1.4 Variations in the political economy of the Niger Delta states**

The broad features of the political economy described above were observed in all four of the Niger Delta states visited. However, significant differences were also observed between states, including some examples of Governors acting in more developmental ways. The space of

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Governors to act developmentally appears to relate closely to the different routes by which Governors have come to power, the extent to which they are beholden to special interests and godfathers (influential figures who provide financial and political support for aspiring candidates), and the timing of the electoral cycle. Notable differences were observed between states as described in table 1 below.

In **Rivers State**, Governor Amaechi appears to have a relatively free hand to implement developmental policies. He came to power as a result of a successful power struggle (backed by court decision) that enabled him to see off challenges from a rival Peoples Democratic Party (PDP) candidate supported by powerful godfathers. He is consequently less beholden to interest groups and political godfathers, and this has given him a freer hand to pursue development projects and confront vested interests. Although there is still a high level of corruption and patronage in the state, there is an expectation that beneficiaries of public employment and public contracts should deliver a reasonable level of performance.

In **Delta State** by contrast, Governor Uduaghan appears more strongly influenced by godfathers including the convicted previous governor (James Ibori). Commentators also note that he is heavily influenced by a small coterie of advisors who are heavily engaged in patronage politics. Consequently, there is very little scope for developmental governance, and public resources are used very inefficiently and corruptly.

State politics in **Bayelsa** is shaped by the influence of President Jonathan who originates from the state and acts as Governor Dickson's godfather. This constrains the Governor's room for manoeuvre, but creates some pressure to deliver. There is evidence of Federal interference in state politics and the siting of Federal projects in the state. Unlike the governors of the other three states, Dickson is still in his first term, and may therefore be more concerned than his peers with using political patronage to achieve electoral popularity.

In **Akwa Ibom**, Governor Akpabio gained support from former President Obasanjo and local power brokers, but was not supported by former Governor Attah. Akpabio's first term 2007-2011 was characterised by political tensions between him and the former Governor. However, since re-election, these strains have not been so evident, and the Governor is able to control the state through his ties with President Jonathan and local networks of patronage.



**Table 1 - Variations in political conditions across the Niger Delta states**

State	<b>Delta</b> (Governor Emmanuel Oduaghan)	<b>Bayelsa</b> (Governor Henry Seriake Dickson)	<b>Rivers</b> (Governor Chibuike Rotimi Amaechi)	<b>Akwa Ibom</b> (Governor Godswill Akpabio)
Governor's tenure	2nd term. Election 2015	1st term. Election 2016	2nd term. Election 2015	2nd term. Election 2015
Party in power	PDP	PDP	Governor elected under PDP, but has defected to APC	PDP, now APC
Closeness of political competition in last election	Last election closely fought with DPP Widespread vote rigging was reported.	Last election won by large margin. No other viable candidate. Widespread vote rigging was reported.	Last election won by large margin. No other viable candidate. Vote rigging was reported.	Last election won by substantial margin, but bitter contest with ACN (party now defunct) candidate Senator Akpan Udoudohen
Primary contest for last Governor's election.	Internal divisions within PDP. Not settled.	Governor Dickson won primaries after previous Governor Sylva was disqualified.  Tension likely for the next election	Amaechi won primary in 2007, but was unlawfully substituted. Amaechi regained candidacy through court challenge in spite of high level political support for an alternative candidate, Celestine Omehia	Former Governor Attah supported Akpan Udoudohen against Governor Akpabio. Akpabio won the PDP ticket, and Udoudohen moved to ACN to be able to contest the election.
Likely scenario for next election	Internal divisions within PDP have not been settled and will recur at next election.	Governor Dickson's standing will be closely linked to Jonathan's prospects for re-election	Recent political tensions in the state relating to Governor's defection to APC. Amaechi cannot contest. Not clear which candidates and parties will emerge as front runner.	

State	<b>Delta</b>	<b>Bayelsa</b>	<b>Rivers</b>	<b>Akwa Ibom</b>
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Previous role of Governor	Medical doctor by profession. Held some key positions prior to election as Governor. Commissioner for Health and Secretary to State Government (SSG) in the Governor James Ibori Government	Lawyer,  Attorney General and Commissioner for Justice under Jonathan as Governor of Bayelsa State, Member, Federal House of Representatives	Speaker of State House of Assembly for eight years	Commissioner for Petroleum and Natural Resources, Commissioner for Local Government, Commissioner for Land.
Godfathers	Oduaghan aligned with previous James Ibori (now convicted). This created considerable division within PDP	Goodluck Jonathan	Governor not tied to godfather. Can govern with relatively free hand.	Former President Olusegun Obasanjo
Nature of political patronage	Governor constrained by internal party divisions. Has attempted to buy loyalty through political appointments and contract awards. Has led to cronyism and poor performance in contract execution.  Governor has tended to patronise his home area in the riverine part of the state.	Patronage through ministerial appointments. Key ministries controlled by close allies of governor.  Family ties, friendship and support for Dickson/Jonathan influence political appointments and contract awards. Major road contracts usually given to high profile companies, such as Julius Berger, Setraco and CCECC.  Favouritism towards home area (Sagbama LGA) in terms of political appointments, contract awards and project allocation. For example, relocation of state owned College of Education from Okpoma, home town of former Governor Timipre Sylva, to Sagbama.  Benefits of Federal patronage (e.g. new Federal University)  High profile infrastructure programme. Use of better quality contractors who deliver.	Governor has earned a reputation as a progressive who get things done. Large scale teacher recruitment was well executed and merit based (also open to non-indigenes of the state).  Large scale infrastructure projects. Some evidence of corruption in contract awards (road project awarded to PDP chairman), but execution is usually satisfactory.	Patronage through political appointments and contracts





## 1.5 Implications of the political economy context for MADE's approach

### Working with government.

The prevalence of patronage politics and the experience of previous agricultural development programmes indicates that MADE will need to be very careful in managing its relationship with government. Because MADE is an M4P programme, its implementing partners will primarily be in the private sector. However, the programme will need to build good relations with government in order to operate freely and to ensure that government provides the necessary enabling environment including appropriate regulation, infrastructure and public-private partnership arrangements. Managing these relations will be a major challenge for MADE because the political economy of the Niger Delta has not created conditions that are conducive to developmental governance and leadership. There is a risk that MADE's work will be obstructed by state governments, who do not share its private sector led approach and instead seek to maintain policies based on government intervention, public ownership and dispensing patronage. This risk will be greater if MADE is perceived to be a threat to established interests and an obstacle to the ability of government to dispense patronage.

The consultant's assessment is that there is a relatively limited risk that state governments will actively seek to block MADE's work. MADE's activities are unlikely to be perceived to be an immediate threat to vested interests, and they do not prevent state governments from engaging in business as usual agricultural programmes. Nevertheless, MADE should be careful to avoid directly competing with government programmes, and will therefore need to select intervention areas based on a careful mapping of past, existing and planned programmes. If MADE can position itself in a non-threatening way, it should be permitted to operate in any of the Niger Delta states with relatively little state hindrance. Low level extraction by local government officials, security agents and Area Boys may be an issue, but the programme is likely to receive enough higher level political support to avoid most of these predations.

In order to achieve best results, MADE will require more than permissive support from state governments. MADE will be most effective where it can achieve more active support by state governments. Active support could be evident at several levels. At a basic level this would require a level of coordination to ensure that MADE and government activities are not working at cross purposes. At a higher level this would entail state governments supporting MADE's work by revising regulatory frameworks, providing complementary infrastructure, engaging in strategic public-private partnerships and curtailing hand-outs. The consultants' assessment is that achieving active support by state governments will be very challenging, but several strategies can be employed to achieve this goal:

- 1) MADE will need to be very clear in its communication with state and local government to explain its approach and to manage expectations.
- 2) MADE may be able to advocate the merits of private sector led and market based development strategies and encourage reforms to agricultural policies and programmes that are consistent with this approach. Advocacy work will need to be undertaken sensitively avoiding an adversarial and lecturing approach, and working to a large extent through local organisations who share MADE's perspective.
- 3) MADE may be able to act as a change agent by demonstrating the results of its approach. This will work best where MADE is not in direct competition with government programmes and can find space to operate without interference.

- 4) MADE will need to make strategic choices about where it should begin its work based on where the political economy context is more conducive to obtaining active support for its approach (see box below).

#### **Which states offer conducive political conditions for MADE to achieve results?**

In **Rivers** State the political leadership appears least constrained by patronage politics and most favourable towards private sector led models of agricultural development. For example, Rivers State Government has recently privatised the RISON oil palm plantation and engaged in public private partnerships in the cassava and aquaculture sectors. However, there are clear political risks in Rivers State, which has been beset by political turbulence and violence in recent weeks as a result of the power struggle between Governor Amaechi (who defected from the PDP to APC), the PDP and police. Political turbulence and uncertainty are likely to continue in the run up to the 2015 elections.

Initial indications also point to relatively supportive political conditions in **Akwa Ibom**, although further interviews and probing would be required to confirm this, and the 2015 election creates political risks. **Bayelsa** also offers a reasonably enabling political environment, a degree of political stability (first term Governor likely to be re-elected) and private sector friendly political rhetoric. However, the difficult topography of the state and the remoteness of many riverine areas limits the viability of certain value chains.<sup>5</sup> **Delta** State would appear to offer the least propitious political environment for MADE's approach, the least developmental leadership and the most entrenched patronage politics. However, the state has a relatively strong economic base, which may create better conditions for MADE in spite of political challenges.

#### **Working with implementation partners.**

The expectations of patronage created by previous agricultural programmes pose a significant challenge for MADE. MADE is seeking to avoid direct payments to farmers and processors, and instead seeks to address systemic problems affecting value chains. While this approach is conceptually sound, in practice it may be difficult to attract participation in MADE activities when other programmes are offering hand-outs. It will be challenging to find producer and marketing associations genuinely interested in MADE's approach (particularly in urban settings) when there are lucrative opportunities to access state patronage.

The consultants judge that countering expectations of hand-outs is probably the most important political economy risk facing MADE. To manage this risk, MADE will need to choose its implementing partners carefully. Group selection should not be hurried, and a period of sensitisation to MADE's approach will be needed. This has implications for the length of the start-up phase for MADE since a rush to begin programme activities will create serious risks of selecting inappropriate partners.

Another difficult challenge for MADE will be to ensure good access to implementing partners and to counter the risk that intermediaries will capture the benefits of the programme. To ensure access to beneficiaries, MADE will need to develop good relations with community gatekeepers, in particular Chiefs and LGA Chairmen. This means that the programme will need to be geographically settled and should not change its target localities too frequently.

<sup>5</sup> Fish farming offers good potential in Bayelsa. There is very little land suitable for cassava cultivation in riverine parts of the state.

MADE will need to invest in group development activities and be vigilant to the risks of capture. There are particular risks around the handling of group funds where banks are remote and few individuals have bank accounts.

## **1.5 Next steps in political economy analysis**

This brief study has provided a broad overview of the political economy of the Niger Delta and state specific information, which should be useful to MADE in selecting areas to work and designing intervention strategies. The following are suggested as possible next steps to take forward the analysis:

### **1) State level political economy analysis**

As MADE begins its work it will be essential to gather, maintain and update its information on the political and economic conditions in each state in order to assess where MADE can work effectively, and how its strategy should be adapted to each context. It will be worth commissioning a short paper on each state at the start of the implementation phase to begin this process. This would mainly focus on deepening and elaborating the information in Table 1 according to an agreed structure and framework. It will be useful to add to this framework sections on local governance and an assessment of the receptiveness of different Local Government Areas to MADE's approach. Other DFID programmes in Nigeria (SPARC and SAVI) have experience in state level political economy analysis and should be requested to provide templates and guidance. The initial drafts of each state level analysis can be relatively brief and progressively expanded over time as MADE develops working relations and experiences in the states.

### **2) Mapping of existing and planned agricultural development programmes**

MADE will need to avoid unnecessary competition with government programmes offering hand-outs and patronage. It should also seek constructive partnerships with programmes pursuing a private sector led approach. To ensure proper coordination MADE will need to undertake a detailed mapping of existing, previous and planned agricultural development programmes in the states and LGAs where it will operate. This should cover both Federal and State initiatives, and should clearly categorise each programme according to the type of support they offer and their compatibility with MADE's approach.

### **3) Screening of producer and marketing associations**

As MADE moves into the implementation phase, it will be important to undertake a detailed mapping of producer and marketing associations to understand their motivations, political alignment and genuine interest in value chain development. Most associations will be compromised by patronage politics to a certain degree, but some will offer better opportunities for collaboration with MADE.

## **Part 2 - Political economy of value chains**

This section reports on initial findings from field work on political economy issues affecting the performance of value chains for four commodities: cassava, palm oil, aquaculture and poultry. The analysis is not comprehensive (due to the time limitations of field work) and will need to be further deepened through subsequent research. For each value chain issues and initiatives can be identified at the national, state and local levels.



## 2.1 Cassava

### National issues and initiatives

Cassava has a high political profile at the national level. Former President Obasanjo launched a special Presidential Initiative on cassava including soft loans of NGN 50 billion for creation of new cassava farms. This encouraged substantial expansion in production, but neglected processing and marketing. The results have been discouraging and many of the new entrants to the sector have since left.

Cassava is also one of the five leading value chains under the present Agricultural Transformation Agenda. The main policy measures include an import ban on cassava flour, support for research and extension, and a requirement for 10% inclusion of cassava in flour for bread baking. The latter is potentially an important market driver, although the government has long been trying to encourage the use of cassava flour in baking, but with limited results.<sup>6</sup>

### State level issues and initiatives

DADTCO (Dutch Agricultural Development Company) is establishing a large cassava processing facility for High Quality Cassava Flour and starch production in Rivers State. There are questions as to whether this will create local additional demand resulting in upward pressure on prices and limited availability of cassava for other processors.

Delta State Government, through the Ministry of Commerce and Industry, is developing the cassava industry in the State. Cassava processing mills are being established in four centres across the State – Obetim in Ndokwa West, OwaAbbi in Ukwuani Local Government, Abraka in Ethiopia East, and Uzereh in Isoko North (where processing has already started). All the centres are to be managed under a PPP arrangement. Note that Delta State Ministry of Agriculture appears to have limited involvement or awareness of this programme, indicating the high level of fragmentation and competition between ministries.

### Local issues and initiatives

At the local level the key political economy issues affecting the cassava value chain are concerned with how power relations affect access to markets and access to land. There is evidence from interviews that local cassava market associations may be exerting cartel like behaviour affecting the price paid to farmers.<sup>7</sup> Tubers and Gari are generally not marketed directly to consumers, and producers and processors are compelled to trade with members of associations (generally women). Further research is needed to establish how the associations operate and whether they are able to use market power to extract an economic rent. MADE initiatives aimed at improving storage and processing and developing alternative market channels (e.g. starch) should help to strengthen the bargaining power of producers and processors.

The ability of farmers to derive benefit from expanded cassava production depends on the availability of land, and the terms on which farmers can gain access. Women face particular

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<sup>6</sup> Bakers are reportedly resistant to using cassava flour in bread mix because there are issues relating to inferior taste and shorter preservation times for bread made from cassava flour. There is also potential resistance to the adoption of cassava flour from wheat importers and millers (no direct evidence of this, but further research required).

<sup>7</sup> This is made possible by the lack of processing and preservation facilities, transportation difficulties and lack of access to markets.

difficulties accessing land. They are disadvantaged through inheritance practices, and lack of access to land rental or leasing markets. Consequently they may only benefit from expanded production as labourers.

There are major differences between upland and riverine areas in terms of availability of land for expanded cassava production. Land is readily available in most upland areas, but is scarce on the boundaries of upland and riverine areas, and entirely absent in riverine areas. It will be important to consider the split between riverine and upland areas when designing intervention strategies for cassava. Interventions that increase market prices could benefit upland producers, but harm net consumers in riverine areas.

## **2.2 Palm Oil**

### **National level issues and initiatives**

Over the past few decades there has been serious neglect of the palm oil sector at national level. However, the present Agricultural Transformation Agenda is seeking to promote production by supporting the small holder farmers with seedlings to develop at least one hectare of oil palm plantation each. Details of the scheme are still unclear in terms of the size and location of the programme, the selection of beneficiaries, availability of land and financing terms. These will need to be established in order to judge the extent to which the programme may be used a vehicle for political patronage, and how MADE should position itself.

### **State level issues and initiatives**

State Governments have previously invested in palm oil estates. Most are badly managed and run down. In Bayelsa State there is a single government owned plantation (Bayelsa Palm), which is degraded and has inoperable processing equipment. Local farmers tend to take fruit out of the plantation rather than selling to the plantation. The privatisation of the RISON plantation in Rivers State appears to be the only example of State Government divesting their assets in the palm oil sector. There would appear to be significant scope for further privatisation. However, there are questions as to whether farmers who had previously exploited the plantations would lose their livelihoods, and whether privatisation might form the basis of a viable estate-outgrower arrangement, and on what terms.

### **Local level issues and initiatives**

At the local level the main issue constraining the establishment of new plantations is the availability of suitable land and land tenure security. Obtaining a Certificate of Occupancy is considered essential to provide sufficient security of tenure for investment in plantations, but this is difficult and often entails lengthy delays (up to 4 years or more) and payment of bribes.

Producer prices for palm oil are depressed by the numbers of intermediaries in marketing and processing chains. There would appear to be scope to improve the functioning of value chains to the benefit of farmers. However, further research is needed to understand the role of intermediaries, how they are organised, and whether they are able to exert market power to influence prices.



## 2.3 Aquaculture

### National level issues and initiatives

It appears that aquaculture will be included in the Agricultural Transformation Agenda which will provide substantial funding for subsidised feed. Further information will be required to assess the scale of this programme, the extent of subsidies and hand-outs, and the potential for this to disrupt MADE's activities.

### Local level issues and initiatives

Issues of land availability and security of tenure are highly relevant to understanding which groups are likely to benefit from MADE support to aquaculture. The availability of suitable land is constrained because fish ponds need to be close to habitation to guard against the risks of theft and pollution. The benefits to fish farmers are also constrained by weaknesses in preservation and marketing. Farmers are not in a position to market themselves and will usually invite market women and restaurant owners to come to buy when ponds are ready to harvest. Marketing opportunities through the value chain are constrained because the high perishability of fish often forces sales at giveaway prices. Storage facilities (cold rooms) are lacking, although smoking is a good alternative preservation option.

The marketing of fish offers opportunities to women, but market associations are structured in complex ways which determine access to markets and benefits derived. In Bayelsa the women fish sellers associations are segregated by ethnicity; for example the fresh fish sellers association in the main Swali market is dominated by Epie/Atissa women who prevent women from other groups from joining. Similarly, the dry fish sellers section is dominated by Ijaw/Nembe women, from whose home lands the dry fish is mainly brought to the market.

## 2.4 Poultry

### National level issues and initiatives

National level policies are generally supportive of large scale poultry production, for example through the imposition of an import prohibition on poultry meat and eggs. There are high level political interests invested in poultry (e.g. Obasanjo farms), which may help to clear the way for further investment or may result in the erection of barriers to entry by newcomers,

### State level issues and initiatives

As mentioned above Akwa Ibom state has made a major investment in hatchery and training. The State Government in building a hatchery with a capacity of around 540,000 capacity under a PPP arrangement.

The regulatory environment for private veterinary services is another issue worthy of investigation. Government claims to be the sole provider of vaccination services in most states, although private vets are clearly active.

## 2.5 Implications for MADE's approach

Initial findings on the political economy of the four value chains indicate that the critical issues centre on institutions and social relations governing access to land, and the organisational

arrangements for marketing which may confer market power on particular actors. The challenge for MADE will therefore be to promote institutional arrangements or technologies that change the terms by which producers and processors can gain access to land and markets. Careful analysis will be needed to study options and guard against unintended consequences.

Constraints over access to land, the undeveloped nature of the value chains under consideration and the difficult operating environment for MADE indicate that the target of increasing the income of 150,000 beneficiaries (with women being 50%) may be overambitious. MADE will need to consider whether the target can be achieved, and if so, how. There will need to be a focus on activities that do not require large land areas and are labour intensive (e.g. poultry), but this should not be to the exclusion of more extensive activities, such as palm oil. The gender target poses a significant challenge. Given the gender division of labour for the main value chains being considered, it will be difficult to ensure that 50% of beneficiaries are women. Land tenure rules and inheritance add to this challenge. The gender division of labour relating to processing technology also needs to be taken into account (e.g. mechanised palm oil processing tends to be more male dominated than traditional methods).

MADE will need to consider its geographical approach and the relative balance between upland and riverine areas. It will be easier to reach targets in upland areas, but viable market development options must also be found for riverine areas to alleviate their higher levels of poverty. A balanced approach is needed recognising that upland and riverine areas have different needs, and strategies that benefit one may harm the other (e.g. higher cassava producer prices could hurt net consumers in riverine areas).

It would be unfortunate if MADE's own political economy and pressure to achieve ambitious logframe targets encouraged the programme to focus solely on quick wins and rapidly scaleable initiatives. Rapid scaling will be essential, but there also needs to be space for more experimental, higher risk interventions and activities that require longer lead times. Many of the interventions required in riverine areas fall into this category (e.g. aquaculture development, environmental rehabilitation).

## **2.6 Next Steps**

This study has only just begun to look at the political economy of value chains. Over the next few months it will be important to engage in a more systematic approach to understanding the key actors and relationships in the value chains and the institutions governing market transactions and the exercise of market power. It will be important to identify the causes of consequences of market failures (monopoly/oligopoly positions, barriers to entry, information asymmetries etc.) and government failures (policies that distort markets and create rents). A suggested framework for applying political economy ideas to value chain analysis is provided in Annex 2.

Once MADE had identified initial value chain interventions, it will be important to screen these using political economy tools for the purpose of understanding who is likely to benefit and how risks can be assessed and managed. A suggested tool for this initial screening and ongoing monitoring of value chain interventions is provided in Annex 3.



## Annex 1 – Mission schedule and list of people met

<b>Delta State</b>		
12/11/2013	Chief Ometan Ogoni.	Private individual 08023435891 or 08037990364
12/11/2013	Bridget Nimi Affiah	Executive Director, J.D. FOH Development Foundation, also Ideal Women Advancement Initiatives, 08066194733, 07085868404, <a href="mailto:fountainofgrace4me@yahoo.com">fountainofgrace4me@yahoo.com</a>
12/11/2013	Chief Mike Ederewhevbe	Annointed Microfinance Bank Ltd. 080616680829, 08022230393. <a href="mailto:oyomagaga@yahoo.com">oyomagaga@yahoo.com</a>
12/11/2013	Chief Simon Okiatorhoro	Okio Nigeria Ltd (supplier to oil and gas industry) 08023250164. Okios2004@yahoo.com, <a href="mailto:sales@okiosnl.com">sales@okiosnl.com</a>
13/11/2013	Onyebuke M.O	Director Budget and Acting PS, Ministry for Economic Planning Delta State. 08165066968
13/11/2013	Gaius O. Erikume	Assistant Chief Admin Officer Directorate of LG, Delta State 08037465040
13/11/2013	Mr. Raphael U. Akivie	Higher Executive Office, Directorate of LG, Delta State 07068690352, 07055615852
13/11/2013	Dr. S.A Sajere	Acting Permanent Secretary, Ministry of Agriculture & Natural Resources, Delta State. 08038712975
13/11/2013	Mr. C.O Okediadi	Director Livestock, Ministry of Agriculture & Natural Resources Delta State. 081016437625
13/11/2013	Mrs S.O. Egedi	Director Planning, Research and Statistics, Ministry of Agriculture & Natural Resources Delta State. 08034059741
13/11/2013	Nwaedozi Eugene	Asst. Director, PRS, Delta State Ministry of Agriculture & Natural Resources Delta State. 08030909779,
13/11/2013	Orherhe C. Efe	Asst. Director, PRS, Ministry of Agriculture & Natural Resources Delta State 08035453861
23/11/2013	Gerry Osai	Managing Director, OFEDA Farms Ltd. <a href="mailto:ggoosai@yahoo.com">ggoosai@yahoo.com</a> Tel: 08033418986
<b>Bayelsa State</b>		
13/11/2013	Dr. Ambily Etekpe	Niger Delta University
13/11/2013	Barrister Idikio	Bayelsa State Chair, Yenagoa Nigerian Association of Chamber of Commerce, Industries, Mines and Agriculture (YENACCIMA), Bayelsa State
13/11/2013	Mr. Doutimiye Ogbofa	Conflict Resolution Network, Bayelsa
14/11/2013	Emmanuel Egbo	Cassava Growers Association, Bayelsa



14/11/2013	Morris Alagoa	Bayelsa State Coordinator, Environment Rights Action
14/11/2013	Princess Elisabeth Egbo	Bayelsa State Chapter of the Artisanal Fisherman's Association of Nigeria izmaria@yahoo.com
14/11/2013	Dr Justina Zalakoro	Secretary, Bayelsa Women Forum
15/11/2013	Gideon Famvie	All Farmers Association of Nigeria (AFAN) Fish Farming Group
15/11/2013	Tari Ineididie	All Farmers Association of Nigeria (AFAN) Cassava Group
15/11/2013	Chief Simon Bekebai	All Farmers Association of Nigeria (AFAN) Poultry Group
26/11/2013	Jonah Alu	Catfish Farmers Association, Bayelsa State Also Head of Department, Department of Agriculture, Southern Ijaw LGA, Bayelsa State
26/11/2013	Names not recorded	Officials at Ministry of Agriculture
<b>Rivers State</b>		
15/11/2013	Prof Tony Agumagu	Professor of Agriculture, University of Port Harcourt, 08037245421. aceetee@yahoo.com, ac.agumgu@uniport.edu.ng
15/11/2013	Dr Krama Ilami Clive	Faculty of Humanities, University of Port Harcourt. 08035515378. Mee4kay2001@yahoo.com
15/11/2013	C.G.C. Amadi	Director of Planning, Research and Statistics, Ministry of Agriculture. 08035515378.
15/11/2013	Nemi Ogbanga	Rivers State Sustainable Development Association +2348037090487 Nemi.ogbanga@rssda.org; nogbanga@yahoo.com
18/11/2013	Courage Nsirimovu	Institute of Human Rights and Humanitarian Law. couragensirimovu@yahoo.com 08032925998
18/11/2013	Prof Anikpo (Rivers State)	Centre for `ethnic and Conflict Studies, University of Port Harcourt. Tel:08034070880
18/11/2013	Andy Ogbuigwe (Rivers State)	Accord for Community Development. Andy.o@accorddev.org. Tel: 08033101091
19/11/2013	Philip G. Kalio (River State)	Executive Director, Support Initiative for Sustainable Development (SISDEV). Tel: 08033096313
19/11/2013	Doodei Week (Rivers State)	Deputy Director Agric Business, NDDC. Tel: 08064186007
<b>Akwa Ibom State</b>		
20/11/2013	Dr Nsekpung Udo (Akwa Ibom State)	Executive Director, Community Partners for Development (CPD). Tel: 08023338665

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20/11/2013	Emem Nkereuwem	Art and Skill Development Initiative. Emem.centrik@gmail.com. Tel: 08023374859
20/11/2013	Ekenem Inyang	Applicant Welfare and Development Centre. Tel: 08028928853
20/11/2013	Engr Richard Ekpe (Director Agric Engineering Services)	Akwa Ibom State Ministry of Agriculture Tel: 08039095815 08076137272
	Director Fishery (Basse Uwey Basse)	Akwa Ibom State Ministry of Agriculture
	Dr Malachi Abasiobong	SA on technical Matters to the Commissioner, Min of Agric. 08032155848 08181203807 malachiabasi@yahoo.com



## Annex 2 – Suggested framework for undertaking political economy analysis of specific value chains

The following framework for detailed assessment of political economy issues arising at the level of value chains was developed by Gareth Williams for the Private Enterprise Programme Ethiopia (PEPE), which is also implemented by DAI.

Section heading	Key questions
<p><b>1. Profile of the sector/value chain</b></p> <p>1.1 Current performance of the value chain</p> <p>1.2 Findings of M4P analysis</p> <p>1.3 Key public policies in the sector</p>	<p><i>What benefits are delivered by the value chain? Assessment of the performance of the value chain. Identification of policies and institutions affecting performance</i></p> <p>How well has the value chain performed in meeting stated aims and contributing to growth and poverty reduction? What are the main achievements and constraints?</p> <p>What are the findings of MADE value chain analysis on the main constraints to market development and value addition by the poor/women in the sector? Where do market failures arise? Where is there evidence of economic rents in the value chain?</p> <p>How are public policies affecting the performance of the sector/value chain? What are the key policy weaknesses/challenges that need to be addressed?</p>
<p><b>2. Political economy context of the sector/value chain</b></p> <p>2.1 Brief history of the sector and episodes of reform</p> <p>2.2 Foundational factors <sup>8</sup> affecting the sector/value chain</p>	<p><i>How do political economy factors help explain the performance of the sector/value chain?</i></p> <p>How have policies and institutional arrangements emerged and changed in the sector over the last few decades? What is the impact of historical legacies? What can be learned from the success or failure of past reform episodes?</p> <p>What are the key foundational factors that affect the sector? How do these factors shape interests, incentives and capacity of key actors in the sector?</p>

<sup>8</sup> Foundational factors are deeply embedded structures that fundamentally shape the broad character of the state and political system. Many have long-term origins, and may be slow to change (e.g. sources of government revenue, natural resource endowments)

<p>2.3 Rules of the game in the sector/value chain</p> <p>2.4 Main actors in the sector/value chain</p> <p>2.4 Here and now in the sector/value chain</p>	<p>What are the main formal and informal institutions governing the sector/value chain, and how do these affect performance? How do formal and informal institutions actually work, and how do they shape interests, incentives and capacity of key actors in the sector/value chain?</p> <p>Who are the main actors in the sector/value chain? What are their interests and levels of political and market influence? How are the actors organised? How they do they use their influence? What relationships exist between key stakeholder groups? (network diagram may be useful here)</p> <p>How are current events, personalities, political and economic developments affecting the sector/value chain and its key actors?</p>
<p><b>3. Political economy outcomes</b></p>	<p><i>Who are the winners and losers?</i></p> <p>Which groups benefit and which groups lose as a result of political economy processes? How do particular interest groups gain and maintain advantage?</p> <p>Where are economic rents generated in the value chain? Who captures these rents and how?</p> <p>Is policy directed at the provision of public goods with widely shared benefits, or private goods that are captured by narrowly defined interest groups?</p>
<p><b>4. Analysis of the potential for change</b></p>	<p>What are the medium term trends affecting change in the sector/value chain?</p> <p>Assessment of the reform context and options to promote change. Is there a situation of logjam, incremental or transformational change? How is change likely to happen in this context?</p> <p>What types of reform option may be feasible to useful to test the feasibility of reform options.</p>



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<b>5. Options for supporting change in the sub-sector</b>	What is the space for developmental change in the sector? Given this space, what are the politically feasible options for M4P interventions and broader policy and institutional reform? Which options are most realistic and should be supported by PEPE? How will PEPE support change processes in ways that mitigate political economy risks and maximise opportunities to find common interests between actors?
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## Annex 3 – Suggested framework for political economy analysis of individual M4P interventions

This framework can be used to test the feasibility of each proposed M4P intervention with a view to informing the design of the assessment, developing an approach to risk assessment and management and identifying requirements for ongoing monitoring. The starting point should be a thorough analysis of the intervention framework/ results chain and a testing of the assumptions at each level. The framework was developed by Gareth Williams for the Private Enterprise Programme Ethiopia (PEPE), which is also implemented by DAI.

Intervention level	Suggested questions
Activity	Which actors does MADE propose to engage in the activity? Do all of these support the intervention, or are there potential spoilers? Are there divisions within organisations participating in the activity that could undermine their participation? How should MADE address the risk that certain groups may disrupt or withdraw support from the proposed activity? Are there ways in which potential spoilers can be won over and encouraged to participate in the activity.
Activities to outputs	What are the assumptions determining whether activities will deliver the desired outputs? Do these assumptions rely on the support of particular groups? Are groups excluded from the activity likely to try to undermine the results of the activity? Do the outputs depend on complementary policy changes? Are these changes likely to happen given political economy constraints? How can these risks be monitored and mitigated?
Outputs	How does the output affect participation in the value chain? Does it create new entrants to the market? Does it expand opportunities for value addition? Is it likely to reduce the space and profits available to existing players in the value chain?
Outputs to outcomes	What are the assumptions determining whether activities will deliver the desired outputs? Do these assumptions rely on the support of particular groups? How are different market participants likely to react to the price and volume changes resulting from the intervention? What unintended consequences are possible (for example changes in parallel markets that reinforce or undermine the effect of the change)? Could opponents of the change and vested interests use their influence to neutralise or reverse the effects of the change?
Outcomes	What are the likely net effects on the intervention on different market participants, income groups and geographic regions? Are these changes likely to be viewed positively by political leadership and interest groups?

Having identified the key political economy issues at various levels in the intervention framework, it will be useful to prioritise their level of importance and to put in place appropriate risk



assessment and management strategies. The following matrix provides a tool for linking the analysis to operational decisions on risk management and ongoing monitoring.

Level of problem	What are the problems/risks?	How does it affect the results chain?	How can it be monitored? Frequency of monitoring	Mitigating or supporting actions. At what level, in what intervention area?	Recent developments
Activity	1. 2. 3.				
Activity to output	1. 2. 3.				
Output	1. 2. 3.				
Output to outcome	1. 2. 3.				
Outcome	1. 2. 3.				

