

The Reform of Agricultural Markets in Purayes (I)

Proposal

The Government of Purayes (GoP) has proposed to close a large number of rural marketplaces operated by the parastatal CAMAD. The closures taken alone will improve the GoP budget situation, since the markets were all operating at a loss and CAMAD is the recipient of substantial operating subsidies each year. There is concern among lawmakers and non-governmental organizations, however, that the costs of closing will be borne disproportionately by the poor.

Your responsibility is to assess the impact of this proposed policy reform on the incidence and depth of poverty in Purayes.

Country Context

Purayes is one of the poorest countries in the world. In 2000, nominal per capita income was estimated at US\$190 and the 2001 UNDP Human Development Report ranks Purayes 153 out of 162 countries. A rapidly growing population of 11 million people, a narrow resource base and its land-locked status are among the most serious challenges facing Purayes. Purayes' economy is largely dominated by the agricultural sector in terms of output, foreign exchange earnings and employment. The sector accounts for roughly 35 percent of gross domestic product (GDP) and more than 90 percent of the country's foreign exchange earnings. It also provides paid and/or self-employment to an estimated 92 percent of the rural population.

Purayes' food security situation is precarious, and the country is prone to natural disasters of both extremes, from drought to heavy rains. The main staple crop is maize and the main cash crop is tobacco. Since the advent of democracy in 1994, smallholder farmers have been permitted to grow burley tobacco, which had been previously been restricted to large estates. This has increased the cash incomes of a large number of smallholders and reduced their dependence on maize.

Purayes' macro balances are poor with interest rates around 45-50 percent and inflation around 30 percent. A primary cause of the macro instability is large fiscal deficits leading to excessive domestic government borrowing and a consequent monetary expansion. In recent years, one of the main causes behind fiscal slippages has been subsidization of the large

PSIA of Agricultural Reform in Purayes

To inform the continued debate regarding the sequencing of agricultural reforms and the extent that input and output markets ought to be restructured, the PSIA work focuses on the impact of the proposed closure of agricultural marketplaces run by a large parastatal CAMAD.

Purayes at a Glance – 2000

- Population: 11 million
- Surface area: 118.5 thousand sq. km
- Population growth: 2.1 %
- Life expectancy: 39 years
- Population below national poverty line 54%
- GNI per capita: 190 US\$

The economy:

GDP

1997	1998	1999	2000
1.6 b	1.64 b	1.71 b	1.73 b

Annual Average Inflation

1997	1998	1999	2000
9 %	30%	45%	29%

Current Account Balance

1997	1998	1999	2000
-30%	-30%	-36 %	-31%

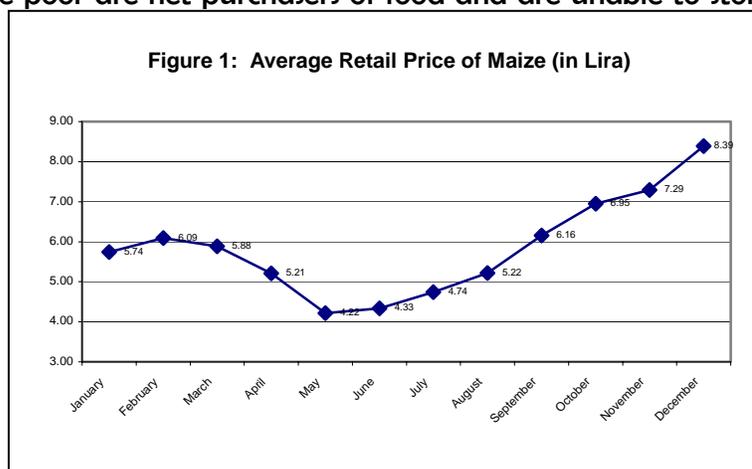
agricultural marketing parastatal, CAMAD (subsidies of 1 percent of GDP in 2000/01, 1.6 percent in 2001/02).

Agriculture in Purayes

Purayes' agriculture is highly dualistic. There are between 1.8 and 2 million smallholder farmers with average landholdings of 1 hectare (ha) but many of them actually cultivate considerably less than that. They typically cultivate maize as the main food crop (72% of rural households grow maize), some cash crops (29%, mostly burley tobacco) groundnuts, cassava, some pulses and vegetables. They are also the main producers of cotton and paprika. In contrast to the smallholder sector, over 30,000 medium and large estates occupy some 1.1 million ha of land, ranging in size from 10 ha to more than 500 ha. Estates are the exclusive producers of tea and flue-cured tobacco and the main producers of coffee and sugar cane. They also produce one third of burley tobacco (down from over 80% in 1994) and small amounts of maize, pulses, paprika, and cassava.

Purayes continues to suffer from considerable food insecurity, both in the aggregate and at the household level. On average, the people of Purayes consume only 83 percent of the minimum calorie daily requirements. The FAO estimates that aggregate food supplies in Purayes have fluctuated between 1635 and 1767 calorie/capita/day (ccd) during 1996-1999, compared with a minimum requirement of 2200 ccd. When disaggregated to the household level, approximately 1.5 million households (half the population) consume only two-thirds of the minimum requirement. Maize remains the main source of calories for the overwhelming majority of the population. Since 1994, its price in-country has become more volatile, both between and within seasons. As the poor are net purchasers of food and are unable to store

the food, this has resulted in increased food insecurity for the most vulnerable groups. Figure 1 illustrates the average movement in maize prices over the period 1995-2001. The harvest occurs in the months March, April and May; the excess supply of those months causes price declines as farmers sell their crops. In the later months of the year, excess demand causes the price to rise.



The Corporation for Agricultural Marketing and Development (CAMAD) is a government parastatal participating in many facets of agriculture and agri-business within Purayes. CAMAD (i) supplies agricultural inputs to farmers; (ii) markets agricultural produce for export and domestic consumption; and (iii) plays a food security role in maize markets by acting as a buyer and seller in remote areas, providing grain storage across seasons and supporting a large marketing structure with distribution or market centers located throughout urban and rural areas.

Markets in both agricultural produce and foodstuffs are dominated by private traders whose activities complement those of CAMAD. Although institutional barriers such as licensing requirements have largely been removed, private traders face transport, storage, crop procurement, financing and information constraints. The Small Enterprise Development

Organization (SEDOM) is intended to provide credit to traders. Most traders are small-scale actors with little capacity to take advantage of intra-temporal and regional price differences. Poor maintenance on rural roads prevents many smallholders from attracting traders to the farmgate. Local farmers' associations or co-operatives are active and have pooled resources to create local grain storage. The National Association of Farmers of Purayes (NAFOP) and other organizations have the scope to provide a grain procurement service to members and non-members in areas where they are already strong. However their membership base remains limited to wealthier regions. They are currently seeking donor support for their expansion.

Poverty in Purayes:

While a number of qualitative studies have been done (e.g., the "Voice of the Poor" interviews referenced below) there has been little systematic attention to the measurement of poverty in Purayes. When the Minister of Public Welfare was asked about this recently, he replied: "In Purayes, everyone is poor. What is the use of chronicling the obvious?" Officially, 54 percent of the population falls below the poverty line, but there is much uncertainty about how the poverty line was constructed and who was surveyed to reach this conclusion.

The Minister is on target about the prevalence of poverty. Observations of mission members, both in the cities and in rural areas, corroborate this statement. Aside from a thin layer of high-level government officials and private-sector entrepreneurs, the population of Purayes lives in conditions of poverty.

CAMAD Operations:

CAMAD currently operates 343 markets to conduct sales of inputs, purchase commodities from smallholders, and sell food crops to consumers. Losses from the operations of these markets represented around 15 percent of CAMAD's total losses. Markets were not uniformly in deficit: CAMAD found in its audit of these markets that the urban and peri-urban markets were profitable, while the rural and more remote markets ran up large losses. As part of earlier reforms, around 125 CAMAD markets were closed down in 1998.

CAMAD has traditionally had a food security role in terms of the importation, marketing and storage of grain. The National Food Reserve Agency (NFRA) was created in mid-1999 to manage the strategic grain reserve and to act as a disaster and emergency relief agency. NFRA remains an agency composed of a few staff, and relies upon CAMAD assets for the storage and distribution of grain. CAMAD's total storage capacity is estimated at 468,000 metric tons, or 14%-20% of an annual harvest. The current food shortages in Purayes have revealed a number of shortcomings in the institutional arrangements: most notably, that CAMAD is using only a fraction of its storage capacity for grain reserves because it cannot afford to purchase the grain.

CAMAD runs various subsidiaries (e.g., a cotton ginning company, a bus company, cold storage), and many of these are loss-making. It is also engaged in the direct cultivation of various crops. CAMAD reports that its four largest loss-making subsidiaries (not including the rural marketplaces) constitute 53 percent of CAMAD's total losses.

The degree of small farmer dependence on CAMAD for the purchase of inputs and marketing of crops has declined steadily since the liberalization of late 1980s. Current information shows

that CAMAD purchased a share that varied from 1 to 9 percent of national maize production during the past 5 years and a recent study highlighted the decline in the market share of tobacco purchased (from 100% to 10%); cotton (100% to 50%), and groundnuts (from 20% to an insignificant share). CAMAD's supply of inputs to farmers has been reduced to 10 percent of total input supply, in part because CAMAD in recent years has not had the resources to purchase the inputs.

Government of Purayes Agricultural Strategy

The agricultural strategy pursued by the GoP over the past half-decade has focused on three key objectives: (i) increasing food security, particularly through domestic production and storage of maize, (ii) generating higher rural income growth, and (iii) creating a more diversified pattern of agricultural production and trade. To achieve these objectives, the GoP eliminated production quotas and price controls. It also eliminated barriers to private-sector participation in marketing agricultural products and inputs, and implemented a series of agricultural-input access programs.

CAMAD has been restructured several times in the past to allow freer markets. Research conducted by IFPRI on the impact of these reforms suggests that liberalization has led to increased private-sector activity¹. This conclusion is buttressed by surveys of smallholders. Of households surveyed, 43 percent reported an increase in the number of input sellers and 60 percent reported an increase in the number of crop buyers. However, the impact of these reforms on different categories of smallholder farmers and laborers is not clear. For example, some studies suggest that agricultural laborers below the legislated minimum wage are the most food insecure. In 1993, the importation and distribution of fertilizer were opened up to the private sector and in 1994-95, subsidies were reduced to 5 percent. The reduction in subsidies, combined with the devaluation of the Lira, led to a doubling of the real cost of fertilizer and had a negative impact on fertilizer usage. Finally, inefficiencies in factor input markets, market information, credit delivery, and inadequate infrastructure have all constrained sectoral growth. Private traders have not reliably stepped in when the state has stepped out of a market.

Voices of the Poor

The World Bank sponsored an interview series in the mid-1990s called "Voices of the Poor", and in Purayes the comments of rural poor farmers often touched upon CAMAD. These can be summarized briefly.

- CAMAD local branches are particularly valued by the poor rural smallholder households and important for smallholders in remote and marginal areas of the country, as these branches are often perceived as offering easiest access, best consumer/producer prices and the steadiest source of supply/ purchase. CAMAD's selling of staple food in the hungry season at fixed retail prices is also viewed as a source of last resort by this population.
- Farming households consume most of the staple food they produce themselves. However, after the harvest they sell smaller parts of their maize to earn some cash

¹ In areas where survey research was conducted, the number of commodity wholesalers has increased in 59 percent of the locations and retailers in 81 percent of the locations since 1995. The number of input wholesalers and retailers has increased in 46 percent and 70 percent of the areas, respectively, since 1995.

income. Maize is most often sold to CAMAD. However there are deviations from this pattern, e.g. wealthier farmers selling directly to private traders.

- Private traders often start buying maize before the official start of the season, i.e. before operation of CAMAD markets, and pay below the minimum producer price. Poorer farmers are more likely forced to sell as early as possible, thus getting a lower price for their produce.
- Many rural households do not possess enough maize from their own production to cover their subsistence needs during the 2-3 months before harvest. (More than half of the rural farming households are on average net consumers of maize.) During the months before harvest households rely on external supplies of maize, which they either purchase from CAMAD, from local markets or in exchange for labor from better-off farmers.
- The main coping strategies in the hungry season -- besides stretching food supplies or reducing the number of meals. -- are either working as temporary labor in preparing the fields for the richer farmers or sending family members to work in other areas/towns.
- Farmers prefer to buy from CAMAD, as they have for decades the experience of CAMAD being a reliable source of maize at the officially fixed consumer price. This price is usually below the price on the local market or from private traders.
- The closing down of near-by CAMAD branches which guaranteed the supply of fertilizer at controlled prices led to private traders taking over former CAMAD functions, resulting in supplies becoming more irregular and prices being increased.

Description of Proposed Reforms and Initial Responses in the Capital:

CAMAD has identified 204 loss-making branches throughout the country, including both markets and warehouses. It has proposed to the government that it reduce its subsidy from the national budget by closing these branches and laying off 50 percent of its labor force. A recent study shows that over the past five years these branches accounted for 11 percent of total CAMAD maize purchases and 15 percent of CAMAD storage capacity.

Some members of government have suggested that the decision to close the markets is politically untenable. There is concern that rapid closure of markets would give rise to considerable resentment and political difficulties.

The World Food Program, an international non-governmental organization specializing in food security issues and a long-time participant in the Purayes safety-net programs, was surprised to learn of this proposal through newspaper reports. It relies upon the rural marketplaces for distribution of its own food aid, and projects much higher costs to program implementation if those marketplaces are not available.