

Background: MSU Input Studies

- Productivity studies in early 1990s concluded that inputs were a major constraint in the early post-reform period
- Studies of fertilizer profitability and NRM/fertilizer complementarities showed that there were profitable packages, but input/output price ratios were generally less favorable in Africa than elsewhere
- Studies of fertilizer cost structures showed that profit margins were not unreasonable but prices were high due to inefficiencies in procurement and distribution
- Potential for regional harmonization of seed policies and trade was studied in collaboration with ICRISAT
- Results of above research synthesized in a recent issue of *Food Policy* edited by MSU

Expanding access to agricultural inputs

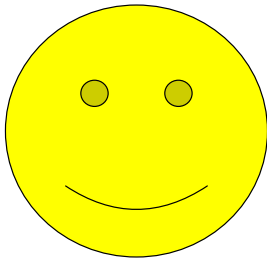
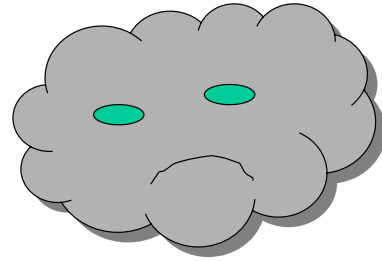
Lessons from recent market
development experiences

by

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The pessimist's view

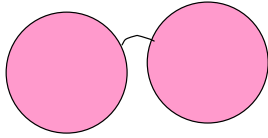
- Low ...
 - Input use
 - Agricultural productivity
 - Producer prices
 - Rural incomes
- Markets are not playing their anticipated role, despite two decades of reforms



The optimist's view

- There are striking examples of increases in input use and productivity for
 - Traditional export crops
 - Niche crops (for export, national, and regional markets)
 - Irrigated rice
- Several countries are showing sustained growth in fertilizer use after initial post-reform adjustments
- Agricultural GDP has been rising in many countries since reforms began

Taking the middle road, we asked



- Can the rose-colored glasses worn by the optimist provide insights of relevance to resolving problems seen by the pessimists?
- More specifically,
 - What can we learn from the successes that will contribute to expanded input use, particularly among poor farmers?
 - Can the poor be included in a manner that supports rather than constrains growth of commercial input markets?

The approach

- Case studies to draw lessons from recent input promotion programs
- Framework for analysis
 - Classify case studies by constraints addressed
 - Examine contribution to both poverty reduction and input market development
 - By how much did input use increase?
 - For how many farmers?
 - For what types of farmers?
 - Were commercial distribution channels improved?
- Information drawn from published and unpublished reports and personal experience

Identifying Binding Constraints

PROFITABILITY

Farmer Demand

- Knowledge
 - What's available
 - How to use it
- Availability 
 - Desired product
 - Desired quantities
- Affordability
 - Cash outlay
 - Credit
- Risk

Retailer Supply

- Knowledge
 - Perception of demand
 - Technical knowledge
- Availability
 - Supply chain
 - Transport
- Affordability
 - Investment capital
 - Credit
- Risk

Farmer Knowledge

- Best innovation identified was SCODP's **awareness raising campaigns** which showed that poor farmers (particularly women) will purchase improved inputs for food crops if they are aware of the benefits
- Complementary factors
 - Also addressed availability and affordability constraints
 - Indirectly improved local retailer knowledge
- Looking forward: Should a donor supported program compete with established retail shops once they begin to carry inputs?

Input Availability for Farmers

- Two programs stood out as being innovative in terms of improving rural input supply
 - Agro-dealer programs linking importers/suppliers to local retailers
 - ICRISAT/SeedCo collaboration to test market improved OPVs via established hybrid maize retailers
- Too soon to fully evaluate sustainability but Zimbabwe government's recent re-entry into input distribution was a set back to both efforts
- No evidence that poor farmers are particularly well served; focus is commercial profitability hence initial targeting is toward higher potential production zones.

Affordability for farmers

- Greatest success is expansion of small/mini-packs
 - Required policy reform in Kenya
 - Requires consumer confidence in quality when products like fertilizer are re-bagged
 - Government program of quality control might help in some situations
- Looking forward: Small quantities must evolve to larger quantities if there is to be significant increases in productivity and income

Affordability for farmers, cont'd.

- Greatest challenge is input credit for farmers: new models are needed
 - Competition has reduced the ability of interlinked input/output markets to ensure credit repayments
 - Micro-finance is generally not used for agriculture
 - Large-scale government credit programs
 - Can increase effective demand and thereby stimulate commercial supply BUT
 - Poor management and cronyism reduce the cost-effectiveness
 - Zambia-low repayment rates affect other credit programs
 - Senegal-mixing politics and inputs leads to low repayment
 - Ethiopia-strong performance on repayments but high administrative workload reduces time for extension and some evidence that political cronyism reduces market competition

Affordability for farmers, cont'd

- Farmer associations are emerging as alternatives
 - Leadership must be well-trained and membership truly engaged and empoweredstill not often the case
 - Strategies to reduce strategic defaults are needed
 - Activities undertaken must be selected on basis of profitability
 - Contract enforcement is essential
- Viable, sustainable collective action to resolve input credit and other farmer problems takes time and resources to develop

Knowledge for Retailers

- Agro-dealer program
 - Important investment in technical and management training shared 50-50 by donors and suppliers
- ICRISAT/SeedCo OPV market test
 - No training on new products or special promotions by SeedCo or retailers
 - Sales increased through informal transmission of information about products by purchasers

Affordability for Retailers

- Supplier credit through agro-dealer program and SeedCo may act as catalysts to get supply started, but long-term viability not yet established
 - SeedCo discontinued credit after first year, but sales continued and increased 1000%
 - Record on reimbursements needs to be established for agro-dealers
- Looking forward: Are there alternatives to supplier credit?


More Work is Needed on Risk

- Credit risks
 - donor assisted guarantees for banks/suppliers to get things started
 - improved information management by banks
- Production risks
 - small packs
 - input quality controls
 - drought/disease resistant technologies
 - insurance?
- Price risks
 - Ethiopia most striking example
 - MIS can help but need more training in use of info
 - WTO negotiations will play a role

Making Relief Market Friendly

- Emergency relief needs to support rather than inhibit market development
- Particularly important for seed markets
 - Empirical evaluation of needs (ICRISAT)
 - Local purchase of seed
 - Cash vs. seed (Mozambique)
 - Vouchers/seed fairs (CRS)

Does direct State intervention help?

- Programs involving government procurement or distribution of inputs for food security or poverty alleviation often exhibit
 - Problems of political interference
 - Ineffective means-targeting and leakages
 - Procurement/distribution delays
 - Poor farmer training  ineffective input use
 - High costs
- Examples
 - Malawi Starter Pack: very controversial with strong support and strong opposition
 - Senegal phosphate distribution program

What About Input Subsidies?

- Input subsidies helped in Asia
 - Asian experience largely positive due to:
 - infrastructure (roads, irrigation, electricity)
 - research and extension
 - targeting of high potential areas
 - But is the African situation comparable?
 - Could best “subsidy” be infrastructure investments?
 - Serious benefit/cost analyses are needed

The strategic dilemma

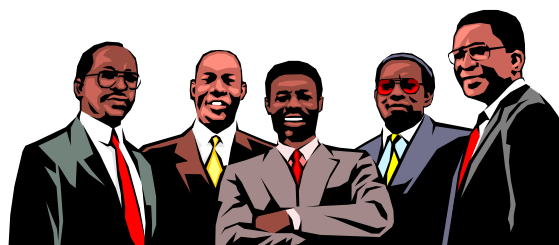
Market Development (LR)

- Technical training
- Management training
- Building networks
- Farmer organizational and political capacity
- Institutions, contracts and enforcement
- Quality control

Food/political security (SR)

- Credit or price subsidies to stimulate input demand and export productivity
- Free distribution to increase food security
- Emergency relief
- Inputs to build political support

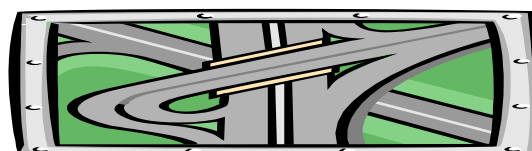
Changing Government's role



- Our review suggests that

Government could promote input use and market development more effectively by providing public goods instead of distributing inputs and credit

- Infrastructure (roads, markets, electrification, irrigation)
- Basic education, particularly in rural areas
- Market information systems
- Grades and standards
- Improved contract law and enforcement
- WTO negotiations that improve Africa's competitive position
- A stable policy environment



Role of donors

- Donors have an important role to play in working with African governments to ensure that a good balance is reached between expenditures on SR poverty alleviation and LR development efforts
- They also need to work with governments and each other to coordinate bilateral and multilateral assistance in a manner that minimizes opportunities for implementing conflicting strategies

Role of NGOs and the Commercial Sector

- Our review of commercial and NGO efforts suggests that some good models have been identified and need to be scaled up and adapted to different situations, particularly those of poor farmers
- Scaling up and expanding input supply to poor farmers will be facilitated by continued donor support to pilot programs and, in many cases, by improvements in the provision of public goods
- More innovation is also necessary and will need donor support

The Last Word

- Getting inputs to poor farmers is part of the solution, but it is not **the** solution to broad-based economic growth
- Africa needs a balance of poverty alleviation and market development programs, with increased efforts to make the two as complementary as possible