Strategic Options for Achieving Growth and Poverty Reduction: The Role of Markets

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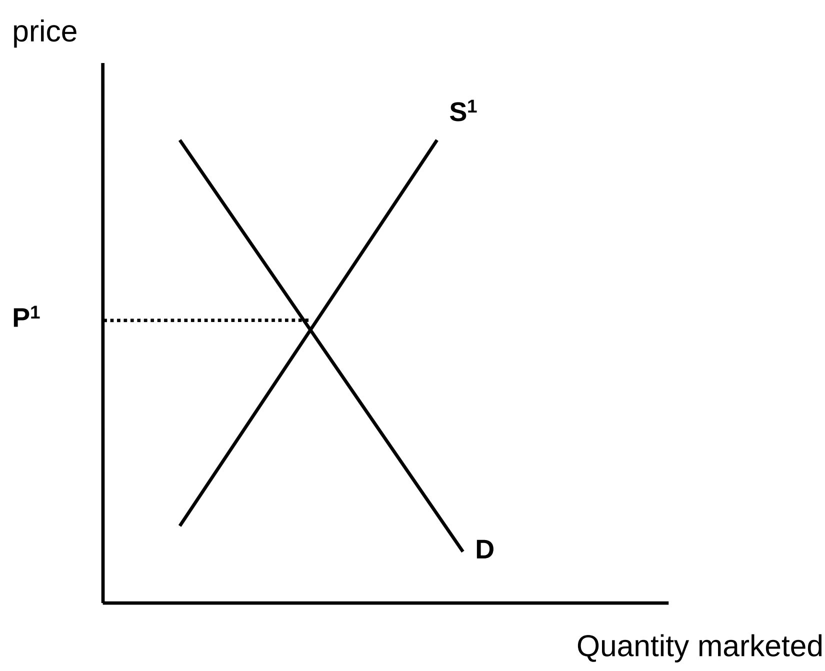
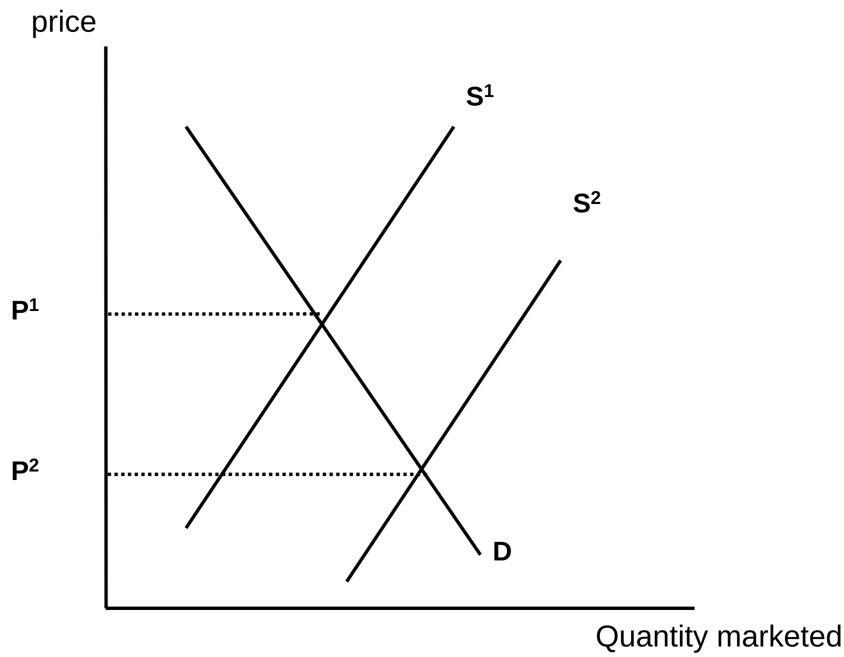
Mandate

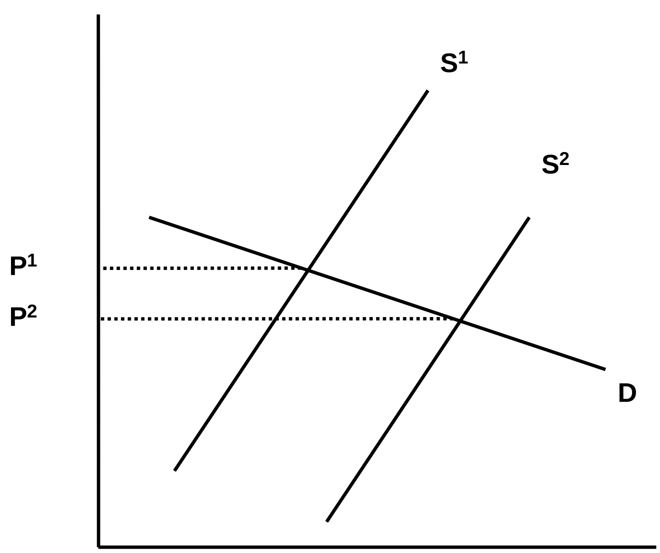
- "Are there sufficient demand and market opportunities to absorb rapid increases in supply?"
- What are the priority investments to make markets more supportive of farm productivity growth?
- Appropriate roles for public and private sectors?

What is the Problem?

- Widely acknowledged that poverty reduction and growth depend on productivity growth for food grains
- But….input intensification of smallholder grain production is retarded by depressed prices resulting from supply expansion







Slope of demand curve influenced by:

- transport infrastructure
- how diversified are food consumption patterns
  - -- rising importance of cassava
- extent of investment in storage
- finance available to traders
- market institutions (e.g., warehouse receipt systems)
- barriers to internal and regional trade (e.g., export bans, import tariffs, export permits)

Markets still burdened by numerous policy and regulatory barriers

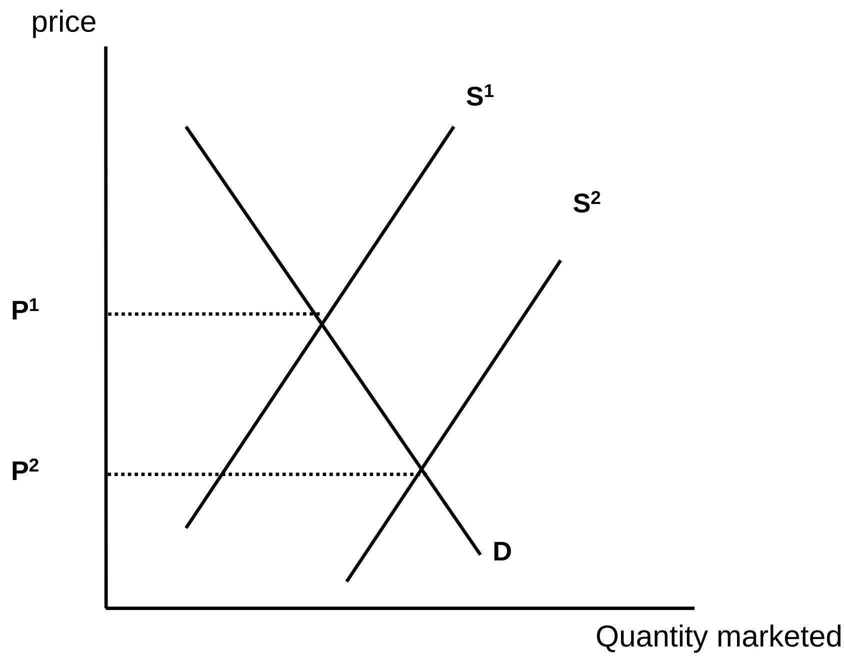
- Examples: traders wanting to move product from N. Mozambique to southern Malawi need to get export permit in Quelimane
- Vacillations in trade policy inhibit bank financing for grain purchase (Uganda-Kenya example)
- Decentralization of marketing regulations creates hodge-podge of differing and inconsistent rules governing inter-district trade → rife for rent seeking, higher marketing costs

Long term ability of markets to absorb increased supplies also related to:

- Rising urban population growth / very low rural population growth
  - 2000: 10 farm households feed 7 non-farm households
  - 2020: 10 farm households feed 16 non-farm households
- Upshot: demand will be shifting outward
  - But policies on imported rice, wheat, food aid, will influence growth in domestic demand

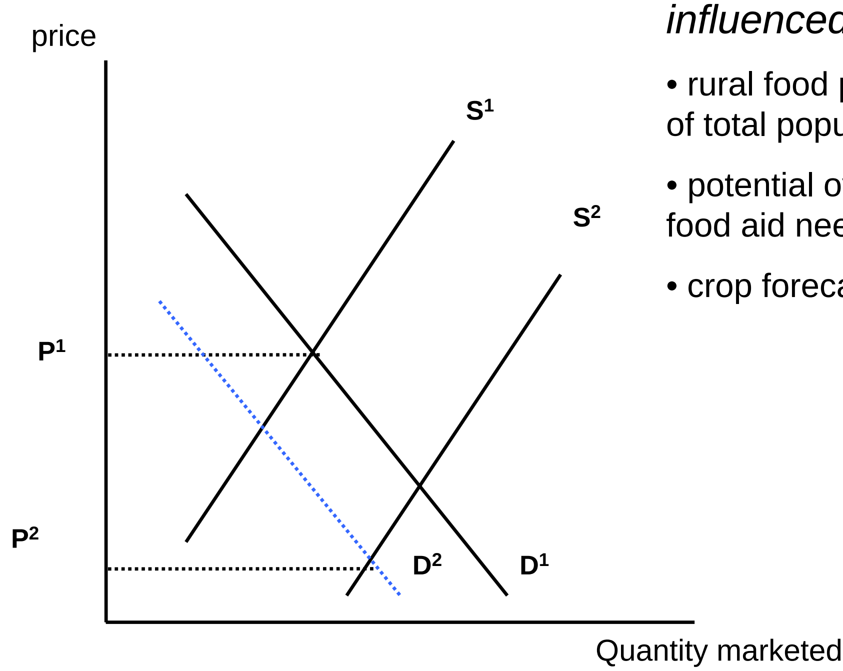
Therefore….a major priority for food value chain development

- **How to make demand more elastic:**
  - How to vent surplus production to other areas of the region – promote regional trade
  - How to promote food consumption diversification for locally/regionally-produced crops
  - How to develop alternative (non-human food) uses of staple food (e.g., livestock/poultry industry)
- Progress on these will enable markets to better absorb supply expansion w/o depressing prices



Shift in demand influenced by:

- rural food purchasers as % of total population
- potential overshooting of food aid needs
- crop forecast accuracy



CAADP Pillars 2 and 3: Options for Consideration

1. Promote internal & regional trade
2. Invest in transport infrastructure to lower the costs of linking surplus and deficit areas in the region
3. Encourage development of a range of commodity value chains
4. Government's role is mainly to provide strong public goods investment support

1. Promote Regional Trade

- Remove barriers to trade
  - streamline customs clearance, licensing procedures
  - remove import tariffs
  - eliminate sporadic export bans
  - eliminate internal taxation of grain movement
  - Harmonize inter-district
- Invest in rail and road infrastructure
- Need close consultation, coordination and transparency between government and private sector
- Fortunately, covariance of production makes regional trade a viable option

Correlation coefficients of maize production, 1990-2003

	Zambia	Zimbabwe	Mozambique	Malawi
South Africa	0.52*	0.67*		
Zambia		0.63*		
Zimbabwe				
Mozambique				0.58*

1.0 = production is completely correlated

0.0 = production is not correlated at all

Source: Tschirley et al., 2004

Correlation coefficients of maize production, 1990-2003

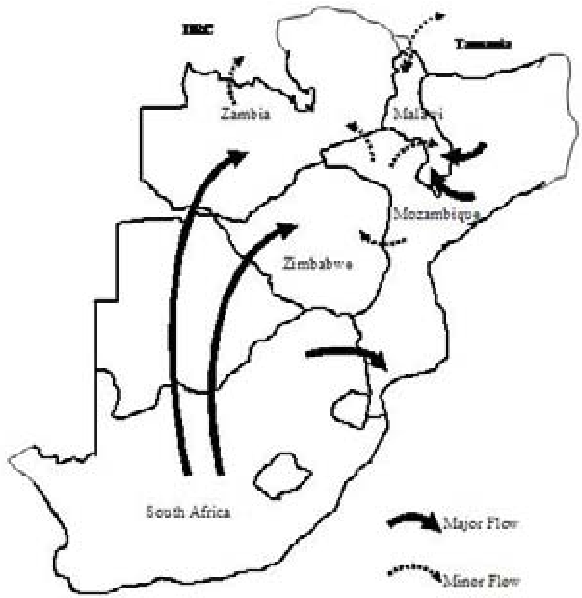
	Zambia	Zimbabwe	Mozambique	Malawi
South Africa	0.52*	0.67*	**0.26**	**0.26**
Zambia		0.63*	**-0.16**	**0.28**
Zimbabwe			**-0.04**	**0.21**
Mozambique				0.58*

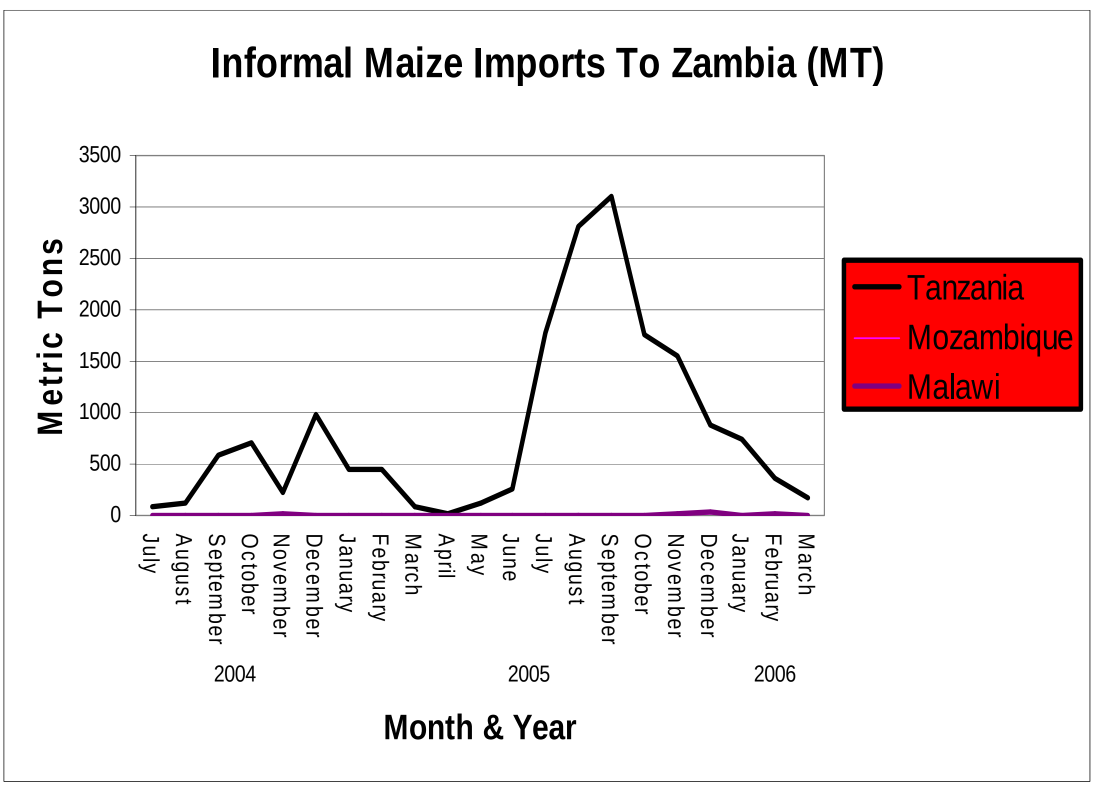
1.0 = production is completely correlated

0.0 = production is not correlated at all

Source: Tschirley et al., 2004

Principal regional trade flows in Southern Africa





2. Invest in Transport Infrastructure

- Much of the price instability problem in the region is due to high costs of transport
  - Cost of sending maize from Jo'burg → Lusaka in 2005 = $125 per tonne
  - Cost of sending maize from southern Ethiopia to Nairobi = $90 per tonne
- High transport costs also constrain the farm-level profitability of fertilizer
- Massive rehabilitation needed for rail and port facilities

3. Encourage development of wide range of value chains

- Eastern and southern Africa need to move away from fixation on maize
- Quiet shifts in smallholder production patterns

Growth Rates (% per year) for crops produced by smallholder farmers, Zambia 1991 – 2004.

Crop	Area	Yield	Production
Maize	0.2	0.5	0.6
Sorghum/millet	-0.1	0.6	0.5
Cassava	1.6	1.7	3.3
Groundnuts	0.9	3.0	4.0
Cotton	3.6	1.7	5.3
Soybean	2.9	1.8	4.8
Sunflower	-0.5	1.4	0.9
Sweet potatoes	4.6	2.0	6.6
Mixed beans	1.8	-1.3	0.6

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Cash income shares by crop category

	maize	Other grains/ beans/ oilseeds	Non-food cash crops	Fruits - veges	Animal products
Kenya	13.3	7.9	34.0	14.7	26.7
Malawi	2.3	4.8	88.9	na	na
Mozam	13.8	9.3	16.9	30.4	23.4
Zambia	28.2	7.7	16.7	27.5	14.7

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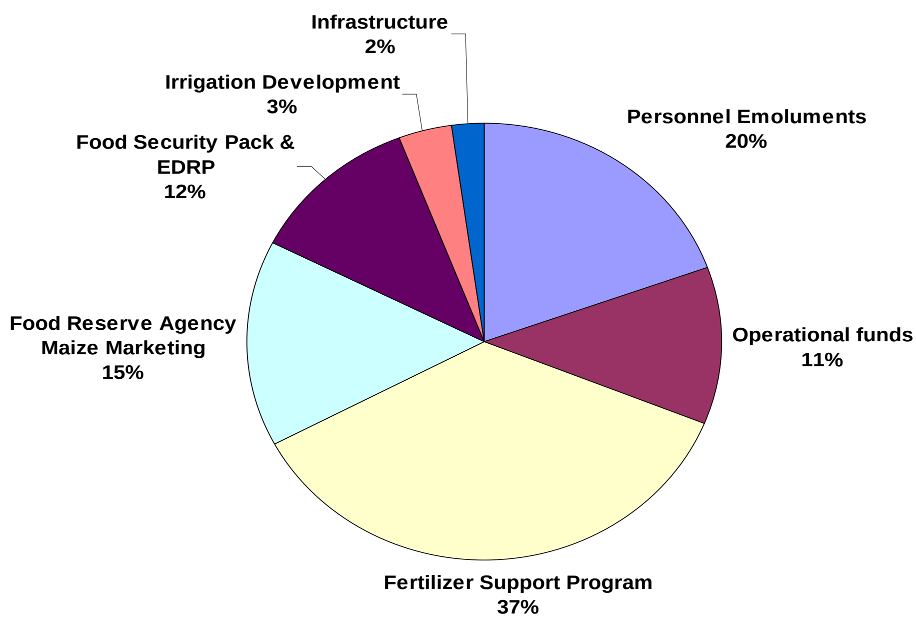
Zambia	28.2	7.7	***16.7***	***27.5***	***14.7***

4. Define Productive Role for Public Sector

- Currently, some governments devote large share of agricultural budget to food price stabilization policies
- Marketing board estimated share of marketed maize output:
  - Kenya (NCPB): 26% (1995-2004)
  - Zambia (FRA): 34% (1997-2003)
  - Malawi (ADMARC): 19% (1995-2004)

Budget allocation to Agricultural Sector in Zambia: ZMK465 million in 2005



So, what are positive roles for Government? Activities that promote sustainable fertilizer/productivity growth for small farms

1. **Public sector investment in:**
   - Road, rail, port infrastructure
   - R&D, improved crop yields
   - Crop / marketing management – need innovative alternatives to old-school extension
   - Grades and standards
   - Accurate crop forecasts / market info.

Productive Roles for Government (cont).

2. **Clear, rule-based public operations in markets**
   - Massive uncertainty in current food policy environments
   - Greater transparency and consultation needed between private and public sectors
   - Catch-22 situation with regard to private investment in storage
     - Example of Kenya, NCPB assets

thank you