Fostering Agricultural Market Development in Zambia

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Plan of the presentation

- Introduction
- Structure of the agricultural sector
- Public sector support and its impacts
- Need for predictability
- Farmer organizations & transaction costs
- Concluding remarks
Introduction
- African food markets inefficient and risky
  - High transport, storage & transaction costs
  - Why governments do not let go!
- Approach to state involvement.. ??
  - Huge burden on the treasury
  - Further destabilizes prices and production
- Pressure to find alternative since 1980s

Introduction (2)
- Many pursuing stop-and-go policies
  - Private sector encouraged
  - Hampered by public sector direct participation, discretionary trade policies
- Sector performance: unsatisfactory
- Does this imply failure of the reforms?
  - Hard to tell, need empirical evidence
Objectives of the study

- Highlight key features of the agric sector
  - Related to its inherent underdevelopment, observed policy outcomes
- Use empirical evidence to explain dismal performance & to suggest solutions

Structure of the sector

1. Most are small farms
   - 40% are 1 ha or less
   - 70% are 2 ha or less in size
   - Top 25% have 10 times land size of the bottom 25%
2. Only a few sell maize

- 4 maize market net positions
  - Net sellers (26% of households)
    - 1-4% account for 50% of marketed output
    - 20-25% account for the rest of the sales
  - Net buying producers (35%)
  - Non-producing buyers (10-16%)
  - Autarkic households (23-35%)

- Policy & market activity blind to these!
Maize sellers are generally better off

![Chart showing farmer categories and their net sales and gross value of maize production.]

Structure of the sector (3)

- 3. Formal-informal market dichotomy
  - Formal, large-scale traders
    - Access to hedging instruments (fwd contracts)
    - Linkages to commodity exchanges
    - Greater opportunities - Govt, WFP, etc
  - How to integrate informal into formal?
    - Warehouse receipts can inject finances &
      - reduce inter-temporal price risk
      - maintain crop quality
    - Needs supportive policies
Structure of the sector (4)

4. Comparative advantage & trade

- Trade increases price elasticity of demand
- Zambia disadvantaged by:
  - High production costs
    - 2001: $142/mt, compared to $110, $80 in RSA, Zim
  - High marketing costs
    - 2001: $15.25/mt, compared to $4, $6.5 in RSA, Zim
- Discretionary trade policies
- SADC-TP has increased imports only

Public sector support

1. Historical under-investment in agriculture
   - CAADP compliant past 3 years (10%)
   - Releases no longer source of unpredictability
Public sector support (2)

- 2. Poverty Reduction Programs a priority
  - >50% of agricultural budget to FRA & FSP
  - FSP progressively taking up much of it!
Contribution of PRPs to agric budget

<table>
<thead>
<tr>
<th></th>
<th>2008 (Actual)</th>
<th>2009 (Announced)</th>
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<tbody>
<tr>
<td>FRA</td>
<td>39%</td>
<td>17%</td>
</tr>
<tr>
<td>FSP</td>
<td>57%</td>
<td>76%</td>
</tr>
<tr>
<td>OTHER</td>
<td>4%</td>
<td>7%</td>
</tr>
</tbody>
</table>

3. Stagnating agricultural sector

- Growth rate far below CAADP target (6%)
  - Maize sub-sector among the worst (far below 4.8%)
- No gain in maize yields 1999/00-2007/08
Uncertain policy environment

- Unannounced policy changes
  - Can increase risk for private investment
  - Discretionary trade policy
- Unfulfilled government pronouncements
  - Intent to import, subsidize maize
  - Poor public-private sector coordination
    - In 2008, price rose to $400. Compare SAFEX $176

Collective action & transaction costs

- Conventional wisdom:
  - Bulking up $\rightarrow$ reduced transaction costs
- Empirical evidence
  - Not guaranteed: $\leftrightarrow$ Market development
    - Not confirmed in Malawi, Benin, Madag
    - Confirmed in Bangladesh, Zambia (maize only)
Concluding remarks

- Need for supportive policy actions
  - Predictable government actions
  - Non-discretionary trade policies

Concluding remarks (2)

- Interventions should be fully informed by existing industry structure
  - Price support likely to hurt the majority
  - Comparative advantage $\leftrightarrow$ need to lower production, marketing costs
  - Integration of informal into formal?
Concluding remarks (3)

- Need for broad-based investment
  - Away from private goods (FSP, FRA)
  - Towards infrastructure, institutions
    - Prioritize those with high social payoff
  - Investment in public goods can earn 2-6 times more returns

Concluding remarks (4)

- Farmer organizations can help reduce transaction costs BUT...
  - Markets must be developed to some degree
  - Sustainability?
    - Property rights $\leftrightarrow$ new generation coops?
    - Social capital – structural, cognitive
Merci!!
Obrigado!!
Thank you!!

Dominate by very small farms (2)

- Equally skewed cultivated land area
  - Almost 80% cultivated less than 2ha
  - More than 40% cultivated less than 1ha
Distribution of cultivated land area

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**Only a few sell maize (2)**

- Policy & marketing activity blind to these
  - All surplus swept from rural areas
    - Disadvantages majority rural poor (net buyers)
  - Most purchased maize channeled to millers
    - Disadvantages majority urban poor
    - Informal sector guarantees 7-20% savings
  - Higher prices hurt majority, income distribution
Role for collective action

Rationale and experience

- FOs seen as means to empower rural poor
  - International community
    - FAO, ICA → Nairobi workshop (2002), etc
  - Supportive regulatory framework ↔ Reforms
    - From state coops (ZCF) → Acts: 1998 CS; Soc; B.Names
    - Different forms have emerged: clientele, reasons
Three major types of farmer organizations

<table>
<thead>
<tr>
<th>Attribute</th>
<th>NGO-supported (1)</th>
<th>Outgrower supported (2)</th>
<th>Government initiated (3)</th>
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</thead>
<tbody>
<tr>
<td>Legal status</td>
<td>NR</td>
<td>NR</td>
<td>R</td>
</tr>
<tr>
<td>Income levels of members (US $ per capita)</td>
<td>25</td>
<td>55</td>
<td>51</td>
</tr>
<tr>
<td>Access to credit (%)</td>
<td>1</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>Education of household head (years)</td>
<td>6</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Female-headed households (%)</td>
<td>14</td>
<td>16</td>
<td>10</td>
</tr>
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NR = Most not registered; R = Registration is a requirement

Opportunities for empowerment

- Social capital – structural, cognitive
  - Understand the communities!!
    - No single size can fit all!
  - Synergistic investments – public, private, civil
    - Public sector leadership is vital!
- New generation cooperatives..?