

# Fostering Agricultural Market Development in Zambia



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the Zambia National Symposium,  
*Harnessing the Potential of Agriculture to Meet the Increasing  
Demands from a Growing Population*

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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

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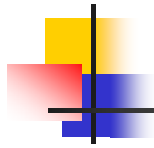
- African food markets inefficient and risky
  - High transport, storage & transaction costs
  - Why governments do not let go!
- Approach to state involvement.. ??
  - Huge burden on the treasury
  - Further destabilizes prices and production
- Pressure to find alternative since 1980s



## Introduction (2)

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- 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

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- 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

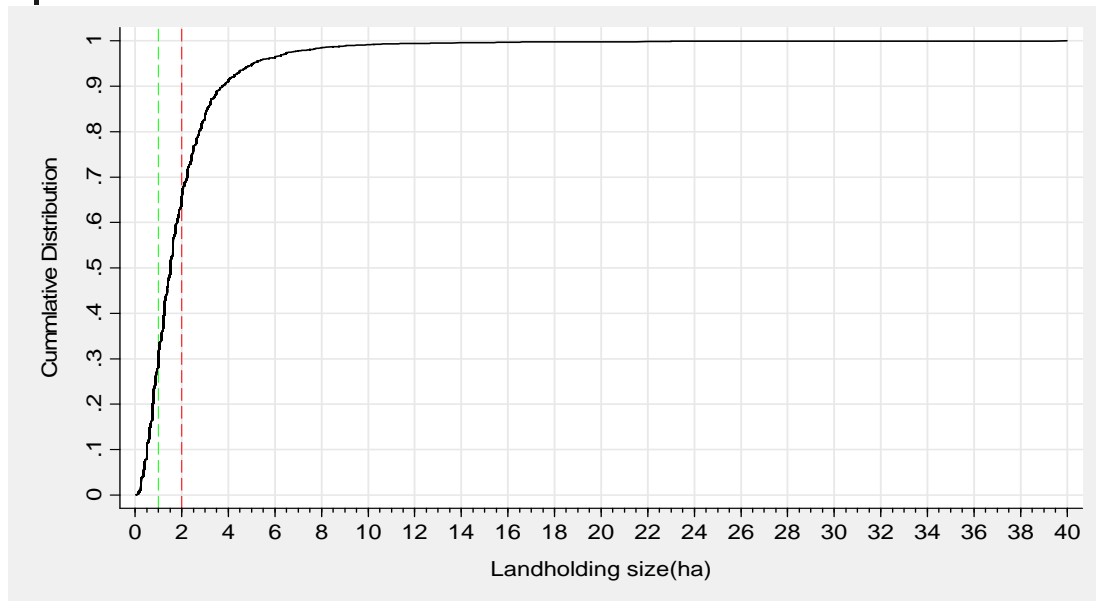


## Structure of the sector

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- 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%

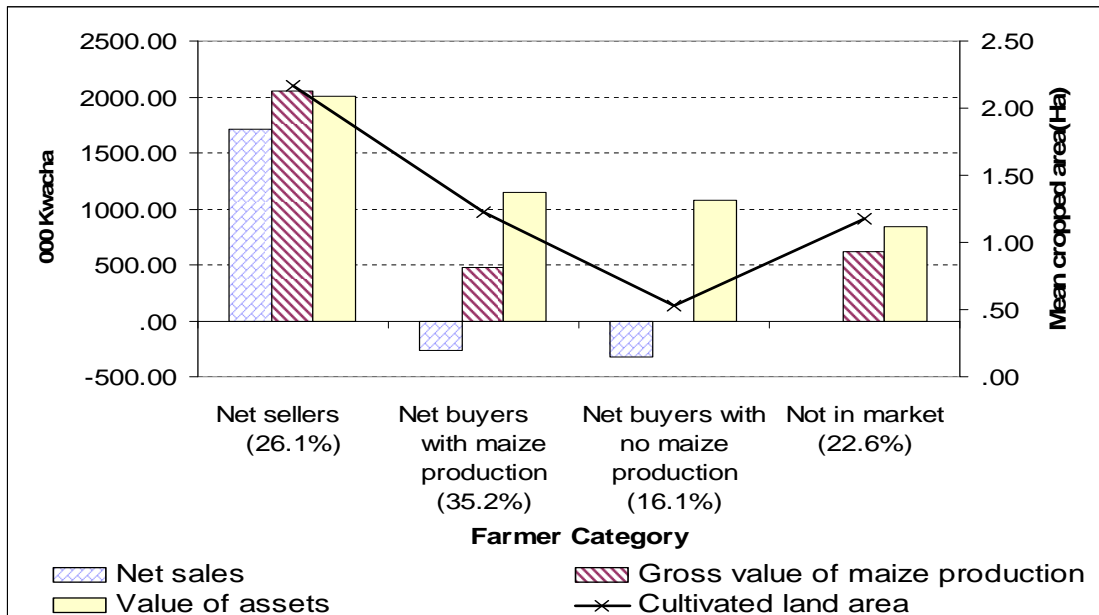
## Distribution of landholding size



## Structure of the sector (2)

- 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



## Structure of the sector (3)

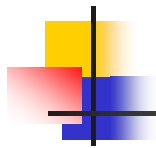
- 3. Formal-informal market dichotomy
  - Formal, large-scale traders
    - Access to hedging instruments (fwd contracts)
    - Linkages to commodity exchanges
    - Greater opportunities – Govt, WFP, etc
  - How to integrate informal into formal?
    - Warehouse receipts can inject finances &
     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



## Structure of the sector (4)

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- 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

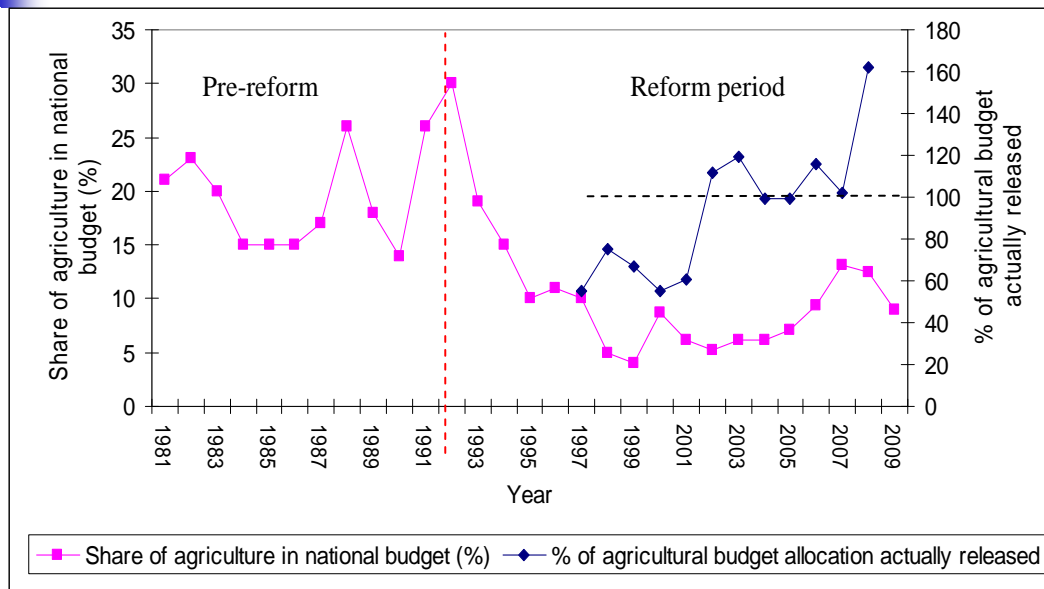


## Public sector support

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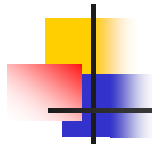
- 1. Historical under-investment in agriculture
  - CAADP compliant past 3 years (10%)
  - Releases no longer source of unpredictability

## Share of agriculture in national budget

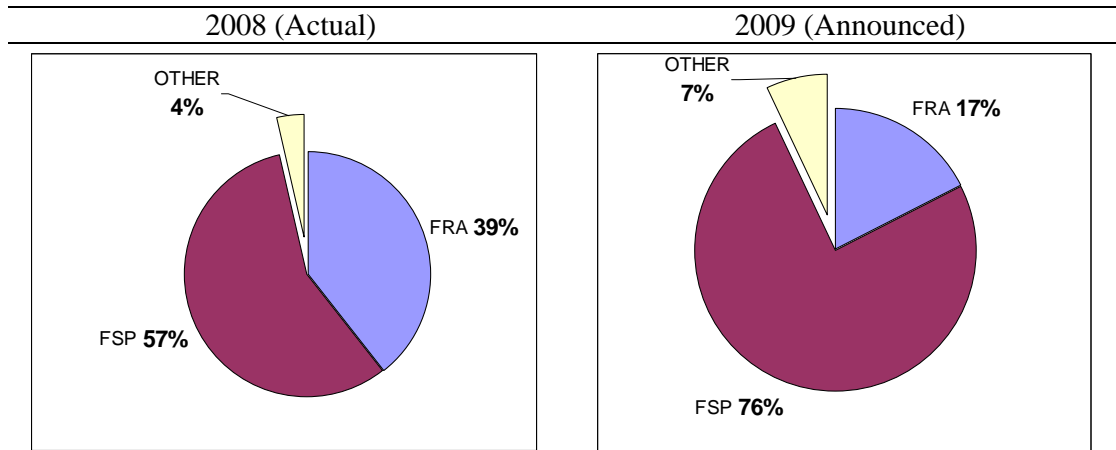


## Public sector support (2)

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

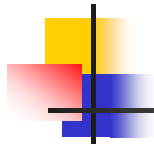


## Contribution of PRPs to agric budget



## Public sector support (3)

- 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

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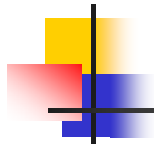
- Unannounced policy changes
  - Can increase risk for private investment
  - Discretionary trade policy
- Unfulfilled government pronouncements
  - Intent to import, subsidize maize
  - Poor public-private sector coordination
  - Examples: 2003, 2005 & 2008
    - In 2008, price rose to \$400. Compare SAFEX \$176



## Collective action & transaction costs

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- Conventional wisdom:
  - Bulking up → reduced transaction costs
- Empirical evidence
  - Not guaranteed: ↔ Market development
    - Not confirmed in Malawi, Benin, Madag
    - Confirmed in Bangladesh, Zambia (maize only)



## Concluding remarks

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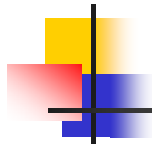
- Need for supportive policy actions
  - Predictable government actions
  - Non-discretionary trade policies



## Concluding remarks (2)

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- 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)

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- 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)

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- 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!!

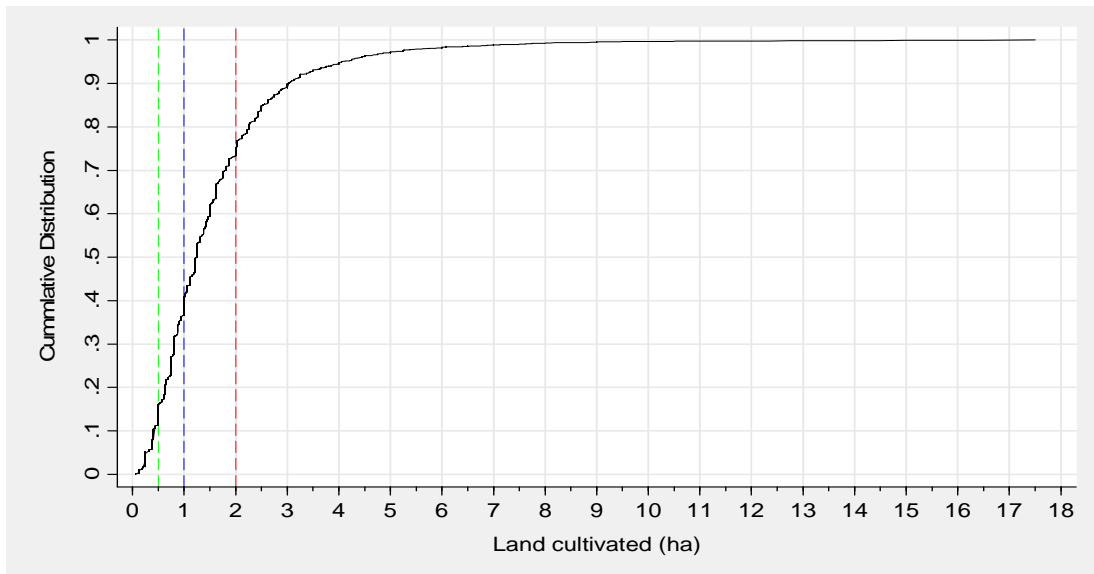
Thank you!!



Dominated 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



## 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

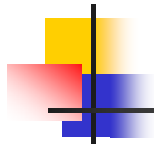


# Role for collective action



## Rationale and experience

- FOs seen as means to empower rural poor
  - International community
    - United Nations Conference on Environ & Devt (1992)
    - FAO, ICA → Nairobi workshop (2002), etc
    - World Devt Report 2000/01 (WB 2002)
  - 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

Attribute	Type of farmer organizations		
	NGO- supported (1)	Outgrower supported (2)	Governement initiated (3)
Legal status	NR	NR	R
Income levels of members (US \$ per capita)	25	55	51
Access to credit (%)	1	5	8
Education of household head (years)	6	5	5
Female-headed households (%)	14	16	10

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..?