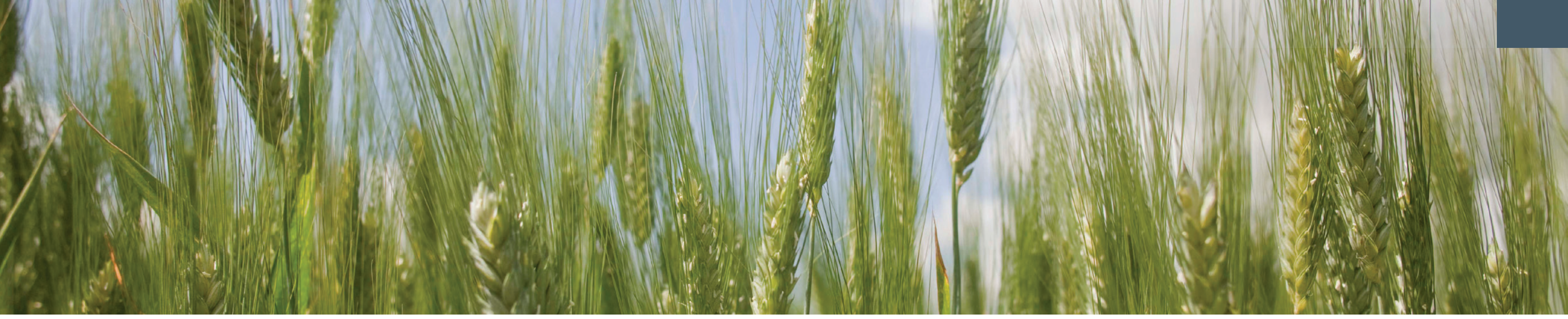
Monitoring and analysing food and agricultural policies in Africa

Synthesis report 2013 - Highlights



Monitoring and analysing food and agricultural policies (MAFAP) in Africa *Synthesis Report 2013*

About MAFAP

MAFAP supports evidence-based decision-making at national, regional, and international levels by systematically monitoring and analysing food and agricultural policies in developing countries. The MAFAP initiative seeks to establish sustainable, country-based systems to monitor:

- the level and composition of public expenditure on agriculture and rural development;
- the effects of policies on price incentives for marketing agents in key agricultural value chains; and
- the degree of coherence between the government's stated policy objectives, policy measures implemented to achieve these objectives and the effects they generate.

After nearly three years of implementation in ten African countries, MAFAP's results were compared between countries, commodities and years. Findings from this analysis are presented in MAFAP's first triennial *Synthesis Report*, the highlights of which are summarized in this brief.

To learn more about MAFAP, please visit: www.fao.org/mafap.

MAFAP's *Synthesis Report* presents key findings from an unprecedented effort to systematically monitor and analyse the effects of food and agricultural policies in ten developing countries across Africa: **Burkina Faso, Ethiopia, Ghana, Kenya, Malawi, Mali, Mozambique, Nigeria, Tanzania and Uganda.**

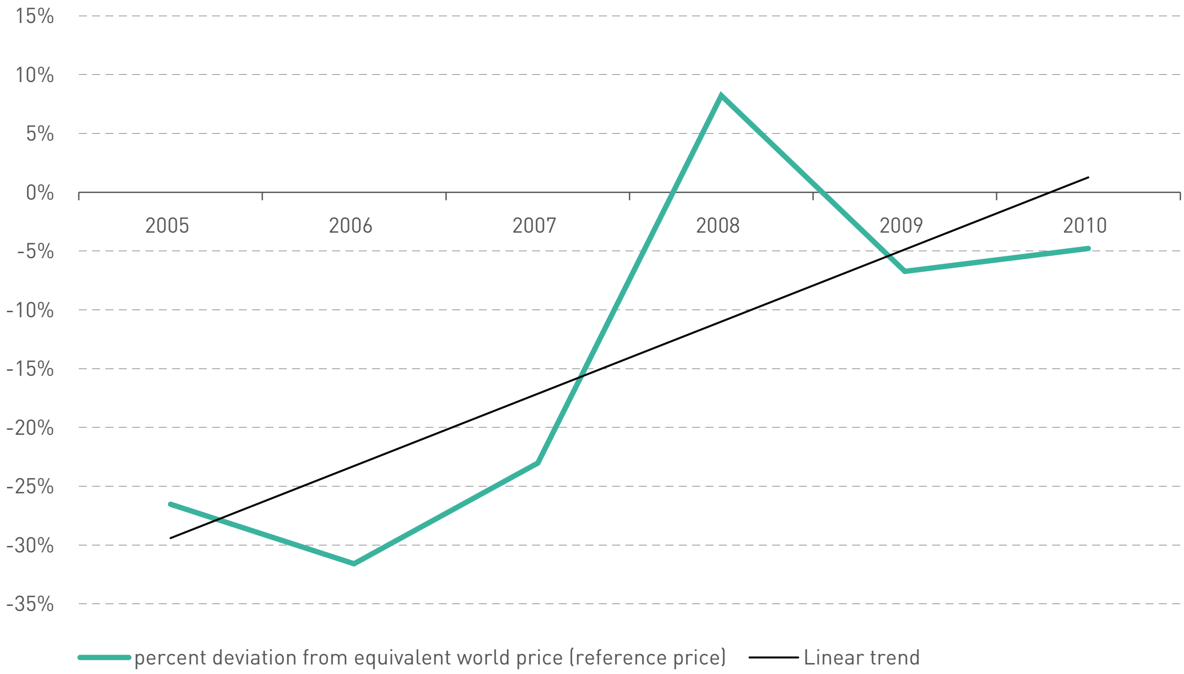
Report Highlights

- *The policy environment and performance of domestic markets depressed producer prices by an average of ten percent between 2005 and 2010, though price disincentives are declining.*
- *Producer prices would improve significantly if market distortions from exchange rate policies and inefficiencies in domestic value chains were eliminated. However, MAFAP results suggest these distortions are increasing.*
- *Major factors contributing to lower prices for producers include underdeveloped infrastructure and poorly organized value chains, which result in weakly connected markets.*
- *The level of public expenditure on agriculture and rural development has declined and the composition of expenditures has shifted from rural development to agriculture-specific spending.*
- *Budgetary transfers to private agents of the agricultural sector favoured producers over consumers throughout the period analysed.*
- *Despite recognition that agricultural development is essential for poverty reduction and economic growth in Africa, the agriculture sector remains penalized by poorly targeted policies and public spending, which are often inconsistent with national objectives.*

The policy environment and performance of domestic markets depressed producer prices by an average of ten percent between 2005 and 2010, though price disincentives are declining.

Market and trade policies, coupled with poor market performance, depressed producer prices in the ten MAFAP countries. MAFAP finds that such price disincentives have declined over the period analysed (Figure 1). This trend was mainly driven by soaring prices during the 2007/08 global food price crisis. In some countries, this trend was also driven by sharp increases in food prices caused by domestic food shortages. In 2009 and 2010, producer prices were more aligned with equivalent world prices, indicating that the policy environment had a less distortive impact on domestic prices in these years. However, it remains unclear whether this progressive alignment is due to systematic improvements in policies and market performance or to shorter-term fluctuations in global and domestic prices. Therefore, it is uncertain whether this trend will be sustained in the long run.

FIGURE 1. AVERAGE DEVIATION OF PRODUCER PRICES FROM EQUIVALENT WORLD PRICES (PERCENT), 2005-2010



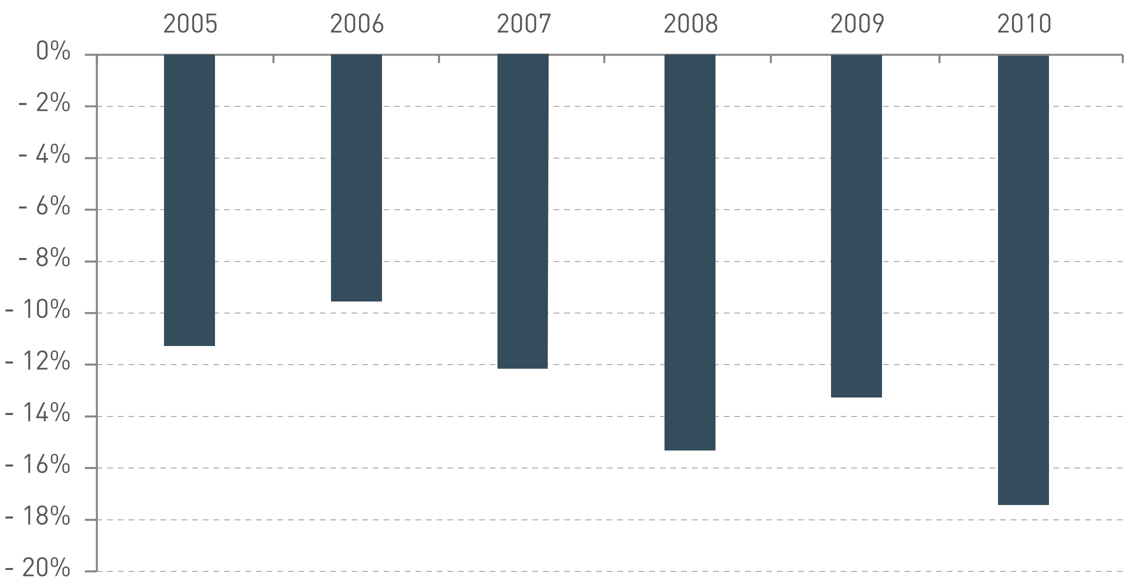
Note. The blue line measures the average percent deviation of the price producers received from the equivalent world price, which represents the price producers could have received if domestic policy and market distortions were removed. The equivalent world price is the reference price and corresponds to zero percent in the graph. The black line estimates the linear trend.

Source: MAFAP, 2013

Producer prices would improve significantly if market distortions from exchange rate policies and inefficiencies in domestic value chains were eliminated. However, MAFAP results suggest these distortions are increasing.

In addition to measuring the impact of explicit market and trade policies on producer prices, MAFAP's analysis goes one step further by estimating the average Market Development Gap (MDG), which is the average cost that market distortions from exchange rate policies and inefficiencies in domestic value chains represent to producers. In general, the average MDG has increased over the period analysed, ranging from about -10 percent in 2006 to -17 percent in 2010 (Figure 2). These distortions represent additional disincentives at the producer level, which stem from implicit policies, such as illicit taxes, or even a lack of policy, such as high market access costs due to limited investment in infrastructure. Thus, MDGs highlight potential gains, or cost savings, that could be achieved if the necessary investments were made and adequate measures taken. Investments in infrastructure and measures to eliminate illicit taxes are among those policies that would significantly improve producer prices, as these were very common inefficiencies found in commodity value chains across all countries.

FIGURE 2. AVERAGE MARKET DEVELOPMENT GAP (PERCENT), 2005-2010



Note. The blue bars measure the average Market Development Gap (MDG), which is expressed in relative terms as a percentage of the price producers could have received if domestic policy and market distortions were removed. MDGs have been measured for five of the ten MAFAP countries: Burkina Faso, Kenya, Mali, Tanzania, and Uganda.

Source: MAFAP, 2013

What is the Market Development Gap (MDG)?

The MDG captures costs due to exchange rate misalignments and high market access costs within commodity value chains, which may result from factors such as local taxes and fees, poor infrastructure, high processing costs, large profit margins captured by various marketing agents (i.e. non-competitive behaviour), bribes and other non-tariff barriers.

Major factors contributing to lower prices for producers include underdeveloped infrastructure and poorly organized value chains, which result in weakly connected markets.

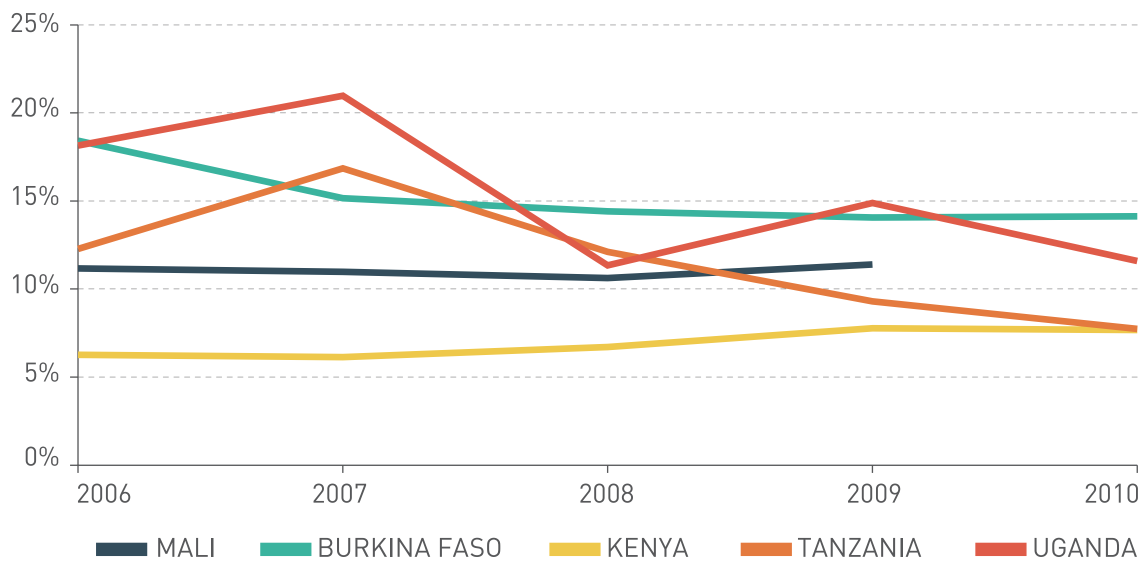
In the ten MAFAP countries, underdeveloped infrastructure, especially in rural areas, was a common factor contributing to weakly connected markets and depressed producer prices. Poor roads and markets often resulted in higher marketing costs and thus lower prices for farmers. This is particularly true for the segment of commodity value chains between the farm gate and wholesale.

The poor organization of commodity value chains has also resulted in weakly connected markets, preventing farmers from obtaining fair and favorable prices for their products. In many cases, commodity value chains include a large number of intermediaries (i.e. traders and processors), with considerable market power and better access to market information, resulting in strong information asymmetries. Therefore, although most governments of MAFAP countries have already taken action in this direction, more attention should be paid to developing and improving market information systems for producers.

The level of public expenditure on agriculture and rural development has declined and the composition of expenditures has shifted from rural development to agriculture-specific spending.

With the exception of Kenya, all MAFAP countries for which public expenditure was analysed (Burkina Faso, Mali, Tanzania and Uganda) devoted more than ten percent of their total public expenditure to agriculture and rural development throughout the period analysed, but this share decreased from 2006 to 2010 (Figure 3). The main cause of this declining trend was a significant dip in donor contributions in 2008, which affected all countries, except Kenya. This may have been due to extensive use of off-budget funds by donors to rapidly address food emergencies during the 2007/08 global food price crisis. Donor support picked up again in 2009 and 2010. Over the period, country governments increased their own expenditure by 14 percent on average, compared to -8 percent for donors (in absolute, current terms).

FIGURE 3. AGRICULTURE AND RURAL DEVELOPMENT EXPENDITURE AS A PERCENTAGE OF TOTAL PUBLIC EXPENDITURE, 2006-2010

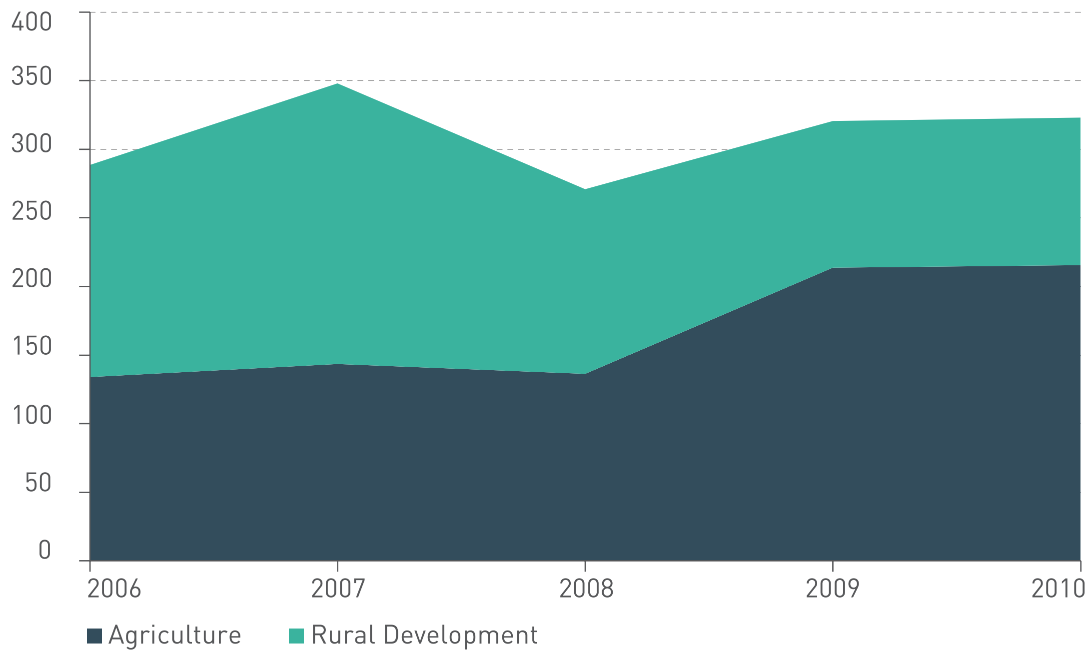


Note. Public expenditure was analysed in five of the ten MAFAP countries: Burkina Faso, Kenya, Mali, Tanzania and Uganda. Total public expenditure in Mali was not collected for 2010.

Source: MAFAP, 2013

The composition of public expenditures has also shifted over the period studied, from rural development to agriculture-specific spending. Due to the 2007/08 global food price crisis and fall in donor support, which is more targeted towards rural development, spending on agriculture went from 39 percent to 57 percent of total expenditure on agriculture and rural development in the five countries analysed (Figure 4).

FIGURE 4. PUBLIC EXPENDITURE ON AGRICULTURE AND RURAL DEVELOPMENT (MILLION USD), 2006-2010



Note. Public expenditure was analysed in five of the ten MAFAP countries: Burkina Faso, Kenya, Mali, Tanzania and Uganda.

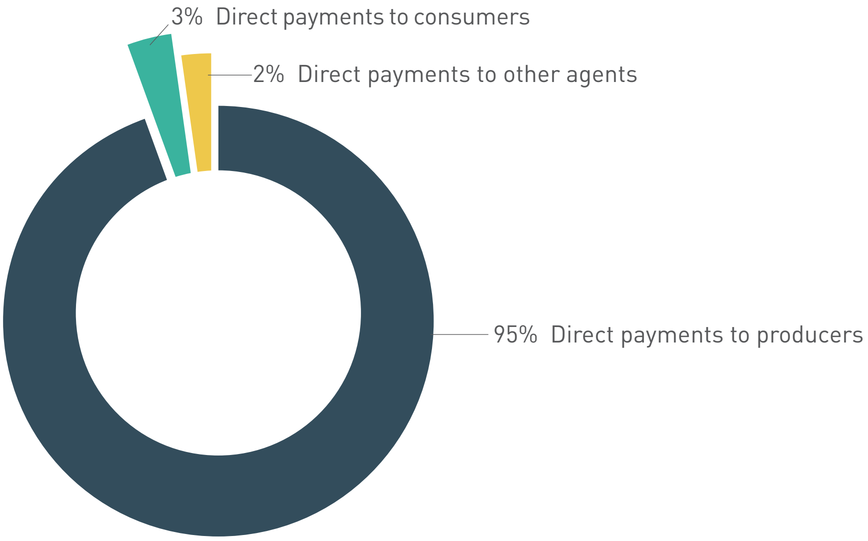
Source: MAFAP, 2013

Budgetary transfers to private agents of the agricultural sector favoured producers over consumers throughout the period analysed.

Of the total budgetary transfers to individuals over period analysed, 95 percent were allocated to producers, while only three and two percent were allocated to consumers and others agents, respectively (Figure 5). In general, projects and programmes aimed at boosting production and productivity, either directly or indirectly, far outnumbered consumer-oriented projects and programmes.

Although public expenditure targeting consumers was limited, most governments adopted short-term market and trade policies to support consumers during domestic food shortages and the 2007/08 global food price crisis. Such measures included price ceilings, subsidized imports, export bans and the removal or reduction of import tariffs on food security crops. Exchange rate overvaluation was also used to reduce the cost of imports for consumers in Burkina Faso, Ethiopia Malawi and Mali.

FIGURE 5. **AVERAGE SHARE OF TOTAL DIRECT SUPPORT TO AGRICULTURE TARGETING PRODUCERS, CONSUMERS AND OTHER AGENTS, 2006-2010**



Note. Public expenditure was analysed in five of the ten MAFAP countries: Burkina Faso, Kenya, Mali, Tanzania, and Uganda.

Source: MAFAP, 2013

Despite recognition that agricultural development is essential for poverty reduction and economic growth in Africa, the agriculture sector remains penalized by poorly targeted policies and public spending, which are often inconsistent with national objectives.

- Policies have not always been effective. Protective market and trade policies implemented by governments in most years to support producers, such as minimum prices and import tariffs, did not consistently translate into higher prices for producers (i.e. price incentives). In fact, Figure 1 shows that the policy environment and market performance in the ten MAFAP countries generated price disincentives for producers throughout the period analysed, except in the years affected by the 2007/08 global food price crisis.

- Value chain inefficiencies are increasing and have not been adequately addressed through public expenditure. This may be partly due to the shift in public expenditure from rural development to agriculture-specific spending during and after the 2007/08 global food price crisis.

- Several short-term policy measures adopted to protect consumers in the wake of the 2007/08 global food price crisis and domestic food shortages conflicted with long-term goals to support production growth. While some of these measures (i.e. price ceilings, export bans and the removal or reduction of import tariffs) were effective in lowering food prices for consumers, they often depressed prices for producers of key agricultural commodities.

- Despite the volatile conditions faced by consumers, public expenditure targeting consumers was limited compared to expenditure targeting producers throughout the entire period of analysis, even though food security and affordability are policy objectives for all countries.

- Although agricultural research is a pillar under the Comprehensive Africa Agriculture Development Programme (CAADP) and is commonly prioritized in national policy and programmatic documents, public expenditure allocated to research was low in all countries and declined in East African countries over the period analysed.

MAFAP website:
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