Government Involvement in African Food Markets: Toward Defining Constructive and Politically Feasible Roles

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Session topic: understanding the key issues related to working with the private sector

- Basic premise: Working with the private sector isn't an end in itself, rather a means to achieving some ends
- What are those ends?
  - Promoting broad-based wealth creation / food security
  - Working with the private sector to encourage transformative economic processes, properly harnessed
- This presentation addresses role of government in influencing the private sector's potential to achieve these objectives

5 main issues to be covered

1. There is no alternative to a smallholder-led agricultural development strategy
2. Improved access to markets will not allow the poorer half of African smallholders to become staple food sellers
3. Developing staple food markets is nevertheless crucial for achieving mass poverty reduction and food security
4. Modern marketing institutions will not develop until governments transition from discretionary to more systematic and rules-based forms of interventions
5. Priority public sector approaches for enhancing private sector's potential to promote broad-based wealth creation

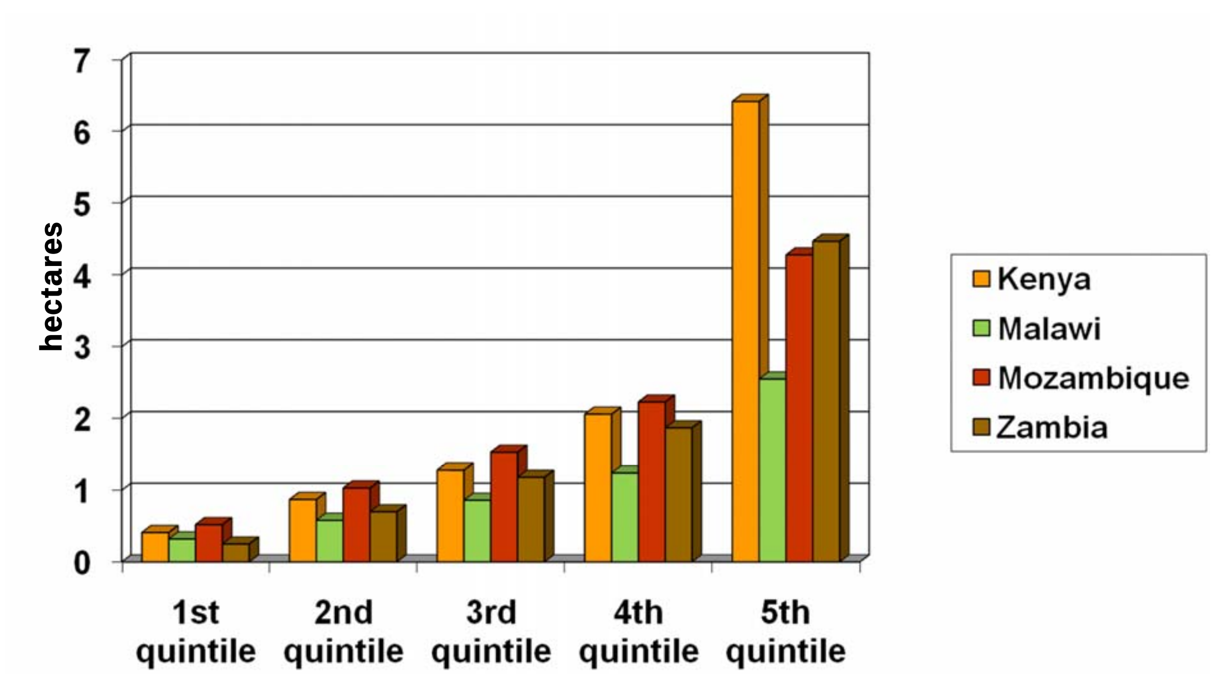
1. Why there is no alternative to a smallholder-led agricultural development strategy

- 50-70% of the population is engaged primarily in agriculture
- Agricultural growth *with* poverty reduction requires that smallholders be the engine
  - Large-farm-led model → latifundia
- Multiplier effects highest in smallholder agriculture

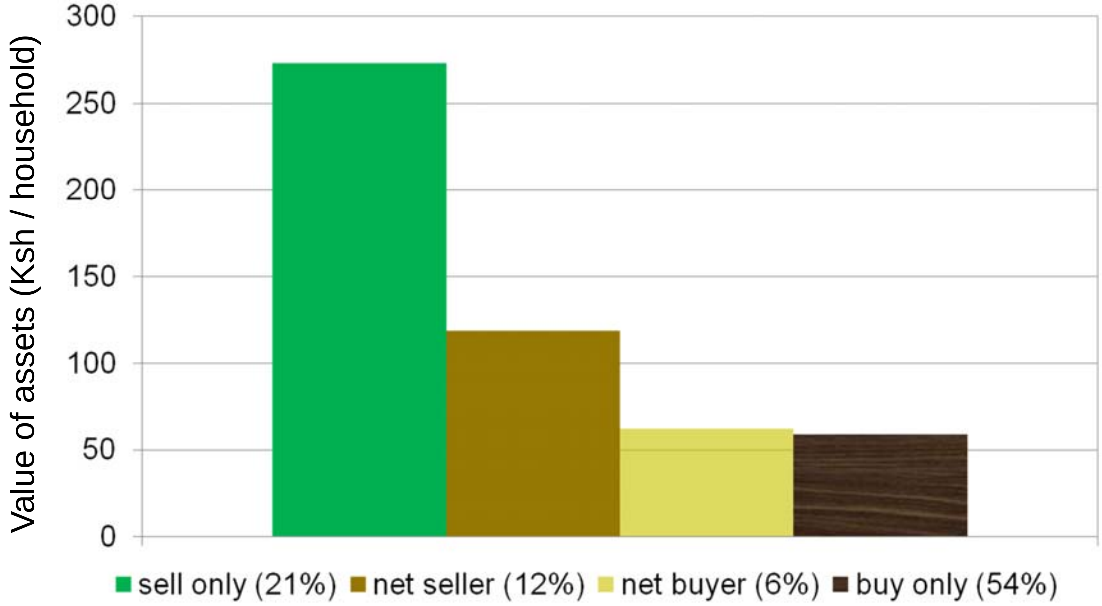
2. Why the poorer half of smallholder population will not participate directly in agricultural markets

- Inability to produce a surplus is the primary reason why most farmers do not sell crops
  - Inadequate land and resources
  - Low productivity of resources owned

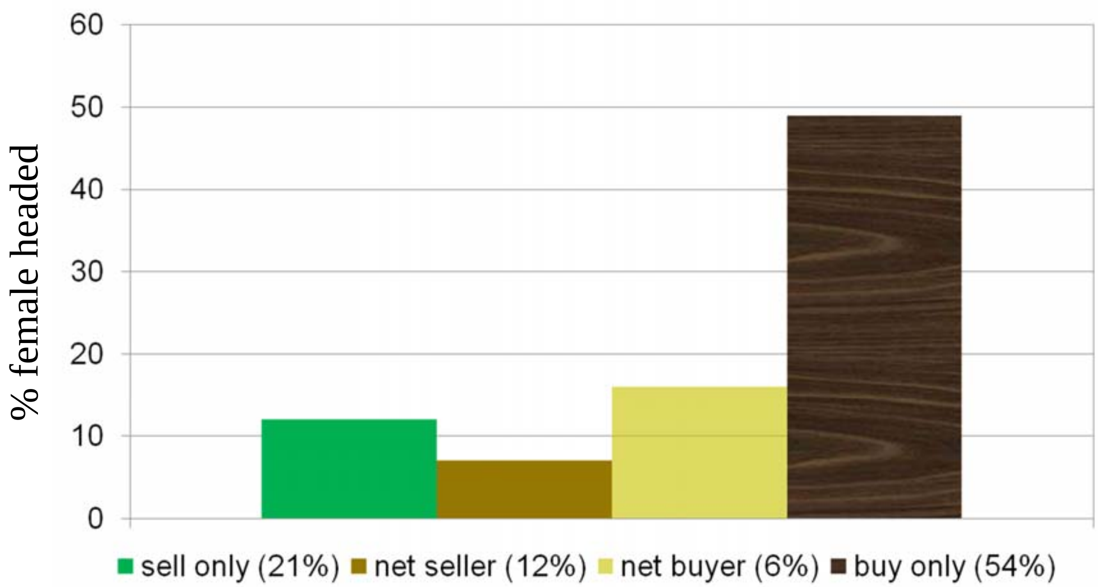
Most smallholder farms lack the land and other resources to produce a surplus



Maize buyers have few productive assets, and they constitute the majority (54%) - Kenya



Maize buying households are disproportionately female headed



Extreme concentration of marketed maize output – Malawi, 2008/09

	% of total sample							
Top 50% of maize sales								
Rest of maize sellers								
Farm hhs not selling maize								

Source: Agricultural Inputs Support Survey (n=1904 farm households), sample frame from National Statistical Office, Government of Malawi

Extreme concentration of marketed maize output – Malawi, 2008/09

	% of total sample							
Top 50% of maize sales	1.6							
Rest of maize sellers	19.6							
Farm hhs not selling maize	78.8							

Source: Agricultural Inputs Support Survey (n=1904 farm households), sample frame from National Statistical Office, Government of Malawi

Extreme concentration of marketed maize output – Malawi, 2008/09

	% of total sample	Farm size (ha)						
Top 50% of maize sales	1.6	2.0						
Rest of maize sellers	19.6	1.3						
Farm hhs not selling maize	78.8	1.2						

Source: Agricultural Inputs Support Survey (n=1904 farm households), sample frame from National Statistical Office, Government of Malawi

Extreme concentration of marketed maize output – Malawi, 2008/09

	% of total sample	Farm size (ha)	Asset wealth ('000 kw)					
Top 50% of maize sales	1.6	2.0	208					
Rest of maize sellers	19.6	1.3	94					
Farm hhs not selling maize	78.8	1.2	14					

Source: Agricultural Inputs Support Survey (n=1904 farm households), sample frame from National Statistical Office, Government of Malawi

Extreme concentration of marketed maize output – Malawi, 2008/09

	% of total sample	Farm size (ha)	Asset wealth ('000 kw)	Maize sales (kgs)
Top 50% of maize sales	1.6	2.0	208	2,510
Rest of maize sellers	19.6	1.3	94	204
Farm hhs not selling maize	78.8	1.2	14	0

Source: Agricultural Inputs Support Survey (n=1904 farm households), sample frame from National Statistical Office, Government of Malawi

Extreme concentration of marketed maize output – Malawi, 2008/09

	% of total sample	Farm size (ha)	Asset wealth ('000 kw)	Maize sales (kgs)	Non-farm income ('000 kw)
Top 50% of maize sales	1.6	2.0	208	2,510	101
Rest of maize sellers	19.6	1.3	94	204	31
Farm hhs not selling maize	78.8	1.2	14	0	12

Source: Agricultural Inputs Support Survey (n=1904 farm households), sample frame from National Statistical Office, Government of Malawi

Extreme concentration of marketed maize output – Malawi, 2008/09

	% of total sample	Farm size (ha)	Asset wealth ('000 kw)	Maize sales (kgs)	Non-farm income ('000 kw)	female headed (%)		
Top 50% of maize sales	1.6	2.0	208	2,510	101	13		
Rest of maize sellers	19.6	1.3	94	204	31	25		
Farm hhs not selling maize	78.8	1.2	14	0	12	28		

Source: Agricultural Inputs Support Survey (n=1904 farm households), sample frame from National Statistical Office, Government of Malawi

Extreme concentration of marketed maize output – Malawi, 2008/09

	% of total sample	Farm size (ha)	Asset wealth ('000 kw)	Maize sales (kgs)	Non-farm income ('000 kw)	female headed (%)	Subsidized fert received (kgs/hh)	
Top 50% of maize sales	1.6	2.0	208	2,510	101	13	166	
Rest of maize sellers	19.6	1.3	94	204	31	25	85	
Farm hhs not selling maize	78.8	1.2	14	0	12	28	60	

Source: Agricultural Inputs Support Survey (n=1904 farm households), sample frame from National Statistical Office, Government of Malawi

Extreme concentration of marketed maize output – Malawi, 2008/09

	% of total sample	Farm size (ha)	Asset wealth ('000 kw)	Maize sales (kgs)	Non-farm income ('000 kw)	female headed (%)	Subsidized fert received (kgs/hh)	commercial fert bought (kgs/hh)
Top 50% of maize sales	1.6	2.0	208	2,510	101	13	166	251
Rest of maize sellers	19.6	1.3	94	204	31	25	85	48
Farm hhs not selling maize	78.8	1.2	14	0	12	28	60	34

Source: Agricultural Inputs Support Survey (n=1904 farm households), sample frame from National Statistical Office, Government of Malawi

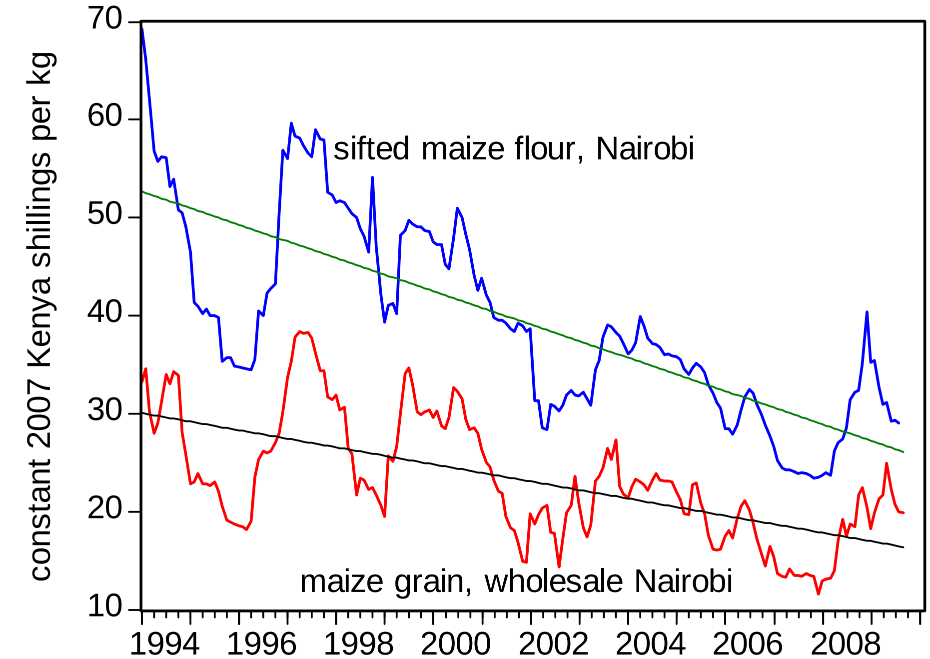
Conclusion so far:

1. It will be difficult to turn staple food buyers into sellers just by improving the market
   - productive potential is a major problem for at least 50% of the smallholder population
2. Efforts to promote farm productivity are crucial

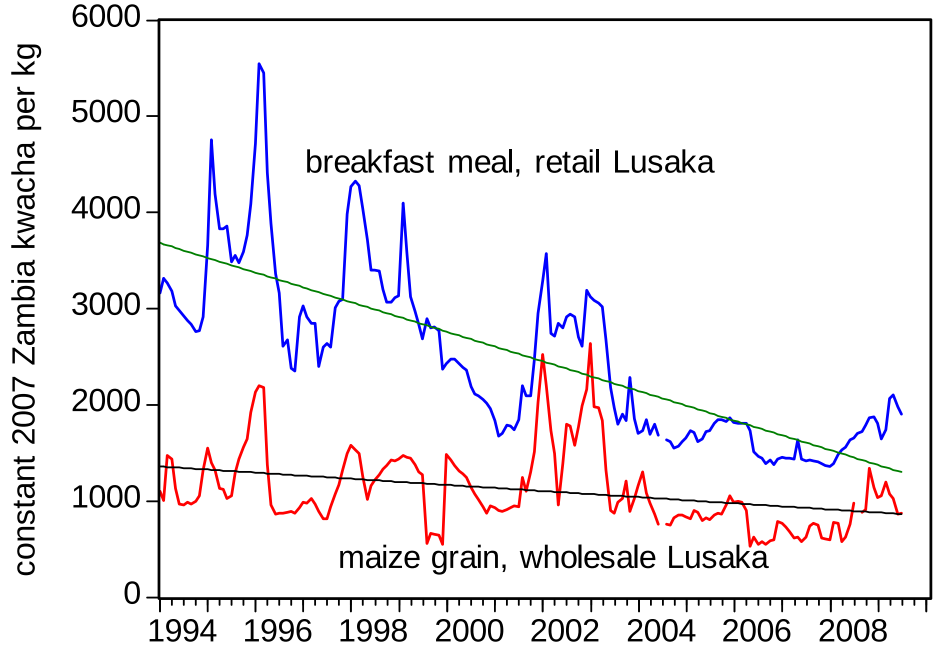
3. Why market development is still crucial for reaching the bottom half

1. Lower food costs constitute major gains in disposable income for consumers
2. Stable food markets enable farmers to shift toward higher-valued crops and activities
   - major source of land and labor productivity growth

Retail maize meal prices trending downward due to liberalization



Retail maize meal prices trending downward due to liberalization



Conclusion:

Market liberalization:

- Has reduced marketing costs, particularly at milling and retailing stages (which were highly concentrated prior to reform)
- Major benefits to millions of consumers – rural and urban

4. Discretionary state involvement in food markets are undermining private investment in markets

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

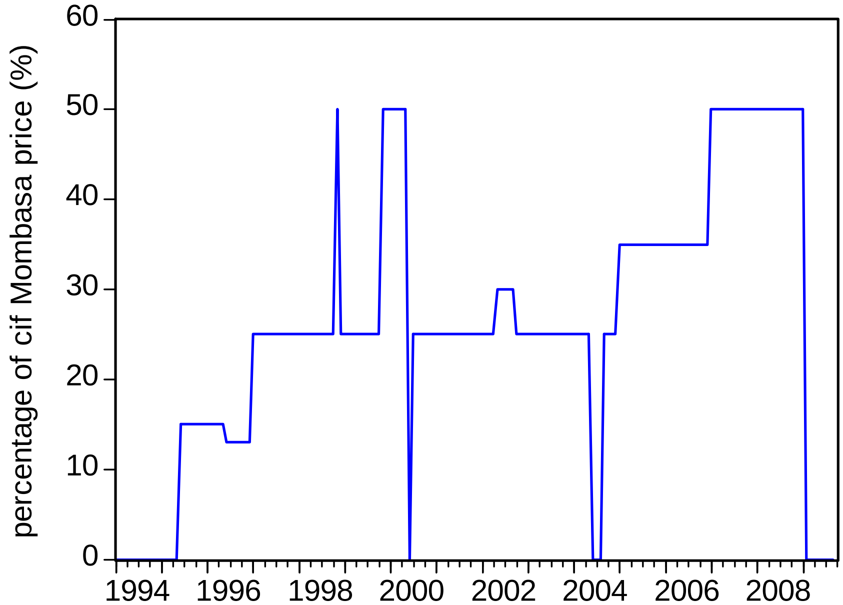
- e.g., buffer stock release to defend stated ceiling price
- Marketing board purchases at stated price announced in advance
- Transparent rules for initiating state imports

Model 3

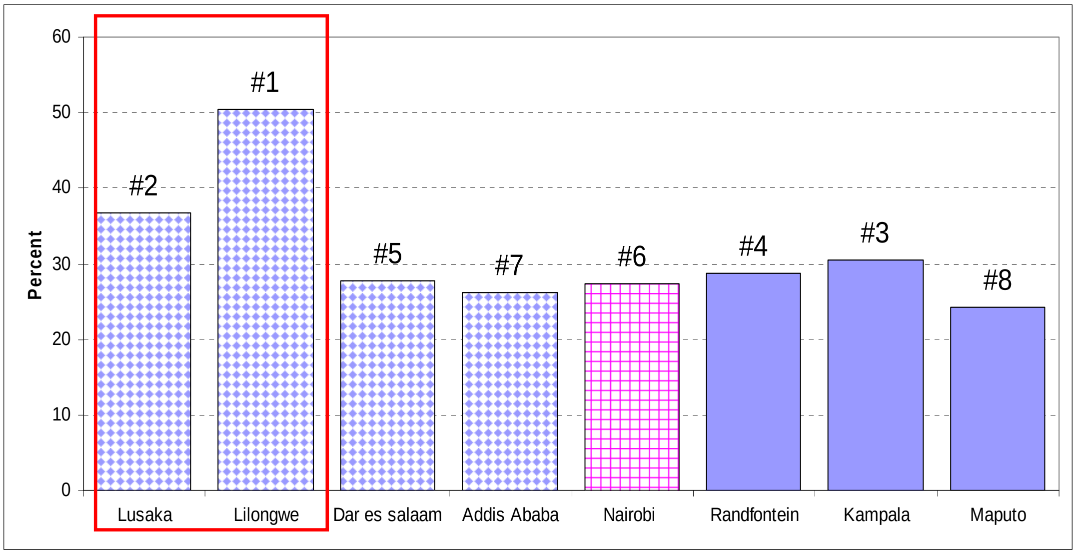
Role for markets and *discretionary* state intervention

- Trade policies and marketing board activities change unpredictably
- Justification for unconstrained role for state interventions to correct for market failures

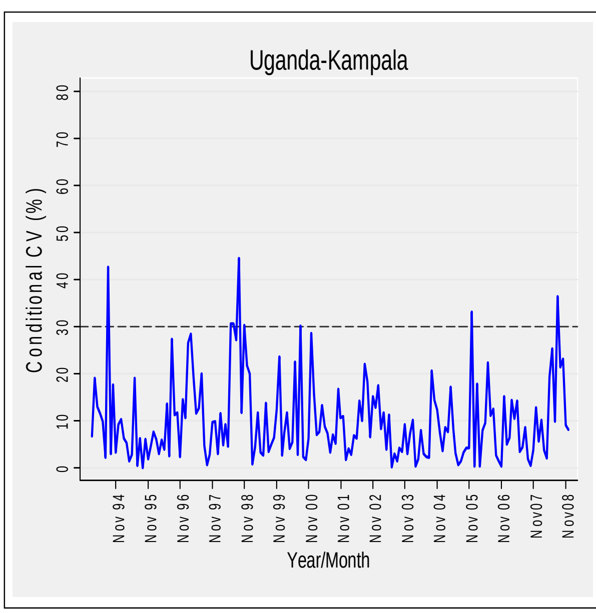
Example of food price uncertainty caused by discretionary government policy: Variable import tariff rate, Kenya

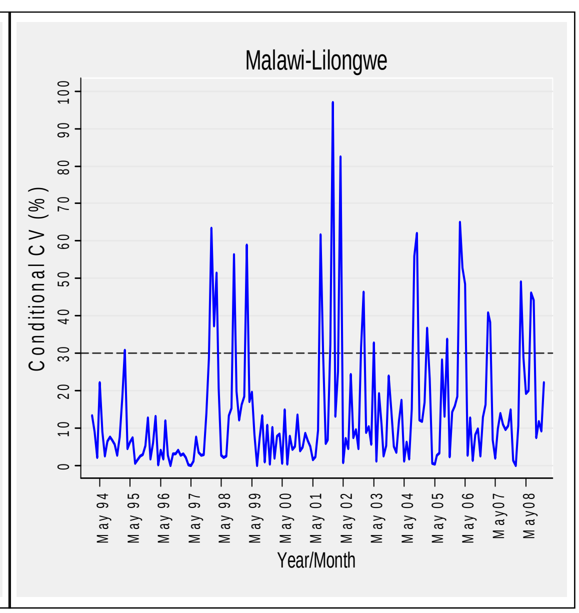


States that intervene most heavily in markets to stabilize prices experience the most price instability



Maize price unpredictability: Uganda vs. Malawi





5. Priority strategies for promoting equitable and sustainable agricultural development and food security

1. Support efforts to move from discretionary to rules-based forms of state involvement. Doing so will:
   - hasten capital investment in markets and infrastructure
   - achieve greater stability of retail food markets
   - support smallholders to increasingly shift into higher-return crops and non-farm activities

5. Priority strategies for promoting equitable and sustainable agricultural development

3. Focus on farm productivity growth - support public investment in
   - Crop science, improved seed varieties
   - Improved farm management practices
   - Infrastructure – road, rail, ports

5. Priority strategies for promoting equitable and sustainable agricultural development

4. Streamline customs clearance in cross-border grain trade
5. Consider paying cost of SAFEX option contracts in return for ensuring open regional trade
   - could reassure governments that adequate supplies will be available, and can therefore commit to a rules-based system (Model 2)
6. Create forum for regular consultation and coordination between private and public sectors

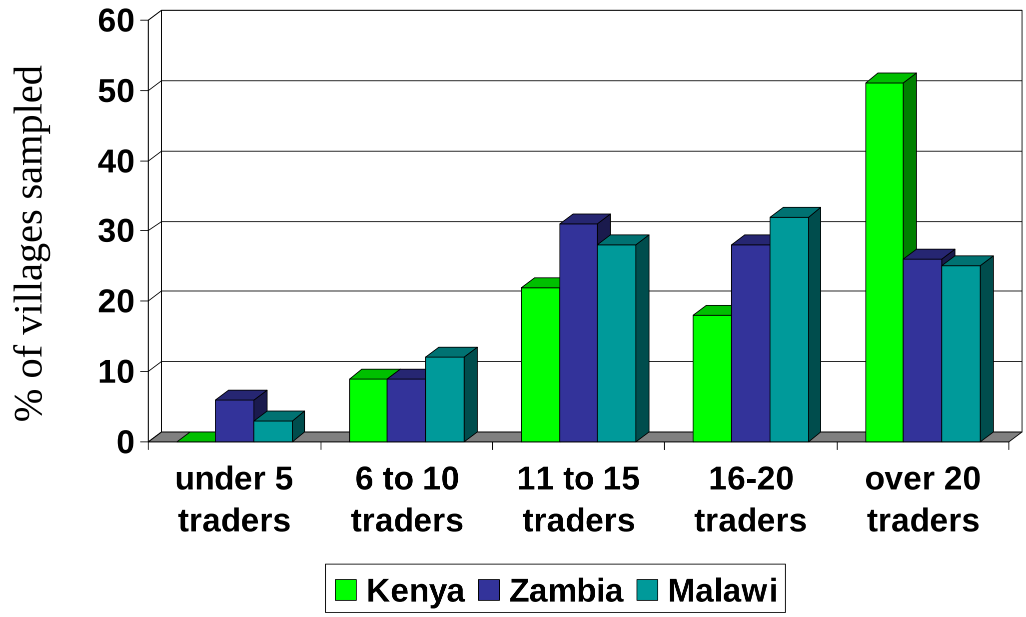
Indicators for measuring impact of support to the private sector in agricultural markets

Changes in:

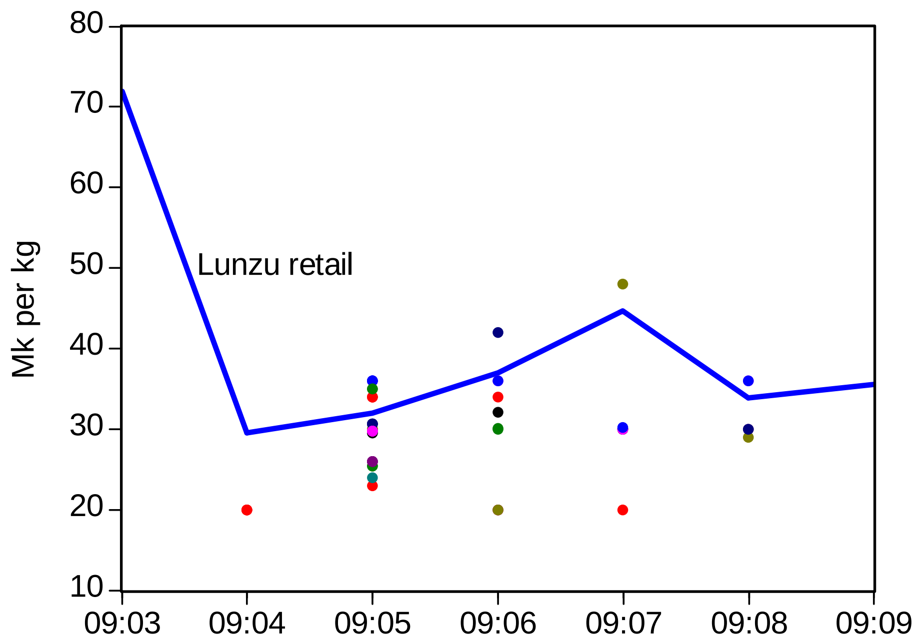
1. # of input agro-dealers / retail outlets selling commercial inputs
2. # of grain assemblers buying from farmers in villages
3. Kms traveled by farmers from farm to point of grain sale
4. Margin between retail and farm-gate price in each month

Thank you

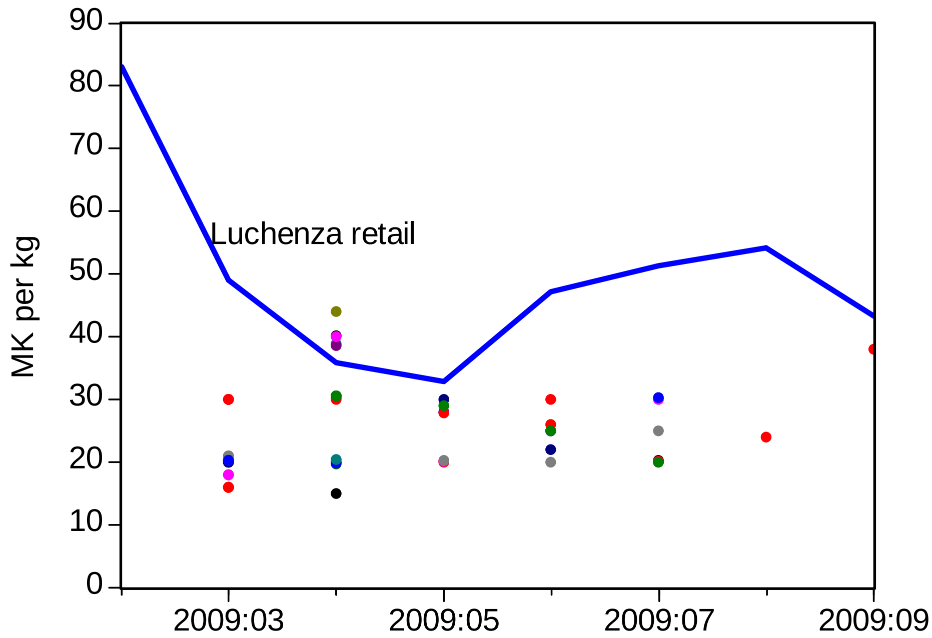
Number of traders buying maize from farmers in village – 2009 Maize Value Chain Study



Lunzu retail price and farmer-reported prices received in remote villages in Blantyre District, 2009



Luchenza retail price and farmer-reported prices received in remote villages in Mulanje District, 2009



Ranking of Alternative Investments: Meta-Study Evidence from Asia and Africa

	The Economist	IFPRI study
Policies		
Road investment		
Agricultural R&D		
Agricultural extension services		
Credit subsidies		
Fertilizer subsidies		
Irrigation		

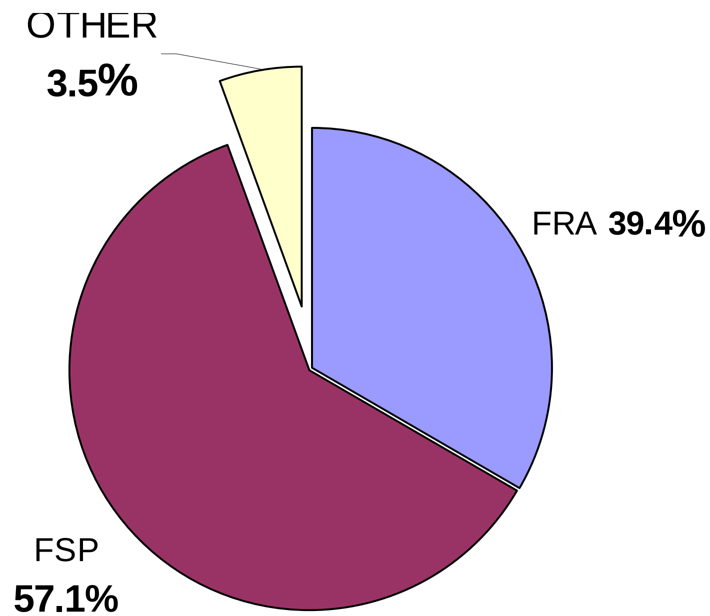
Ranking with respect to ***agricultural growth:*** Evidence from Asia

	The Economist	IFPRI
Policies	1	
Road investment	2	1
Agricultural R&D	3	2
Agricultural extension services	4	
Credit subsidies	7	3
Fertilizer subsidies	5	5
Irrigation	6	6

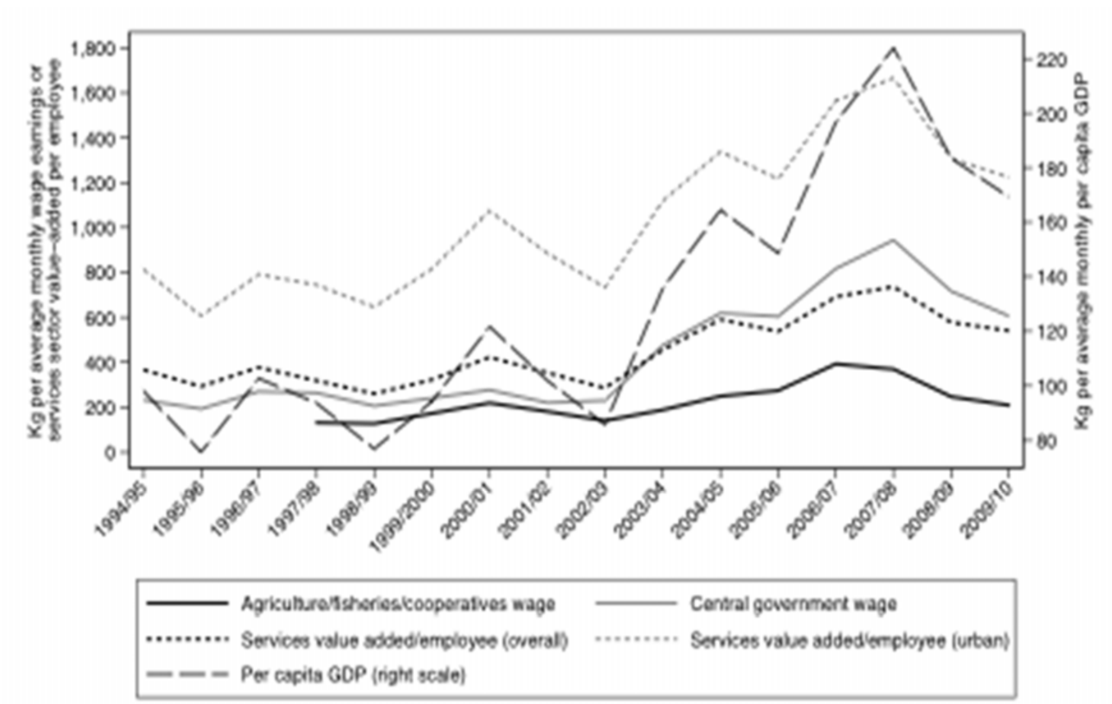
Ranking with respect to ***poverty reduction:*** Evidence from Asia

	The Economist	IFPRI
Policies	1	
Road investment	2	1
Agricultural R&D	3	2
Agricultural extension services	5	
Credit subsidies	7	3
Fertilizer subsidies	4	4
Irrigation	6	6

Composition of MACO Poverty Reduction Programmes 2009



Kgs breakfast meal per average monthly wage, Lusaka



Kgs of maize meal per average monthly wage, Nairobi