In June 2004, FANRPAN conducted rural livelihoods studies in four countries, namely Zambia, Malawi, Tanzania and Mozambique and held deliberations at a Regional High Level Policy Dialogue held in Maputo, 19 - 20 August 2004, to assess and prioritize agricultural policy constraints to regional trade and rural economy diversification. These studies were conducted through FANRPAN's partnership with International Institute of Tropical Agriculture (IITA). The goal of this partnership is to contribute towards strengthening policy frameworks and putting in place business development services essential for diversifying rural economies and enhancing regional trade in Southern Africa.

This policy brief highlights a priority list of domestic and regional policy constraints plaguing agricultural development. Growth in agricultural production over the last ten years has been encouraging but per capita growth has been slow or negative over much of this period. To reverse trends in declining farm income and productivity, SADC countries need to address issues of diversifying production and increasing regional trade.

Agriculture is still a priority sector for stimulating economic growth and poverty reduction in the region. The commitment to agriculture by regional governments has been poor. Regional governments have marginalized agriculture and neglected rural constituencies routinely. The share of national budgets allocated to agriculture is below 10 per cent and has declined in real terms over the last decade. For too long, the overall funding for agriculture has been falling. This trend should be reversed.

Governments should commit themselves to allocate an increasing share of the national budgets to agriculture. As long as reforms progress well and the role of the private sector is emphasized, government's focus on non-core services should diminish. This will allow more public resources to be shifted towards core functions such as research, training, extension and market information. By allocating public resources towards essential services including marketing
infrastructure governments facilitate and encourage further private investment.

While countries in the region have espoused open trade policies for export crops, they have pursued de-jure liberalization and de-facto state control of domestic marketing and international trade of staple crops. Government agents’ involvement in cereal marketing is significant enough to affect other players in the market. In Malawi, government is actively involved through ADMARC. In Zambia, the Food Reserve Agency (FRA) has emerged as the single largest player in the maize market. Governments are expected to reduce their direct involvement in the market in order to attract private international investments in agricultural marketing. The continuing direct involvement by governments in agricultural markets stifles the incentives of private firms and the latter hold back their investments. Resources used in direct interventions in the market could be better used in supporting and facilitating an increased role of the private sector.

The policy environment in the agricultural marketing should be more consistent and stable in the long run. Administrative shifts in policy can achieve short-term objectives but are detrimental to further investment by international marketing firms in the long run. Governments need to have an open and positive attitude towards dialogue with private firms. This requires change in tradition from a more administrative approach to a more facilitative approach towards the private sector. Private sector input in policy making should be valued and respected.

The removal of restrictions on export crop production has improved livelihoods of rural communities involved at different market stages. The repeal of Special Crops Act in Malawi has led to an increase in tobacco production by smallholder farmers. Although a sizeable private agribusiness sector has emerged to take up activities previously performed by government agencies and cooperatives, the former has not shown much innovation. Evidence from Tanzania suggests that with the exception of floriculture and horticulture firms, there is no innovation in commodity purchasing systems, financing, product improvement and differentiation, production and processing technologies and marketing techniques.

Domestic production and marketing structures are also inflexible because of limited market access and weak institutional development. As a result producers and traders fail to respond to regional price incentives. The challenge with regard to smallholder farmer participation is how to change their attitudes towards farming. The majority of smallholder farmers consider farming a way of life and not a business. About 20 per cent of smallholder farmers participate in the market as net commodity sellers. Of the remainder, half are net buyers and the other half do not participate in the market at all. This needs to change if farmers are to diversify away from subsistence production.

Inter-sectoral diversification cannot be obtained in the absence of adequate human capital. Investments should be devoted to raising the level of extension services through education and technological competency of farmers through training. Having a bloated extension service that governments fail to provide operational resources do not serve the interests of rural households. Governments need to be pragmatic about extension coverage. Production should be market oriented and the extension service’s orientation needs to be dynamic.

Another critical constraint affecting all investors whether public or private is weak infrastructure. The road networks are poorly developed and inadequately maintained. The lack of efficient rail systems, the absence of electricity, irrigation and communication facilities in farm areas has kept investment away. Cost of transport from port to the farm represents more than half of the farm-gate price of inputs such as fertilizer.

Since it takes a long time to recoup investments in infrastructure and the yields
tend to be low, national and international public investments and international technical cooperation should be promoted. Where possible, “build and operate” or “concession” approaches should be utilized to attract private investment in infrastructure.

There is general lack of investment capital. Domestic savings are meagre and little investment will come from there. We expect foreign investment to fill in the gaps but foreign investors have targeted more lucrative ventures in tourism, manufacturing and mining rather than agriculture. The returns to non-agricultural investments are higher and this disadvantages agriculture resulting in inadequate investment in the sector.

To encourage financial institutions to lend to agribusinesses, central banks and financial service regulators must play a proactive role by setting up a policy framework to channel funds to the sector. Central bank could explore set aside mechanisms, or consider a set of special measures for agribusinesses e.g., guarantee programs, appraisal systems to reduce the risks and costs perceived by financial institutions.

Multiple taxes at local and national level continue to constrain private sector investment. Besides, these taxes are incoherent and uncoordinated. These microeconomic obstacles have chained rural markets and locked out agricultural investment dening the majority of the poor the opportunity to participate in the fruits of growth and development.

Coupled with a restrictive regulatory regime, a large proportion of domestic private sector actors have been kept out of the formal economy. Restrictive regulations force people into the “informal” economy, where workers are unregistered and businesses operate without remitting taxes. A further concern is that restrictive regulatory frameworks are associated with high levels of corruption. Corruption impacts heavily on investment decisions and business transactions.

There is need to simplify the existing business regulations in order to reduce the administrative burden that domestic traders face. Governments should be committed to establishing user-friendly one-stop shops for registration, licensing, tax payment for domestic investors similar to investment promotion agencies established for foreign investors. Efforts to make government systems more transparent are acknowledged but the fight against corruption is being lost because of lack of political will.

Intra - regional trade may be more lucrative but individual countries are failing to take advantage of this. Specialization within the region is difficult because borders still exist and can be closed to trade. Relying on the principles of comparative advantage alone to direct production in the region is not working since countries have not been integrated economically. The region has not even reached the stage where it can harmonize issues of food security. Each country in the region is pursuing policies of self-sufficiency in food and other commodities.

High tariffs and non-tariff barriers are major constraints to importation of agricultural inputs such as fertilizer, seed, crop protection products, implements and machinery. Bureaucracy is still prevalent in administration of international business transactions. The administrative steps involved as well as paperwork and fees required to trade in the domestic and regional markets is cumbersome. Such red tape is costly and lowers financial returns to agribusiness enterprises hampering agricultural growth.

There is scope for further lowering trade barriers. Several countries have abused Phytosanitary and veterinary certificates as non-tariff barrier. While unsanitary products should not cross borders, the procedures can be made business friendly to avoid unnecessary costs in processing documentation. A one-stop trader friendly office should be established in each country.

Governments should encourage dialogue between customs administrators to create
harmony. Individual countries should move aggressively to formulate special agreements with major trading partners as nothing has been forth coming from SADC trade meetings. Harmonization of standards and documentation has been deliberated under SADC for several years without any agreement achieved.

Policy makers should care about all dimensions of developing trade. While promoting market access is important to export performance, policy should not neglect supply conditions. Lowering trade barriers for intermediate inputs is a crucial step towards enhancing export performance.

Policy makers should emphasize market integration. Their current clientele is purely domestic. It is very rare to hear politicians and decision makers articulating issues of economic integration in local constituencies. When they do, it is more about limiting such integration.

The process of agricultural transformation and regional integration is a long one and the challenges for this region are many. There is, therefore, need to prioritize policy constraints and develop strategies for agricultural growth and regional trade. Agriculture sector priorities are important in order to effectively capture the synergies between public and private investments. It is important that governments discontinue direct market involvement for short-term political expediency. The same resources could support long-run public investments in research, extension, market information and infrastructure instead of stifling further private sector investment.

Even though prioritization is crucial, it is extremely difficult for the region. The disparity in the priorities between individual countries makes regional prioritization a difficult task. We have done well to gather these constraints but we need to work more on prioritizing them for the region.

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