Strategic Options for Achieving CAADP's Agricultural Growth Targets

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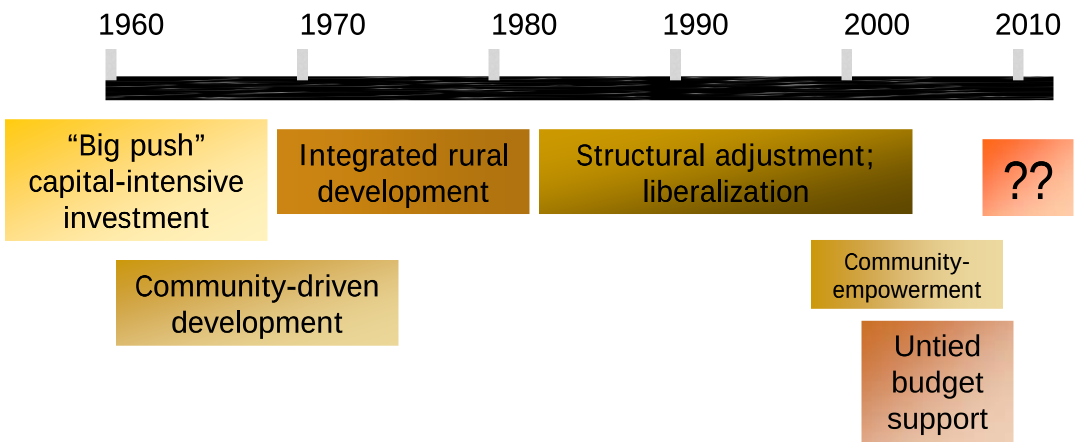
Objective of this Presentation

- 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.

Major development strategies in retrospect, 1960-2000

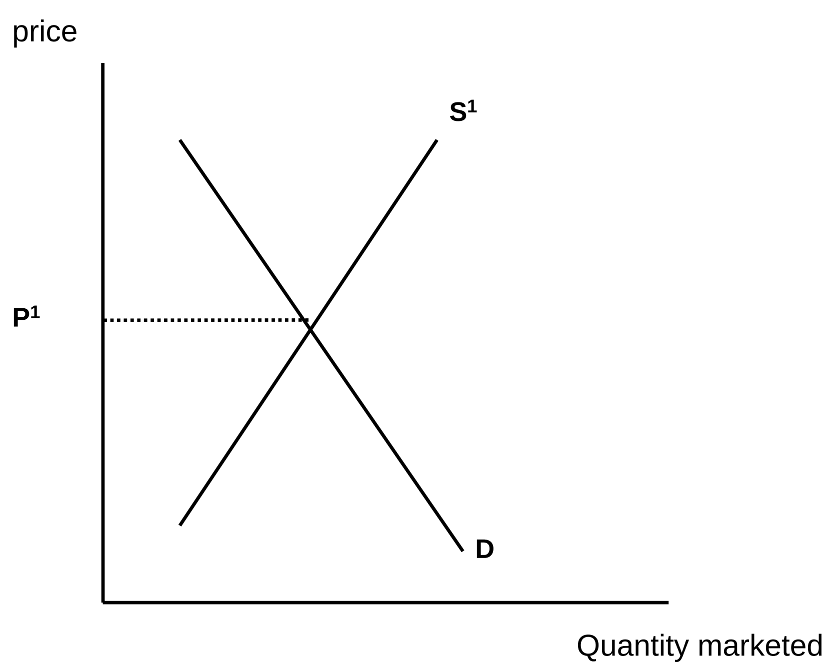


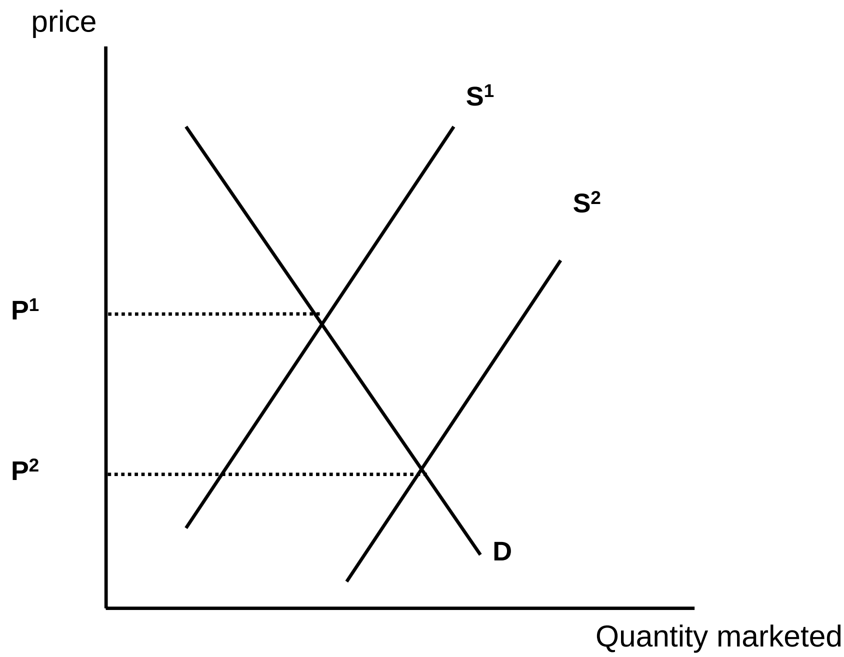
Current thinking on “strategy”

- 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 → dis-adoption 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





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

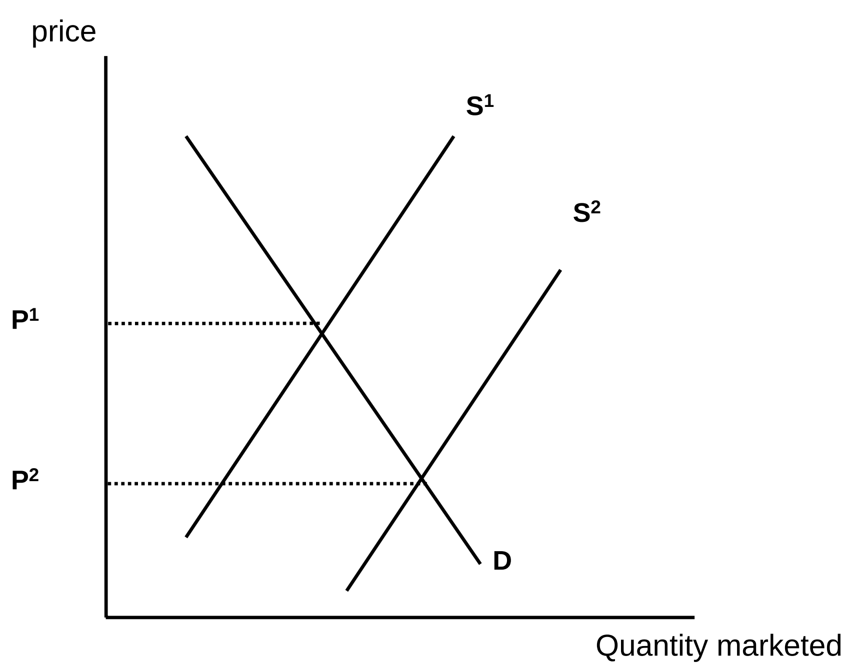
- The state-led integrated single-channel systems of the 1970s-1980s.
  - successful in promoting ag. growth
  - Accumulated massive costs: pan-territorial pricing, universal input subsidies, poor loan repayment, accumulation of surplus grain to maintain floor prices
  - Fiscal burden could not be sustained,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

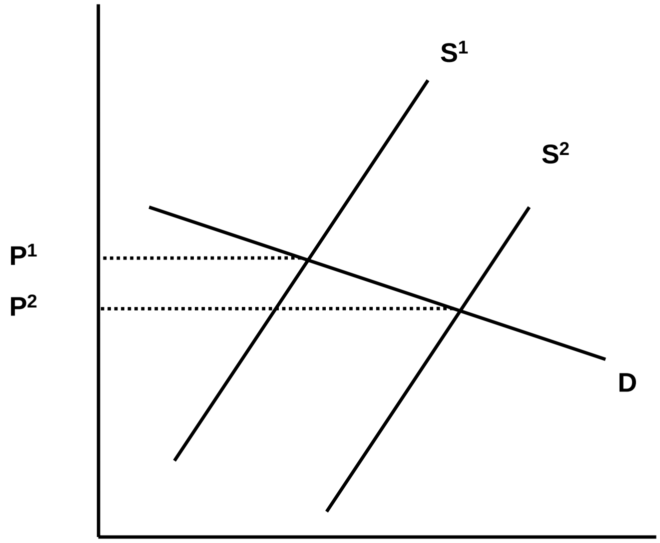
Lessons from experience in agricultural promotion programmes

- 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





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

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

Where from here?
Implications for Priorities under CAADP

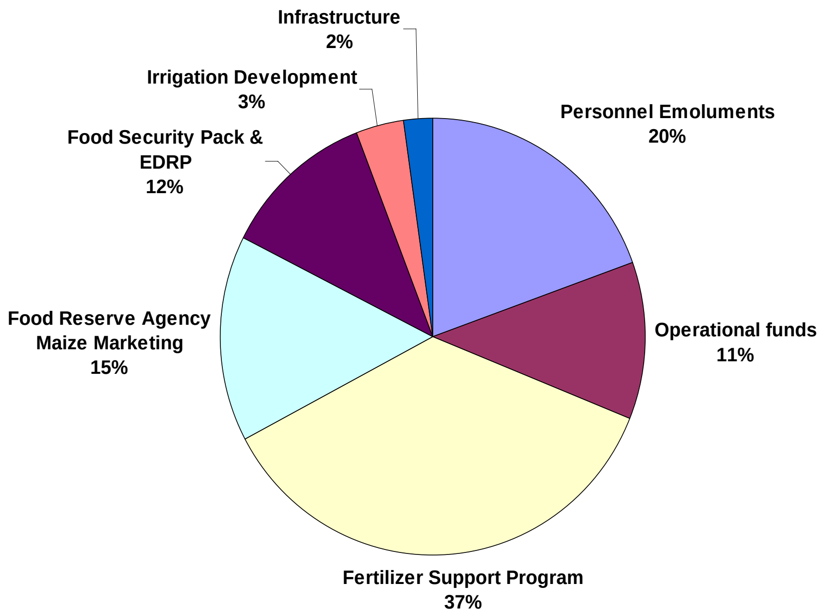
1. Public investments that raise long-term productivity and competitiveness of rural farm families:

- 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	Total Income	Assets	Landholding size
	'000 kwacha per capita		ha per capita
Fertilizer source:			
Households not acquiring fertilizer:	266	173	.15
Cash purchases from private retailers:	774	342	.20
Government Fertilizer Support Program (50% subsidy)	804	425	.23

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:
  - Kenya (NCPB): 26% (1995-2004)
  - Zambia (FRA): 34% (1997-2003)
  - Malawi (ADMARC): 19% (1995-2004)

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 → 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