

FERTILISER JOINT PROCUREMENT: ISSUES AND OPTIONS

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Fertilizer Consumption

- Major consumers are Asia & W.Europe then N.America, L.America & Oceania
- Africa accounts for 3%, SSA=1%, COMESA slightly less than 2% with Egypt accounting for about 2/3 of regional consumption
- Sub-Saharan Fertilizer Consumption by Size of Market

~~DISTRIBUTION OF THE SUB-~~
**SAHARAN AFRICA FERTILIZER
 MARKET BY SIZE**

FERTILISER USE		NUMBER OF
NUTRIENTS (MT)	PRODUCT (MT)	NUMBER OF
LESS THAN 10 000	LESS THAN 25 000	25
10 000 – 30 000	25 000 – 75 000	6
30 000 – 50 000	75 000 – 125 000	6
50 000 – 100 000	125 000 – 250 000	3
100 000 – 150 000	250 000 – 375 000	3
OVER 150 000	Over 375 000	1
TOTAL		44
Note: Product tonnes are estimated based on 40% nutrient concentration		
Source: FAO/IFDC		

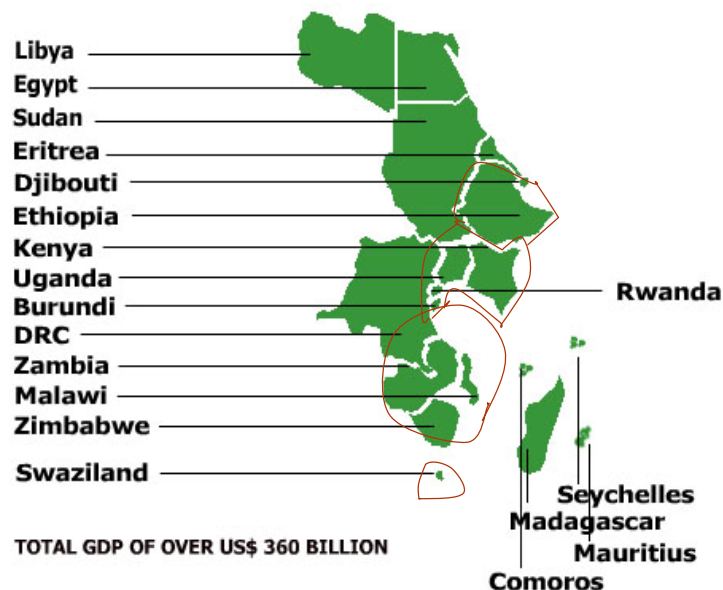
**ISSUES RELATED TO THE
 COMESA FERTILISER
 MARKET**

- Consumption by country is very small and more so at the household level
- Proliferation of brands hence even smaller when split into brands
- Spatially disaggregated rural markets
- High procurement and shipping costs

RATIONALE FOR REGIONAL JOINT PROCUREMENT

- Join several small country markets into 1 big (multi-country) market
- Economies of scale on procurement and shipping
- Quantity discounts
- Lower overhead costs
- Greater logistical efficiency
- Possibly lower financial costs

COMESA Fertilizer Market Segments



RATIONALE FOR RJP – ABUJA SUMMIT

- Resolution 8:
 - The African Union Member States, hereby request the establishment of Regional Fertilizer Procurement and Distribution Facilities with the Support of the African Development Bank, the Economic Commission for Africa, the Regional Economic Communities and Regional Development Banks, through strategic public-private partnerships by the end of 2007
- Resolutions 5, 7 and 11:

LEGAL INTERPRETATION OF RESOLUTION 8

- The resolution is very clear and talks about the establishment of physical infrastructure as, for example, strategic holding warehouses AND financial facilities
- However, the role of each of the private and public sectors in this area is not clearly defined.

DIFFERENT FORMS OF REGIONAL JOINT PROCUREMENT (Prototypes)

- Governments Syndication - Intergovernmental
- Private Sector Syndication
- Public/Private Sector - Rwanda
- Multi-country Supply by Private Sector
- Strategic Holding Warehouses/Multi-country
- Loan Funds

EMERGING PERCEPTIONS OF DIFFERENT FORMS OF REGIONAL PROCUREMENT

- Intergovernmental Approach
- Petroleum Model Based Approaches
- Regional Economic Communities directly engage in inputs procurement on behalf of Member States (Intergovernmental)

ISSUES: Government Syndication

- Most favorite option for Governments
- Private Sector does not favour this approach
- Competition for the same market with Pvt Sector (Pvt Sector Crowded Out)
- Can Govt really supply fertilizer at the most competitive price? Capacity? Irregularities!
- What are the strengths of Private Sector?
- How is it compatible with own competition policies?
- Not reverting to State Trading Enterprises?
- Based on theoretical arguments (Chemonics & IFDC, 2007)

ISSUES: RECs Procure for Members States

- All of the above (Previous Slide)
- Provided for in the Treaty but legal framework may be required
- Alignment of budgetary processes within Member States
- Alignment of procurement policies (Domestication)
- Power of Attorney esp. on borrowing
- Capacity??
- Is it in line with regional competition policies?
Yes/No, so legal guidance required
- Is it core business???
- COMESA/SADC Position Paper for Abuja Summit

PROPOSED BEIRA HOLDING WAREHOUSE

- Study Commissioned by IFDC
- Validation Workshop – Maputo 2008
- Overwhelming Support
 - Economies of scale in procurement, shipping and inland distribution
 - Blending
 - Proximity to end-users
 - Warehouse for exports
 - Public/Private Partnerships
- Detailed Costings and Discussions with Mozambique Gvt
- Soliciting of Funding

PETROLEUM MODEL

- Pure (Pvt) Sector – Import, refine, distribute to end-users
- Pure Public Sector – Import, refine, distribute to end-users
- Public/Private Sector – Import refine then sell/handover to private sector
- Proposed option: PUBLIC/Pvt
 1. Public sources funds (Commission), Procures, allocates to (pvt) sector; Also involved in policy and regulations
 2. Pvt sector distributes to farmers through agencies on commission. – at some point process is handed

PETROLEUM MODEL (contd)

- Relevancy to fertilizer marketing
 - Concept is relevant
 - Way it is applied to fertilizer is not very clear
- Limitations
 - Accountability of taxes, strategic reasons (political), etc, not big issues in fertilizer
 - High value, much cheaper to distribute, consumed in larger volumes, easier to finance
 - Commission's capacity to manage the program

GENERAL COMMENTS ON EMERGING PERCEPTIONS

- SADC/COMESA Fertilizer Position Paper for the Abuja Fertilizer Summit
- Change of Interpretation as Quoted from Original Text -Selectivity in Perception
- More clarity required in Petroleum Based Approach
- Resolution 8 talks about physical infrastructure and financial facilities

LUSAKA STAR WORKSHOP 2008 AND PVT SECTOR ROUND TABLE

- Action Plans - Recommendations
 - Private Sector Development (Market support mechanisms that compliment pvt sector - Intergovernmental joint procurement was not supported (Same in the Arusha Workshop))
 - Removal of trade barriers
 - Rehabilitation/expansion of local production
 - Provision of affordable finance
 - Enabling policy and regulatory environment (trade facilitation)
 - a) Enhance performance of fertiliser procurement from international markets
 - b) Facilitate identification of private sector business opportunities

VOLUMES AND DISCOUNTS

Qty Per Month	Annual Tonnage	Price/mt	Discount
25 000mt X 12months	300 000mt	US\$160/mt	Nil (0%) (NOT TRUFE???)
50 000mt X 12months	600 000mt	US\$155/mt	\$5 (3,1%/)
100 000mt X12mths	1 200 000mt	US\$-	Negotiable

Source: Alibaba.com

Issues Related to Fertilizer Discounts

- In the above example does the argument for quantity discounts carry much weight esp. on a per bag basis where discount is 25c per 50kg/bag or 0,16%?
- Arbitrary orders may experience loading problems
- Much bigger vessels may experience problems at discharge points

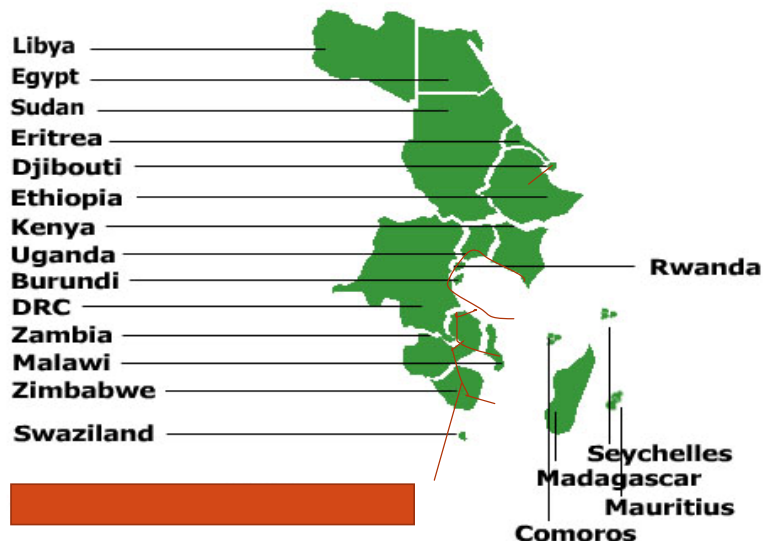
TRANSPORT COSTS AND INFRASTRUCTURE

	THAILAND	MALAWI	UGANDA	TANZANIA	MOZAMBIQUE
PRODUCT COST	81	61,3	62,9	65,3	48,3
TRANSPORT	11	21,4	25,4	22,3	32,7
MARGINS	0,1	10,2	6,3	6,1	8,1
FINANCE, OVERHEADS AND	7,9	7,0	5,5	6,3	10,9
TOTAL	100	100	100	100	100

ISSUES ON TRANSPORT COSTS

- Accounts for 20-33%
- Can go up to 40% of total costs
- Perhaps only area where significant cost savings can be realized
- Margins are very reasonable but need to be regularly monitored – provision of such information to farmers
- However, cost reductions will mostly come through return loads (bulk inputs and bulk outputs) as is case for Thailand
 - Corridor development is therefore crucial
 - Very high potential for corridor development

Corridor Development & Potential for Regional Joint Procurement



COMESA (CAADP) INITIATIVES

- Intergovernmental Approach
 - 2007, 3 Countries, Agency
 - COMESA Secretariat would source funding for off-takers
 - Lack of funding
 - Issues – covered earlier on.
- STAR Project (2008) Workshops –Lusaka
 - Covered already
- Holding Warehouses in Strategic Locations
 - Covered already
- Establishment of Input Credit Fund
 - In line with Abuja Summit Resolutions
 - Soliciting funding

REGIONAL PROCUREMENT PLATFORMS (RPPs)-Roles

- RECs – Trade facilitation- Link importers from different countries; disseminate market information; and facilitate dialogues with RECs and help in removing trade barriers
- REGIONAL BANKS – Funding, (fertilizers suppliers and farmers), loan recovery, guarantees, payments for procurements
- REGIONAL FERTILISER ASSOCIATIONS – fertilizer procurement, production capacity expansion, training, technical support, agro-dealer development.
- REGIONAL FARMERS ASSOCIATIONS - farmer mobilization, loan application vetting, coordination,

OPTIONS/WAY FORWARD: Intergovernmental Approach

- **More Analytical Work is Required**
 - Cost-benefit analysis
 - Legal aspects (legal framework, Power of attorney, amendment of legislation, consistency with current policies, etc)
 - Gauge consistency with core business
 - Irregularities against cost of doing business
 - Capacity

OPTIONS/WAY FORWARD: Holding Warehouses

- Very feasible –proximity to farmers
- Public/private partnerships (BOT) – Resolution 8
- Blending points – blend & distribute into hinterland
- Corridor development offers opportunities for multiplicity of uses, lower transaction costs, lower fertilizer prices
- Challenges
 - High capital costs
 - Efficient transport systems a prerequisite for meaningful cost reductions.

OPTIONS/WAY FORWARD: Multi-country Approach by Private Sector

- Feasible e.g Uganda, Rwanda, Burundi Or Tanzania, Rwanda Burundi >>Aggregates small markets into a big market
- Order say 3 shiploads (25 000mt each) each of N, P and K, blend at port and distribute to 2 or more countries
- Enhances bargaining power of Private Companies
- Enhances relations between manufacturers and importers (bigger and regular orders)
- Challenge
 - Sound infrastructure (quick & economical

OPTIONS/WAY FORWARD: Provision of Finance

- Central Recommendation in Abuja Summit Resolutions
- A regional programme will bring agro-dealers together through their associations. Same applies to farmers.
 - Opportunities for syndication through associations
 - Strengthens linkages between agro-dealers, suppliers, farmers, banks, etc
 - Nurtures a sound credit system (information asymmetry and adverse selection)

OPTIONS/WAY FORWARD: Vouchers

- Provide purchasing power to the poorest and most vulnerable
 - Develop markets and enhance competition plus room for bulk procurement as consumption increases
 - More sustainable intervention to poverty eradication

OPTIONS/WAY FORWARD: Policies and Regulations

- Mkt Development
- Draw lessons from the high prices that prevailed in 2007/8 and the Global Meltdown that followed and act appropriately –data collection and analysis (Petroleum products price cycles)
- Provision of Market information (Knowledge is power) e.g Cost Build-ups

OPTIONS/WAY FORWARD

We can't solve problems by using
the same kind of thinking we used
when we created them

Albert Einstein

Zikomo

Thank You