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**

<table>
<thead>
<tr>
<th></th>
<th>Zambia</th>
<th>Zimbabwe</th>
<th>Mozambique</th>
<th>Malawi</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>0.52*</td>
<td>0.67*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zambia</td>
<td></td>
<td></td>
<td>0.63*</td>
<td></td>
</tr>
<tr>
<td>Zimbabwe</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mozambique</td>
<td></td>
<td></td>
<td></td>
<td>0.58*</td>
</tr>
</tbody>
</table>

1.0 = production is completely correlated  
0.0 = production is not correlated at all  

Source: Tschirley et al., 2004
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

<table>
<thead>
<tr>
<th>Crop</th>
<th>Area</th>
<th>Yield</th>
<th>Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maize</td>
<td>0.2</td>
<td>0.5</td>
<td>0.6</td>
</tr>
<tr>
<td>Sorghum/millet</td>
<td>-0.1</td>
<td>0.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Cassava</td>
<td>1.6</td>
<td>1.7</td>
<td>3.3</td>
</tr>
<tr>
<td>Groundnuts</td>
<td>0.9</td>
<td>3.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Cotton</td>
<td>3.6</td>
<td>1.7</td>
<td>5.3</td>
</tr>
<tr>
<td>Soybean</td>
<td>2.9</td>
<td>1.8</td>
<td>4.8</td>
</tr>
<tr>
<td>Sunflower</td>
<td>-0.5</td>
<td>1.4</td>
<td>0.9</td>
</tr>
<tr>
<td>Sweet potatoes</td>
<td>4.6</td>
<td>2.0</td>
<td>6.6</td>
</tr>
<tr>
<td>Mixed beans</td>
<td>1.8</td>
<td>-1.3</td>
<td>0.6</td>
</tr>
</tbody>
</table>
### Cash income shares by crop category

<table>
<thead>
<tr>
<th>Country</th>
<th>maize</th>
<th>Other grains/beans/oilseeds</th>
<th>Non-food cash crops</th>
<th>Fruits - veges</th>
<th>Animal products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>13.3</td>
<td>7.9</td>
<td>34.0</td>
<td>14.7</td>
<td>26.7</td>
</tr>
<tr>
<td>Malawi</td>
<td>2.3</td>
<td>4.8</td>
<td>88.9</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>Mozam</td>
<td>13.8</td>
<td>9.3</td>
<td>16.9</td>
<td>30.4</td>
<td>23.4</td>
</tr>
<tr>
<td>Zambia</td>
<td>28.2</td>
<td>7.7</td>
<td>16.7</td>
<td>27.5</td>
<td>14.7</td>
</tr>
</tbody>
</table>
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:

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