Main conclusions

1. Market reform effects after 20 years: There is now tangible evidence of improvements in smallholders’ access to markets for both inputs and food
   - this should raise the returns to future public investments to ag
2. However, there are major limitations for market development programs to transform many smallholder farmers into staple food sellers (implications for CAADP Pillar II / ACTESA)
3. Effectively reaching the poorest of the poor will require CAADP investments aimed to improve access to land (while structural transformation kicks in over time)
4. No real alternative to a smallholder-led strategy in most of SSA. Major progress in cutting poverty rates will not be made without broad-based inclusive agricultural growth
5. Public investments with the greatest returns to ag growth and poverty reduction are: infrastructural investment, R&D, conducive policies – implications for REC’s role in CAADP
Message 1.
Market reform effects after 20 years:

There is now tangible evidence of improvements in smallholders’ access to markets for both inputs and food.

Number of traders buying maize from farmers in village – 2009 Maize Value Chain Study

Number of villages sampled

Kenya | Zambia | Malawi

under 5 traders | 6 to 10 traders | 11 to 15 traders | 16-20 traders | over 20 traders
Farmers’ access to markets

- Median distance travelled by farmers to point of maize sale in:
  - Kenya = 0 km
  - Malawi = 1 km
  - Zambia = 4 km

- Importance of cell phone ownership on ability to find buyers – over 65% of rural households in Kenya own cell phone and use it to locate buyers

Household-reported distance: farm to point of maize sale, 2008/09 marketing season, accessible villages, Mulanje District
Household reported distance: farm to point of maize sale, 2008/09 marketing season, accessible villages, Mzimba District

Lunzu retail price and farmer-reported prices received in remote villages in Blantyre District, 2009
Maize milling/retail margins, Kenya

trend = - 0.068 KSh/kg per month (t-stat = 13.75)

Maize milling/retail margins, Zambia

retail breakfast meal, Lusaka

wholesale maize grain, Lusaka
Competing models of roles of state and private sector in food markets:

**Model 1**
- Rely on markets; state role limited to:
  - Public goods investment
  - Regulatory framework
  - Strengthening of institutions / defense of property rights
  - Policies supportive of private sector entry and competition

**Model 2**
- Primary reliance on markets
  - but role for rules-based state operations
    - e.g., buffer stock release to defend stated ceiling price
    - Marketing board purchases at stated floor price announced in advance
    - Transparent rules for initiating state imports

**Model 3**
- Role for markets and discretionary state intervention
  - Based on premise that private sector cannot ensure adequate food supplies in response to production shortfalls
  - Justification for unconstrained role for state interventions in markets to correct for market failures

**Message 2:** However, there are major limitations for market development programs to transform most smallholder households into staple food sellers (implications for CAADP Pillar II and ACTESA)

**Message 3:** Effectively reaching the poorest of the poor will require supportive public investments to improve their access to land and assets while structural transformation kicks in over time
Smallholder Households’ Position in the Maize Market

Farm size distribution:
Small farm sector
Characteristics of smallholder farmers, Zambia 2006/07

<table>
<thead>
<tr>
<th></th>
<th>N=</th>
<th>Farm size (ha)</th>
<th>Asset values (US$)</th>
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Rural population growth rates

Share of urban population in total population, 1968 and 2005
Consequences of not addressing the land issue for the rural poor:

1. Unviable rural livelihoods (small landholdings and few productive assets) for the poorest are driving rapid urbanization, with all its attendant problems

2. Unviable rural livelihoods $\rightarrow$ rapid urbanization $\rightarrow$ rising national food deficits

Characteristics of smallholder farmers, Zambia 2006/07

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Message 4: Opening up new areas through public investments will be required to bring the poorest of poor into rural growth processes

- Public investment in infrastructure, education, services, water, etc., will facilitate re-settlement
  - e.g., Gokwe model in S. Rhodesia
  - This is the main component of a growth strategy for the poorest 25% in the short/medium run

Message 5: There is no real alternative to a smallholder-led strategy in most of SSA

Why?
1. Major progress in cutting poverty rates will not be made without broad-based inclusive agricultural growth
2. Structural transformation (Johnston and Mellor)
3. Collier’s vision cannot result in lower rural poverty
4. Lipton: “virtually no examples of mass poverty reduction since 1700 that did not start with sharp rises in...income due to higher productivity in small family farms”
**Message 6:** The research record clearly indicates the kind of priority investments to guide CAADP

Why?


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**Ranking of Alternative Investments:**
**Meta-Study Evidence from Asia and Africa**

<table>
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### Ranking with respect to agricultural growth:
Evidence from Asia

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### Ranking with respect to poverty reduction:
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2009 Resource Allocation to Agriculture - Zambia

- Poverty Reduction Programs: 45%
- Recurrent Departmental Charges: 13%
- Personal Emoluments: 10%
- Other MACO expenditures including capital expenditure: 4%
- Allocation via other ministries: 15%
- Agricultural development Programs: 13%
- Other MACO expenditures including capital expenditure: 4%

Composition of MACO Poverty Reduction Programmes 2009

- FSP: 57.1%
- FRA: 39.4%
- Other: 3.5%

Including 137 Billion Maize Price Support Arrears
• Government of Malawi 2008/09 Input Subsidy Program
  = 15% of National Budget
  = 80% of Agricultural Budget

What we count as “investment” under CAADP matters!!!

Main conclusions

1. Market reform effects after 20 years: There is now tangible evidence of improvements in smallholders’ access to markets for both inputs and food
   → RECs to stress market-oriented policies in CAADP implementation
2. However, there are major limitations for market development programs to transform many smallholder farmers into staple food sellers (implications for CAADP Pillar II / ACTESA)
3. Effectively reaching the poorest of the poor will require CAADP investments aimed to improve access to land (while structural transformation kicks in over time)
4. No real alternative to a smallholder-led strategy in most of SSA.
5. Regional economic consortia should be encouraging governments to invest in ways that generate greatest returns
What about input subsidies?

- Summarizing analysis from Malawi and Zambia:
  - Mistargeted → disproportionately captured by the better off smallholders, not the poorest
  - Displaces commercial demand if untargeted subsidies are distributed in areas where commercial demand is high
  - Initial evidence that contribution to household livelihoods is not enduring
  - B/C ratios for Malawi in range of 0.76 to 1.30, lower than other uses of public funds
  - Massive foregone growth and poverty reduction from not using public funds to alternative uses with greater returns

Thank you