

Taking Action for the World's Poor and Hungry People

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SPEAKER SUMMARY NOTE

Session: **AFRICA: New Strategies, Actions, and Ways Forward to End Extreme Poverty and Hunger in Main Developing Regions**

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Title: Creating Markets to End Extreme Poverty and Hunger in Africa

Introduction

Although considerable progress has been made in some parts of the world in poverty reduction and in meeting the MDG target of reducing poverty and hunger by half by 2015, Sub-Saharan Africa is clearly not going to achieve the target. Creating markets and connecting the poor to markets could potentially be an important strategy to end extreme poverty and hunger in Africa. The development of efficient agricultural markets will have a large impact on the economic opportunities, food security and agricultural growth in Africa. With well-functioning input markets and well-functioning, absorptive output markets, it would be easier to disseminate technologies that are market dependent and that bring highly productive agricultural transformation. The fundamental question now is how to create markets and connect the poor to these markets in Africa.

Characterization of Agricultural Markets in Africa

Rural households in Africa are subject to a number of constraints that make their participation in the market both costly and risky. Market imperfections are the norm, not the exception, in Africa. In general, the following are some challenges facing African farmers.

First, marketing costs are very high in Africa primarily due to poor transportation networks, lack of market information, inadequate capacity of traders, unfair trading practices and price uncertainties, and sometimes lack of competitiveness of markets. These high costs reduce the effective price farmers receive for their products. Some studies have shown that marketing costs in Sub-Saharan Africa could be as high as 70 percent of retail values.

Second, production risk is high constraining poor farmers' market participation. Growing a new variety involves more uncertainty than growing a staple food crop. Perennial crops in particular involve high risk and financial burden because they do not produce a harvest in one season. Inefficient input marketing system also hinders the purchase and use of better productive technologies.

Third, marketing risk is another major constraint hindering the participation of the poor in markets. Price volatility is a common feature of agricultural markets in Africa. When bumper harvest occurs, prices collapse and the converse occurs when there is domestic shortfall. Low level of development and limited capacity of the agro-processing and industrial sectors also contribute to the existing limitations in the agricultural product markets. Weak bargaining power of unorganized small farmers, limited access to reliable market information, the absence of simple standards and grades are other important market impediments for farmers in Africa.

Potential Interventions to Create Markets

The issue of creating markets for poor farmers has become more important today due to the changing global trend in agricultural production. There is a general shift in consumer demand from staples to meat, dairy, fruits, vegetables, and fish. This shift in demand is creating market opportunities for smallholders to produce more remunerative high-value commodities. More innovative ways of creating markets need to be considered in Africa to tap these increased market opportunities for small farmers. Some of the potential areas of interventions include:

1. Creating conducive stable policy environment that facilitates marketing operations in order to help small farmers to be connected to markets is one approach.
2. Developing market infrastructure is another critical factor for market access and for linking rural areas to markets. So, investment on infrastructure and communication is vital in order to reduce the cost of farm inputs and farm outputs.
3. Developing market institutions in order to enforce the rules of the game and coordinating the market is important to reduce coordination costs and risks and increasing participation.
4. Providing market information will also be critical for farmers and traders in order for them to respond to market signals. One reason why marketing margins in developing countries are high is that farmers and traders have little information about current prices in the markets.
5. Promoting farmers organizations will also be important to connect the poor to markets and improve their bargaining power.
6. The provision of appropriate agricultural advisory services, putting in place appropriate risk management instruments such as commodity exchanges, ware house receipt system and integrated food security reserve systems, as well as promoting the development of the private sector and intra regional trade are other important strategies.

Conclusions

Whether Africa can achieve a market-led agricultural transformation will depend first on whether we get markets right. Policy interventions including providing marketing infrastructure, establishing effective market information systems; developing market institutions, such as grades and standards, improving extension services, introducing weather and price risk management mechanisms, and promoting contract farming could potentially improve the participation of smallholders in Africa in the market. Markets cannot be expected to work as the textbook predicts if coordination is weak and institutions are missing. Identifying market opportunities and linking them technological developments could bring significant progress in Africa.