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Perspectives on Agricultural Marketing in 2008: Voices from the Rural Areas [1]

By SIMA Technical Team

This *flash* presents the perspectives of economic agents active in agricultural marketing of the 2007/2008 crop year compared to previous years. According to the agents interviewed, the current marketing season can be characterized by the following: 1) **poor production** and low yields for maize, beans, and other crops; 2) **early start** to the marketing season ; 3) **very high prices** at the beginning and increases during the period when prices usually decline; 4) **strong competition** between the formal and informal private sector agents particularly in areas with cell phone coverage; 5) **active markets** along the routes with best access and with good communication and transport networks; and 6) **new economic agents** (animal ration industry growing; new maize mills, new export alternatives, local purchase for food aid). With these observations, the agents predict **high prices into the future**.

1. Introduction

Each year, the team from the Agricultural Market Information System (known as SIMA) goes to the field with its partners to talk with economic agents in rural areas and obtain their perspectives on production and marketing for the current marketing season. This year, given the lack of timely information produced by the Early Warning System and the crisis in world prices for Basic food staples, this research becomes even more important. During the survey, both private sector agents and government officials doubted that 2007/2008 was a "normal" production year. For planning activities, this is a critical aspect. About the current situation, the following questions arise: *Could it be that there is low production? Or is there greater competition for volumes? Or is it a combination of the two*? The answers to these questions can be found in the observations from the field recorded in the Windshield Survey.

2. What is the Windshield Survey?

It is a method used to try and monitor people's perspectives about agricultural marketing. For the 2007/2008 season, the SIMA team was in the field from June 10-22, 2008, conducting the Windshield Survey, one of the annual initiatives of the Directorate of Economics (DE) of the Ministry of Agriculture (MINAG) (see www.sima.minag.org.mz).

With this survey, economic agents involved in agricultural marketing are interviewed about their views on the agricultural marketing during the current year.

[1]The opinions expressed here are entirely the responsibility of the authors and do not in any way reflect the official policy of the Ministry of Agriculture reflect

With this *flash* the team seeks to share some observations from the survey research. Another *flash* will be developed to share the more quantitative assessment from the survey, as has been done in previous years. (Volume 48P, Equipe do SIMA, 2007).

The observations shared in this document come from activities along defined routes in the Centre and Northern Zones of the country. In the North, areas included Niassa Province (districts of Sanga, Muembe, N'gauma, Mandimba, Cuamba, Mecanhelas with the town of Entrelagos), Zambezia (Gurué, Milange, Mocuba, Ile, Alto Molocué), and Nampula (Murrupula and the city of Nampula). In the Center, areas selected were in the provinces of Tete (Domué, Angónia, Tsangano, Cidade de Tete e Changara), Manica (districts of Guro, Barué, Manica-Vandúzi, Manica-Machipanda, Sussundenga, Chimoio, Gondola-Inchope) and Sofala (districts of Gorongosa, Nhamatanda, Dondo e the City of Beira).

3. Principal Observations

The comments and evidence presented here were obtained during conversations with small, medium, and large scale traders The SIMA team also talked to farmers and processors of small, medium and large scale in the survey areas. In the following, overall impressions of the team are presented which reflect the concerns of the agents interviewed.

Supply Situation*:* Compared to the previous year, there is weak supply of agricultural commodities in general, but particularly for maize, beans, groundnuts and bambara nuts. In the opinion of the agents, the reasons for weak supply vary from region to region. For example in the Centre region, there was excessive rainfall while in the North, there was good rainfall, but it ceased abruptly in February (very early in the season) and it did not rain again. These factors led to low yields for these crops such that yields may be up to 50% lower than expected, according to agents in the sector.

Changes in the planting season: The lack of rains affected the planting season for cassava and bambara nuts, with a resulting negative impact on yields of the two crops.

Early start to marketing: The marketing of maize and beans initiated very early (in April) compared to the previous years. Also it was possible to observe that products such as cassava, both fresh and dried, had started to appear very early in the markets as well, something that can be an indication of the weak supply of the other products that can be considered substitutes.

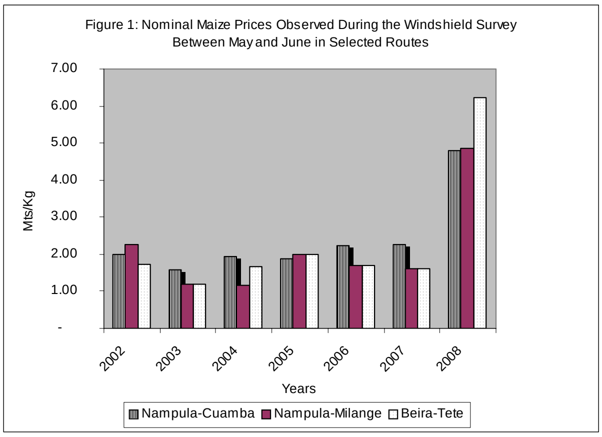
In the demand for agricultural products, there are various active market agents: There are many agents in the markets seeking products to buy. There have also been changes in market strategies and market operations. In terms of the market agents, the following are key ones:

- Formal sector agents: This group has a strong presence in the markets, buying directly from producers for processing industry needs, including maize flour and animal feed; this group is particularly strong in the Center;
- Informal sector agents: In spite of the presence of the formal sector agents who buy directly from farmers, informal traders still play an important role, often accessing places where the formal sector generally doesn't arrive;
- District governments: Several local initiatives to promote agricultural marketing were found in the districts. One example is the use of Local Development Funds (commonly known as *FIIL*, Fundo de Investimento de Iniciativa Local). FIIL funds have been used to fund local traders in buying stocks that would serve as a district level strategic reserve. Where local traders have access to these funds, it is a good initiative;
- Local food aid purchases: Large formal sector traders, such as Export Marketing and V&M have been buying under local purchase contracts for the World Food Program (WFP);
- Local Processors: In the North and Centre, there are small and medium scale processors who are also competing to purchase the commodities as their basic input. As a result of the market dynamics, some of these processors, for example the CIMPAN maize mill in Nampula, are already talking about the need for imports from neighboring countries in order to meet their needs, something that has not occurred so early in the marketing year in previous years.

4. Observations on prices

The prices observed this year along all of the routes are higher than the five year average for the various Basic food staples. A year of reduced production resulting in scarcity of the product could be one of the main causes. Alternatively, many traders mentioned more and new buyers, as well as prices in the world-wide markets indicating high import prices. The fact is that the producers are motivated to participate in the market to sell their crops at attractive prices.

High maize purchase prices: The high purchase price during the 2007/08 can be a signal of scarcity, and according to one of the purchasers of one of the large scale mills in the North, last year at the same period (May/June) they had bought maize at prices that varied between 1.50 and 2.00 Mt/kg. Figure 1 shows that this year in June, the average price of maize is above 4.00 Mts/kg, reaching 6.50 Mts/kg along in the three routes. The implication is that if the raw material for milling is so expensive, the flour will be sold to consumers at relatively high prices.



Source: Windshield Survey in 2002 to 2008

Prices of other commodities: Products such as butter beans and "Catarina" beans (speckled common beans) had prices that varied between 14.00-17.50 Mts/kg. "*Magunu beans*" had the highest price, at 20, 00 Mts/kg. "*Magunu beans*" are a new variety of butter bean introduced recently by the company CISTER in the northern zone, particularly in the provinces of the Zambézia and Nampula.

The price of cowpeas was between 7.00 -9.00 Mts/kg, and small groundnuts cost 20.00 Mts/kg, but traders felt that it was too early in the season to be able to tell what would happen with prices for groundnuts. The price of sesame seeds was rising and in some places the buyers were paying between 25.00 and 35.00 Mts/kg, such that producers with sesame production to sell were happy with the price.

Generally, high prices for maize and beans are expected, due to a combination of factors among which the principal ones are the following: 1) Local food aid purchases by large scale traders with WFP tenders already contracted, such that they are paying high prices in order to fulfill their pre-established contracts, especially for commodities such as cowpeas; 2) competition in purchasing the raw materials for local processing industry, particularly for maize.

Figures 2, 3 and 4 illustrate the seasonal patterns and the level of prices observed during the last five years in the cities of Maputo, Beira, and Nampula. In these three cities, the real prices for maize demonstrate tendencies that are quite different from expected, i.e. instead of declining with harvest, prices rose in April and May of 2008 and in June they were much higher than at the same period as other years.

Figure 2: Comparison of Retail Maize Prices
In Maputo Market

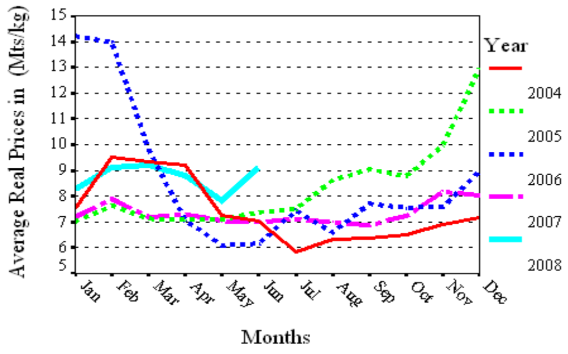


Figure 3: Comparison of Retail Maize Prices
In Beira Market

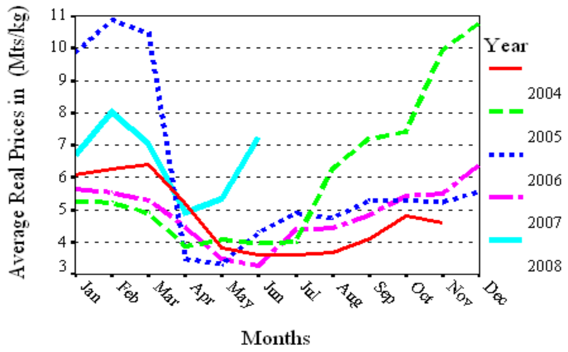
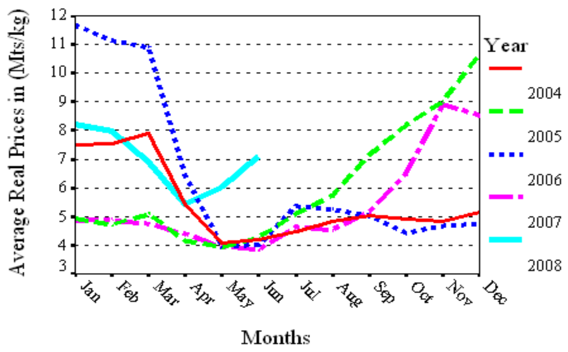


Figure 4: Comparison of Retail Maize Prices
In Nampula Market



5. Government Investments

There are a series of investments that the government is currently making with respect to marketing and they are quite important and deserve special attention here. However there is a need to continually monitor these investments to ensure that public sector investments are made in the areas with high production potential. Areas for continued attention and investment are the following:

With respect to Infrastructure: In the medium and long term, investments in infrastructure act as an incentive for production and marketing, but there has been a lack of continuity in these investments. Among the different types of investment, these are the most important ones:

- Access routes: Some routes that were in good condition last year are now in very bad shape; in contrast there are valuable investments in new routes; railroads have great potential that has not been fully explored as a low cost alternative, especially for trade in the northern zone;
- Financial infrastructure: There have been significant improvements in this area. In previous years in the Center Region, traders from the zone of Nhamatanda indicated a lack of banks as an impediment to making large scale purchases. Currently, the Bank of Opportunities (BOM) has a system of mobile banks that traders and other agents can use in that zone. The traders in the district of Alto Molocué do not share in those benefits, in spite of the great agricultural potential of the district. Traders there have to go to Nampula City or the district of Mocuba to get cash, thus limiting their activities and raising their operational costs;
- Cell phone networks: The networks of *mCel* and *Vodacom* have expanded in the production areas, which is good because it facilitates business transactions for both traders and producers, but there are still problems with the quality of connections. In the majority of areas surveyed here, it was necessary to travel to find access.

Regarding purchases to guarantee local reserves of food staples*:* Distribution of the funds under the Fund for Local Initiative Investments (FIIL) for trading in agricultural products at the district level is a valuable initiative, but there is a need to monitor the use of these funds as well as the efficacy in fulfilling the objectives. Some agents had doubts about the beneficiaries of the fund for they had seen people receive the funds who have neither experience nor knowledge about marketing.

Regarding policies: The Government of Malawi prohibited trade between Malawi and Mozambique and the borders were officially closed during three weeks, between May and June. However in the areas of this survey (Mandimba, Entre-Lagos and Milange), trading activities never stopped, because the “short cuts” through the rural areas were always available.

This type of trade intervention is not sustainable due to the fact that it just makes the basic commodities more expensive for the poorest. In some cases, local authorities have sought to discourage the presence of foreign traders, limiting activities in purchases and sales.

The requirements for Mozambicans to participate in the export to neighboring countries have not been simplified to permit the participation of small and medium scale traders. These traders complain that their work has not been prioritized by the Government. Here is what one of the small scale traders said:: *"With my bicycle I was employed because I could transport on average up to 20 bags of maize per day to Malawi and with the prohibition of the transport using bicycles, I am left in trouble; I do not know what evil bicycles present…."*

6. Other Concerns of Agents Interviewed

Among the various concerns of the commercial agents the following are highlighted:

- **Lack of raw material**: The greatest concern of the formal sector is the weak national supply, particularly of maize which could also be affected by the current world crisis. They are already talking about the need for imports this year;
- **Risks associated with marketing:** As a way to increase and diversify the income of small scale farmers, new commodities have appeared, such as sesame, soybeans and sunflower. These crops present good alternatives but the marketing aspects merit attention. They are crops that are not locally eaten, so marketing is critical. In areas where there are problems for marketing (such as poor roads, lack of a cell phone network, poor development of basic infrastructure), represent a risk for the producers.

7. What implications are there for measures that government should take?

Agriculture across the globe is associated with risk and Mozambique is not an exception to the rule. Natural phenomenon must be closely monitored for they have important implications for major policy decisions for the country. It is also essential to review public sector investments for zones considered critical in terms of vulnerability.

Here are suggested measures that can be taken in the short, medium and long terms:

Short term measures

- Facilitation of maize access for large, medium and small scale processing: This means changing VAT and other import tariffs, as well as other means to facilitate importations. With the increases in prices of rice, if maize is expensive, maize flour will also be expensive leaving no options for the poorest consumers (see Mabota et al., 2008);

Measures in the medium to long term

- Investments in infrastructure and its maintenance: Investments in roads and bridges in particular should be continued, to help avoid situations in which there are extremely low producer prices in areas with poor roads and high prices only in the areas with better access;
- Investment in Early Warning System: Every year, private and public sector agents need an effective system, capable of producing reliable, timely crop forecasts;
- Investments in Local and National Market Information Systems: Commercial operators (traders and producers) need different types of information in order to participate effectively in the markets, including prices, conditions and locations of sales and purchase, and requirements for cross-border trade. Local systems linked to the existing national SIMA could benefit from accurate information;
- Promotion of new industries: Processing of new products such as dried cassava is a solid option for the northern zones particularly where cassava flour is consumed by many households; and
- Increasing productivity: Considering that the majority of farmers are net buyers of food staples, a long term solution is to increase the productivity of those crops (maize, rice, groundnuts, cassava) traditionally grown by the producers.

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