Identification of Key Analytical Agenda Related to CAADP Pillars 2 and 3

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This section identifies major topic areas covered in the CAADP Pillar 2 (trade and investment) and Pillar 3 (food security) Continental Reports, and reflects a careful review of those reports combined with general knowledge of the issues within the FSG team. The two Continental Pillar reports reflect a broad synthesis of views of public and private stakeholders across the African continent. Many if not all of the issues identified in Areas B and C emerged at the most recent COMESA Annual Meetings in March 2008, highlighting stakeholders' demand for analysis and clear policy advice. While necessarily selective, the topics identified here cover the broad range of issues in the two pillar papers, but are not limited to topic areas that FSG typically focuses on.

A. Key areas of broad consensus within the technical community

1. Need for greater public goods investment in support of smallholder agriculture (crop science and technology, physical infrastructure, improved farmer know-how).
2. Advantages and synergies from taking a regional approach to developing and disseminating productivity enhancing technologies, especially for food staples.
3. Soil fertility depletion is a fundamental biophysical cause of declining per capita food production in Africa. Therefore, improved soil fertility management -- including soil organic matter, soil structure, erosion control and ongoing soil amendments (both organic and chemical) -- will prove critical if farm productivity and food production are to grow sustainably over time.
4. Need for a dramatic expansion in regional trade in these staple foods, and the need for certain actions to facilitate this:
    a. Reduced trade policy barriers (e.g., export bans) and streamlined customs clearance procedures.
    b. Reduced policy uncertainty with respect to trade.
    c. Regional approach to investment in infrastructure.
    d. Regional approach to regulatory frameworks on seed, bio-safety, phytosanitary and animal health issues.
5. Need to promote emergence of small-scale food processing enterprises such as hammer milling of maize, and the importance of policy reforms (especially more open regional trade) in achieving this.
6. Need for investment in women's education.
7. Need for emergency response and safety net programs to be carried out in ways that enhance the capacity and development of food markets and help drive productivity and income growth.
    a. Scope for a combination of cash transfers (conditional and unconditional) and in-kind transfers, depending on analysis of markets and needs (need for analysis to help assess when and how much cash vs in-kind).
    b. Need to enhance contribution of regional trade to emergency response.

c. Desirability, whenever possible, to use local food resources to supply food assistance programs, both in emergencies and for safety net and development programs.

B. Key areas lacking consensus within the technical community

1. The feasibility of following "smart subsidy" guidelines in input subsidy programs, and the costs and benefits of such programs, especially on inputs such as fertilizer.
2. The costs and benefits from public stock-holding of food staples:
    a. Especially the potential negative influence of public stock-holding policies on openness to private food trade (the issue of policy inter-dependence).
    b. The pros and cons of relying on stockpiling vs. trade as a means to ensure national food security. What is the appropriate balance of national stockpiling vs. reliance on trade?
    c. The feasibility of utilizing on a wider basis contract-based approaches to mitigate food price and supply instability, such as crop insurance and the options contracts recently utilized by Malawi with assistance from World Bank.
3. Related to 1 and 2 but more generally, the extent to which social protection systems can be expanded while simultaneously making the needed increases in expenditure on infrastructure and productivity programs. One key issue on which there is lack of technical agreement is the size and time horizon of productivity effects from social protection programs; if these are large and do not occur only in the long-run, the magnitude of trade-offs between traditionally understood "productivity" investments and expenditure on social protection is reduced.
4. The costs and benefits of food fortification laws in poor African countries, especially their impact on the viability of small-scale food processing such as hammer milling of maize grain. This issue involves the impact of such laws on the cost of food to (poor) consumers, and the related effect on consumption levels, compared to the benefits of the fortification. (Note: in our view, this issue does not belong in the top tier of priority issues for smallholder poverty reduction and productivity growth.)
5. The efficacy and efficiency of expanding production and consumption of bio-fortified foods such as orange-fleshed sweet potatoes and yellow rice compared to more direct nutritional interventions such as vitamin A capsule distribution and the food fortification referred to in previous point.

C. Key areas where government practice routinely or periodically departs from technical consensus on best practice

1. Investment:
    a. Governments routinely fall short of dedicating 10% of their budget to agriculture.
    b. Within the resources that they do apply to agriculture, spending for investment in long-term productivity growth is typically much smaller than spending for domestic staple food market interventions and input subsidies, despite a near consensus within the research community that public goods investments in R&D, physical infrastructure, and farmer knowledge provide higher payoffs than input subsidies.

2. Trade policy:
    a. Most governments routinely create uncertainty on regional trade through inconsistent statements and actions.
    b. There has been little harmonization of phytosanitary, transport, and other regulations regarding regional trade.
3. Stock holding:
    a. Governments that hold stocks tend to manage them in a highly discretionary and erratic manner, adding to uncertainty for the private trade.
    b. Such stock holding tends to be associated with (and may be functionally related to) heavy controls over private regional trade in food staples.
4. Input market policies:
    a. Kenya has been successful in liberalizing input markets, with positive effects on input availability.
    b. In most countries with input subsidy programs, these programs partially crowd out private investment; their stated objective of enhancing private sector capacity is contested within the research community.
5. Emergency response:
    a. Governments typically inhibit markets more during emergencies than they do during non-emergency periods.
    b. Heavy reliance on in-kind food aid; cash transfers still make up a very small share of total assistance.
    c. Lack of coordinated planning and use of markets to meet needs (related to cash transfer issues).

D. Impact of the current food crisis on government behavior and on research and outreach challenges

1. A strong tendency to restrict trade more, not less:
    a. Export bans in Zambia, Malawi, Tanzania.
    b. Mozambique has prohibited the “bicycle trade” and placed a ban on exports to Malawi. (Though the ban was later removed, it added substantially to policy uncertainty.)
    c. The problem of local authorities taking trade-related action that is contrary to or goes beyond established national policy, may re-emerge. For example, local authorities in Mozambique have renewed attempts to keep Malawian traders out, in the name of food security.
2. Greater emphasis on public stock-holding:
    a. Zambia, Malawi, and Kenya continue with their policies.
    b. Mozambique has placed a tender for building publicly owned food silos.
3. In summary, the current food price environment threatens to widen the gap between widely accepted (among technical analysts) good practice and actual practice on trade policy and stock holding.
4. Potential to dramatically increase investment in productivity-enhancing technology and extension, but too early to tell whether this will happen. Note that greater openness to trade would likely increase the return to investment in productivity, so the tendency to

restrict trade more in this environment raises questions about the payoff to these much needed investments.

5. Regarding local and regional procurement of food aid:
    a. Higher prices are expected to increase the number of households requiring food assistance.
    b. As per point 4, higher prices also create the possibility of increased investment in farm level productivity.
    c. In many countries of Africa, investments in food crop productivity have often been undermined by inability to find a market for surpluses, due to high transport costs, poor quality, and under-developed contracting procedures.
    d. Especially in the medium-run, local and regional procurement of food aid could be more important than ever, since it would simultaneously address the need for greater food assistance and the need for market demand to absorb greater production. In the short run, care must be taken that LRP not push local prices higher than they already are.
6. Research question: what will be the impact of the high food price environment on incentives to produce important income-earning activities such as cotton, horticulture, oilseeds, and dairy?

E. The contribution of MSU's AFR work plan

To facilitate the development of a Regional Compact and investment plan, AFR needs to support two broad types of research and outreach:

1. On Area B: Research aimed at resolving issues that lack a technical consensus. Dialogue in this area needs to be directed primarily to fellow analysts, though government and other stakeholders will also be part of the audience.
2. On Area C: Research that contributes fresh information and innovative packaging of that information to dialogue with government regarding issues that are largely settled from a technical standpoint but on which government practice frequently departs from this technical consensus. Research continues to be necessary on such issues because policy change never follows in linear form from technical consensus; all of this should be informed by the current environment of high food prices.

A mapping of each of the analytical items in MSU's AFR work plan into each of these two categories follows:

Area B: Research and outreach on areas lacking technical consensus

Area	MSU-FSG output contributing to this issue	Comments
Smart subsidies	Output 11, Output 12	
Public stock-holding		Previous work has dealt specifically with this issue (WB work with Byerlee, Jayne, Myers)
Costs and benefits of expanding social protection programs		FSG has done no technical work to date on the potential productivity effects of social protection programs or on the extent to which they compete with more traditional investments explicitly focused on increasing productivity
Costs and benefits of food fortification laws		Previous work on the rise of the small-scale processing and trading sector has touched on these issues

Area C: Research and outreach on areas where government policy routinely departs from technical consensus

Area	MSU-FSG output contributing to this issue	Comments
Trade policy	Output 5, Output 6	Current price environment makes progress in this area increasingly important but more difficult, requiring sustained outreach.
Public stock holding		Previous work has dealt specifically with this issue (WB work with Byerlee, Jayne, Myers)
Input market policies	Output 11, Output 12	
Investment	Output 7	Budget work in Zambia and Kenya directly addresses this issue
Emergency response	Output 8, Output 9	

Summary matrix of implications of analytical review for policy dialogue

Area	Technical Consensus	Aspects lacking technical consensus	Government policy	Implications for research and policy dialogue
Investment	10% of public budget to be devoted to agriculture, with emphasis on measures to increase productivity and reduce costs (including infrastructure investment)	- What class of farmers to target (tension between poverty reduction and income growth goals)? - Relative emphasis on livestock vs. crops - What role for irrigation ? - Tradeoff between environment /NRM issues and intensification for productivity growth	Few governments reach 10%; much of the money spent on agriculture does not go to infrastructure and productivity enhancement.	Produce analysis that is convincing to African policy makers on the payoffs from public investments in alternative ways (e.g., physical infrastructure, crop R&D, farmer knowledge systems, input subsidies, marketing board operations, irrigation, etc).
Trade and trade policy	Need for dramatic expansion in regional trade of food staples and key steps needed to accomplish this (especially more transparent government role to reduce policy uncertainty)	How to ensure a competitive trade response, especially for imports during deficit years?	Persistent and widespread tendency to follow inconsistent policies and for statements about intended actions to not be fulfilled, leading to uncertainty and private sector paralysis	Provide analysis and outreach actions through COMESA that are convincing to policy makers on the impacts of regional trade barriers and uncertainties in trade policy. These are policy topics on which much greater interaction with policy makers (many of whom have been in their jobs for a short while and are not well exposed to the research record on this topic) is required.
Public stock holding (and risk management more generally)	Need for transparent rules governing accumulation and disposition of stocks	- Extent to which public stock holding is functionally related to less open trade regimes, thus the extent to which it directly conflicts with accepted need for more efficient regional trade - Scope for expansion of contract-based approaches to risk and instability	- Stocks tend to be managed in highly discretionary and erratic manner, adding to uncertainty for private trade - Stock holding tends to be associated with heavy controls over private regional trade	
Input market policies	- Need for a much stronger private sector input distribution system - Need for subsidy programs, if implemented, to follow "smart	- Feasibility (from political economy standpoint) of following "smart subsidy" guidelines - costs/benefits if they are followed	- Input subsidies take a large share of government ag budgets - Subsidies frequently crowd out rather than supporting	Further analysis on the pros and cons of input subsidy programs is necessary in collaboration with African researchers. However, progress

Area	Technical Consensus	Aspects lacking technical consensus	Government policy	Implications for research and policy dialogue
	subsidy" guidelines	- impact of input subsidies on incentives for adoption of organic/ soil conservation practices	private sector	in moving toward sustainable growth-promoting public investment programs is hindered by important political economy problems. Rich-country agricultural policies are perceived as giving their farmers subsidies, hence many African farmers sense hypocrisy and hidden agendas in research funded by international development agencies. Progress in moving toward a more level international playing field with regard to subsidies will help
Emergency response and social protection	Need to be carried out in ways that improve market performance and drive productivity and income growth, and key aspects of how to do this (including desirability of mixing cash- and in-kind resources)	Extent to which social protection systems can be expanded while simultaneously increasing expenditure on infrastructure and productivity programs	- Heavy reliance on in-kind food aid, much less on cash transfers	Greater research clarity on the ability of markets by themselves to overcome and address food supply shortfalls – how much of a food supply shock can be taken care of by allowing markets and trade to work, and how much/when will government/donor response be required? Greater clarity as to the current potential of markets. How should extra-market operations best be designed to maximize ability to reach those who cannot rely on markets?

Area	Technical Consensus	Aspects lacking technical consensus	Government policy	Implications for research and policy dialogue
Nutrition	Limited agreement between nutrition community and trade/development community	- Costs and benefits of food fortification laws - Efficacy/efficiency of expanding production and consumption of bio-fortified foods compared to more direct nutritional interventions		Conduct research on the costs and benefits of food fortification laws. Identify the pros and costs of expanding production and consumption of bio-fortified foods compared to more direct nutritional interventions