Africa’s agricultural challenge

- Inadequate food production:
  - Africa imports 25% of food requirements, valued at over US$25 billion annually (plus US$2 billion food aid)
  - Bulk of imports – over 95% originate from non-SSA markets
- Domestic food supply highly variable, though:
  - Agro-ecological potential for staple production
  - Yield-enhancing technology exist (e.g. fertiliser, irrigation, improved planting material and husbandry)
- CAADP Pillar 2 recognises importance of markets
WRS – a Vuvuzela or ...?

- Perceived post-liberalisation as important in addressing inefficiencies in agricultural markets, characterised by:
  - High spatial marketing margins
  - Temporal margins very high – seasonal price variability of over 100% common in cereal markets
  - Squeezing producer margins/raising consumer prices

- WRS remains popular, especially in ESA, despite slow/limited progress

- Is it just Vuvuzela noise or proved potential?

Evidence on benefits (Zambia)

- Kulya Nkona Agri-Cooperative Society, Chisamba, Zambia
  - 2004/05 deposited 950 tonnes of maize
  - Stored for 5 months with financing by Barclays, making it timely procurement of inputs possible (weaning from donor-funded inputs programme)
  - Sold in the dollarised Lusaka market (through major buyer supplying WFP for Zimbabwe), earning 35% increase in income per tonne of maize.

- 2003/04 season dominated by trader
  - Over 4,000 tonnes of maize deposited by three commercial farmers
  - Financed by Intermarket on basis of forward contract guaranteeing minimum price
Evidence on benefits (Tanzania 1)

- Primary-level cooperatives dominate coffee export market
  - Account for over 55% of coffee traded through the Moshi Coffee Auction
  - Assemble produce from members (and non-members)
  - Obtain inventory finance from CRDB, MNB and Kilimanjaro Cooperative Bank – used for first payment
  - Market processed coffee thereby earning additional income of almost 70% per tonne of parchment Arabica coffee sold (i.e. After 2\textsuperscript{nd}/3\textsuperscript{rd} payments)
  - Coffee quality reported to be steadily improving
  - Auction system requires improvement

Evidence on benefits (Tanzania 2)

- Primary-level cooperative society in Eastern Tanzania exports cotton lint
  - Bulks seed cotton from members and deposits with toll-ginning warehouse operator
  - Obtain inventory finance from CRDB and MNB
  - Market cotton lint to exporters
  - In 2005/06 exported lint to UK buyer – with quality certified using HVI equipment owned by the Cotton Board (same for all exporters)
  - Profits used to finance more than 10-fold increase in production
  - Similar success in cashew but not in grains
    - Reasons discussed later.
Benefits due to role in:

- Reducing high transaction costs in the predominantly informal agricultural trade
  - Lowering search cost for trade counterparties;
  - Reducing uncertainty (and so cheating) regarding quality and quantity
  - Minimising counterparty non-performance risk
- Promotes “sight unseen” trade
  - Therefore improves prospects for successful development of commodity exchanges
- Eases access to inventory financing
  - Enhances deferred sale by easing liquidity constraints at household level and in the trade
- Improved storage reduces post-harvest losses

WRS no cure for:

- Poor physical and institutional infrastructure:
  - Poor rural road/rail infrastructure leading to high transport costs and transit losses
  - Lack of enforceable, trade-friendly commodity standards
  - Lack of reliable market information, especially on supply and demand (not just price information)
  - Under-developed processing capacity (ESA fortunate)
- Does not automatically to:
  - Emergence of transparent trading and price risk management systems (e.g. Cashew in Tanzania)
  - Improved access to production finance
WRS certainly no cure for:

- Weak primary-level farmers organisations
  - Important in fostering bulking to meet minimum volume requirements and strengthening capacity to comply with quality standards in formal (more remunerative) markets

- Policy-related constraints:
  - Ad hoc policy interventions that distort incentives for private intra-seasonal storage (Tanzania and Zambia)
  - Trade policies that limit regional trade opportunities
  - Administrative levies and controls that raise transaction costs

Tackling implementation challenges (1)

- Availability of physical storage infrastructure:
  - State dominant owner of available storage capacity, especially in surplus-producing areas
  - Significant under-utilisation but credibility problems
  - Leasing – a good option; longer-term leases may encourage improvement in infrastructure
  - Minimum is autonomous warehousing companies

- Trade-friendly commodity standards
  - Harmonisation crucial for market access

- Improving market information systems
  - Accurate and timely crop forecasting
  - Other market information (only 8% of Kenya farmers interested in price information)
Tackling implementation challenges (2)

- Building capacity of key players
  - On a sustained basis – EAGC proposition worth broadening to Southern Africa

- Promote collective marketing by farmers:
  - Primary-level farmer organisations more effective
  - Reform of cooperative legislation may be necessary

- Robust regulatory systems:
  - Basis for broader access by multiple depositors and warehouse operators
  - Different models: Govt-based in Tanzania; arms-length ZACA experiment; exchange-based (ZIMACE & SAFEX using 3rd party inspection companies; and UCE)
  - Transition from promoters important

Tackling policy hurdles

- Legislation helpful but not the key lever
  - Important in clarifying “rights of 3rd party holders (e.g. Lenders) and legal basis for regulators

- Enabling policy – the critical bottleneck:
  - Stable macroeconomy contributing to lower interest rates (Zimbabwe)
  - Stable, transparent trade policies, including dismantling trade barriers – regional markets are opportunities for sustained output growth (not a leakage) e.g. Tanzania
  - Avoiding ad hoc interventions that hurt the market
  - Fostering smallholder access should not mean exclusive systems
  - No strings attached support (e.g. stock markets)
Tackling policy hurdles (2)

- Food security/market development trade-off
  - Use of market instrument win-win
  - WFP’s P4P demonstrated effectiveness in procurement
  - Potential to reduce financing burden and storage losses

- Effective policy advocacy needed:
  - Underpinned by evidence-based knowledge (of what works and in what context)
  - Led by key stakeholders including but not limited to farmers’ lobby (e.g. traders, processors, bankers, insurance companies and donors – all stand to gain)
  - Not just executive arm but also legislators

Should it be Vuvuzela – loud but not musical? No!

- Should not be because:
  - It is crucial in strengthening capacity of markets to absorb surplus and sustain anticipated gains from sector development initiatives such as CAADP

- Evidence of progress and benefits exist:
  - No longer theory or only South Africa (benefits to smallholders demonstrated)

- Technical and infrastructure challenges can be overcome – especially with favourable global environment

- Stakeholder coalitions being fostered – ACTESA and EAGC

- Political will??