Grain marketing issues affecting post-harvest storage

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Presentation at CIMMYT Launch and Workshop on “Effective Grain Storage for Sustainable Livelihoods of African Farmers,” 28-29 June 2012, Lusaka
Better storage technology to reduce storage losses is necessary but not sufficient to induce greater storage for the market.

Greater storage for market will require removing the market disincentives to store.
Two common problems observed in the region

1. Farmers sell low, buy high
2. Seasonal food price increases often exceed the costs of storage

Both are symptoms of inadequate seasonal storage.

Reducing hunger in the region will depend on greater storage for release onto markets later in season.
Maize prices vs. import parity, Blantyre, Malawi

USD per metric ton

Blantyre retail
cif Blantyre from South Africa
Maize prices vs. import parity, Nairobi, Kenya

USD per metric ton

import parity from South Africa

Nairobi wholesale

2006 2007 2008 2009
Very small % of farmers store grain with intention to sell later in season, Kenya, 2009

13% of maize surplus-producing households surveyed stored maize for at least 4-5 months after harvest with an intention to sell it later in season.
Promoting on-farm and trader seasonal grain storage will need:

1. Improved technology for reducing storage losses

2. Providing greater incentives to grain storage
   - Reducing the risk for farmers and traders that the seasonal price rise will be insufficient to cover their storage costs
Under-provision of rural storage

5 main reasons:

1. Multiple harvests per season in some areas (e.g., Kenya, Tanzania, Ethiopia)

2. Unpredictable government operations that affect normal seasonal pattern of prices
   - Threat of export bans (Cargill example, Zambia)
   - Uncertainty re: import duty waivers (Kenya, 2009)
Maize import tariff duty at Port of Mombasa

% rate on cif Mombasa
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   - Marketing board stock releases at subsidized prices

3. Uncertainty as to disposition of marketing board silos

4. Threat of grain confiscation (e.g., Ethiopia, Malawi)

5. Lack of quality standards wrt moisture content
Competing models of the role 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 / property rights

**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 price announced in advance
    - Transparent rules for initiating state imports

**Model 3**
- Role for markets and *discretionary state intervention*
  - Trade policies and marketing board activities change unpredictably
  - Justification for unconstrained role for state interventions to correct for market failures
What is the right strategy?

- Poulton et al (2006) note that there is no credible government commitment to Model 1 (full liberalization), hence Model 2 (markets with rule-based state operations) is preferred.
- However, questionable whether Model 2 could be perceived as credible either.
  - Many governments believe that when it comes to food security, governments are ultimately responsible – and cannot be restricted by rules-based approaches.
- Assuming continuation of prevailing attitudes, Model 3 (ad-hoc interventionism) is likely to remain the long-run equilibrium.
- Model 3 has in fact become the dominant model among the main maize-producing countries in the region.
What to do? (1)

1. Enhance the recognition that:
   - greater volumes of grain storage is needed to reduce intra-seasonal price spikes
   - Improved predictability of government operations in grain markets is needed to promote grain storage

2. Help governments to consider how it might be in their long-term interests to increasingly adopt Model 2 in order to encourage on-farm and trader incentives to store grain into lean season
   - Work out the details of a rules-based approach to government involvement in markets – periodic stakeholder fora
What to do? (2)

3. Reconsider impacts of:
   - Unannounced sudden changes in import tariffs
   - Eliminating import tariff at last minute concentrates the timing of imports and increases the risks of capacity constraints
Getting markets right for greater grain storage: 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
  - Policy predictability: Clear, rule-based public operations in markets
  - Credible commitment will enable more sophisticated risk management tools to come on line (e.g. warehouse receipt systems)
  - Greater transparency and consultation needed between private and public sectors
Thank You