Objective of this Presentation

• To describe how agricultural marketing systems will need to be developed in order to meet the 6% growth targets under CAADP
• To identify the investments and enabling environment most likely to achieve the 6% growth targets in a sustainable way over the long-run.
Current thinking on “strategy”

- Emerging coalition for “big push” agricultural strategy
  - e.g., Sachs, Sanchez,…maybe Gates?
- Strong consensus about need for greater investment in public goods (infrastructure, crop science) and certain policy reforms
- Major debate with regard to what constitutes an “enabling policy environment” for markets
  - Food price support/stabilization
  - Input subsidies
Key challenge:

- New farm technology and innovation increases supply.
- If demand is inelastic, increased supply causes prices to plunge.
- Price plunges discourage farmers → disadoption of the improved farm technology → agricultural stagnation.
- Unless the system is integrated (credit, input delivery, output market access) then constraints at one stage can cause systemic failure.

![Graph showing supply and demand](image-url)
Lessons from experience in agricultural promotion programmes

- The state-led integrated single-channel systems of the 1970s-1980s (e.g., Kenya, Malawi, Zimbabwe, Zambia)
- SG-2000 Programme (Ethiopia, Mozambique, Ghana, Zambia, etc)
Lessons from experience in agricultural promotion programmes

- The state-led integrated single-channel systems of the 1970s-1980s.
  - successful in promoting ag. growth
  - Accumulated massive costs: pan-territorial pricing, universal input subsidies, poor loan repayment, accumulation of surplus grain to maintain floor prices
  - Fiscal burden could not be sustained, contributed to macro-economic crises
  - inadvertently contributing to structural adjustment and conditionality

Lessons from experience in agricultural promotion programmes

- SG-2000 Programme
  - Also great temporary success in promoting farm productivity growth
  - But did not address the “2nd generation” problems of the “enabling environment”
    - How to develop self-sustaining credit and input markets, and a marketing system that could absorb the increased surpluses without leading to price plunges
Both the state-led models and the SG-2000 programmes highlight two critical lessons:

• New farm technology is not enough - need an “enabling environment” that can:
  – maintain small farmers’ access to improved inputs over time,
  – provide seasonal finance for low-income smallholders so they can afford the improved technology
  – allow the market to absorb surpluses without price plunges
  – All in a financially sustainable way that does not bankrupt the treasury
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

Slope of demand curve influenced by:

- transport infrastructure
- how diversified are food consumption patterns
  -- importance of cassava
- extent of investment in storage
- seasonal finance markets
- market institutions (e.g., warehouse receipt systems)
- trade / policy barriers (e.g., export bans, import tariffs)

Most of these factors are influenced by government behavior
Where from here?
Implications for Priorities under CAADP

1. Public investments that raise long-term productivity and competitiveness of rural farm families:

- Invest in crop science and technology
- Rural infrastructure
- Farmer organization for service provision
- Basic education: facilitates peoples’ ability to thrive and contribute to an increasingly globalized economy (role of nutrition)
- Health (malaria and HIV/AIDS)
- Widespread agreement on these investments
Much research evidence documents high returns to investment in:

1. R & D: (Alston, Grilliches, Mellor)
2. Education: turns information into knowledge (Johnston)
3. Extension systems: farm management (Evenson)
4. Infrastructure: road, rail, port, communications (Antle)
5. Investments in health and addressing HIV/AIDS (Binswanger)

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

<table>
<thead>
<tr>
<th>Fertilizer source:</th>
<th>Total Income</th>
<th>Assets</th>
<th>Landholding size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Households not acquiring fertilizer:</td>
<td>266</td>
<td>173</td>
<td>.15</td>
</tr>
<tr>
<td>Cash purchases from private retailers:</td>
<td>774</td>
<td>342</td>
<td>.20</td>
</tr>
<tr>
<td>Government Fertilizer Support Program (50% subsidy)</td>
<td>804</td>
<td>425</td>
<td>.23</td>
</tr>
</tbody>
</table>

### Agriculture budget allocation matters

- Spending 70% of agricultural budget on input/output subsidies is most likely a regressive use of budget resources with questionable long-term payoffs.
- Opportunity costs in terms of foregone investment.
2. 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:

3. Getting Markets Right: What does this mean?

- Not getting government out of markets
- Changing the role of government from direct intervention to supportive investments to make markets work
  - Public goods investment
  - Support development of farmer organizations
  - Create “stable” policy environment: Clear, rule-based public operations in markets
  - Commodity risk management tools (e.g. warehouse receipt systems)
  - Greater transparency and consultation needed between private and public sectors
4. 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

Key conclusion:

- As massive as the poverty problems are now, they will be much greater unless budgets are re-allocated sooner or later to investments that will make the economy productive in the long-term:
  - Population growth w/o productivity growth \(\rightarrow\) rapid urbanization and potential for civil strife
CAADP’s Twin Challenge:

- how best to encourage governments to reallocate public budgets toward crucial investments with long-term development impact instead of expenditures with short-term payoffs?
- How to build and maintain policy analysis capacity and strengthen linkages with policy makers?
- How to improve dialogue between public and private sectors on marketing policy

thank you