



**BRIEFING
NOTE 28
ON:**

**New Food Shortages,
Old Development Insights and the
Need for Transaction Security.**

In May this year a BBC story asked the question: “Can Tanzania reap a bumper harvest?”¹. It reported that the AMSDP² “is an example of the basic interventions that could help bring about a green revolution”, the concept pushed by Kofi Annan and his successor at the UN Ban Ki-Moon. The story reports that AMSDP’s interventions in farmer credit for inputs, warehouse receipt systems, market infrastructure and linking farmers to markets do make a difference. The key lesson of AMSDP was that transaction security drives not just production increases but also better use of other development interventions like warehouses, and farmer credit.

Transaction security is defined as the assuredness of sellers and buyers along the whole marketing chain that their transactions are:

- at agreed times and locations,
- with agreed volumes and qualities,
- payments according to agreed conditions and times,
- trackable in case something did not work out as agreed,
- traceable produce through the whole chain back to the producers.

The old development insight that farmers will grow more if they have a secure market is again confirmed. New food shortages will only

¹ For full article see: <http://news.bbc.co.uk/2/hi/africa/7385575.stm>

² The Agricultural Marketing Systems Development Programme is an IFAD funded programme with the Government of Tanzania which we have been supporting through the First Mile Project.

be dealt with when small farmers and big buyers engage in secure transactions.

What the BBC missed

What the BBC did not report was that AMSDP stops next year. Indeed in Babati, the location for the BBC’s success story, AMSDP has stopped already. Thanks to transaction security services by AMSDP 3.7 million USD had been returned to 1,100 farmers over the two seasons of 2005/06 from higher prices and higher production. But these services have stopped. Farmers in Babati are again back in the ‘everyone cheats everyone’ marketing of old.



Once useful market information boards suffer when AMSDP withdraws.

Transaction Security is Key

AMSDP showed the necessity of transaction security services and for a while helped many small farmers boost production and get better prices. Most importantly, this was not achieved through subsidies, but through provision of information that manages to cut down on the transaction inefficiencies along market chains. But, since AMSDP is a donor funded project it must stop at some time, no matter how good its services may be. What AMSDP has achieved is the realization by all those involved that bumper harvests lie in dealing with market inefficiencies, and that sustainability of transaction security services to small farmers lie in making such services commercially viable. They also realize that providing such a service is not easy. It requires many small local trade agents and market access companies linked together as a commercial network on a national scale to provide the required transaction security

between small farmers and buyers. Commercial networking from so many small businesses needs a commercial hub to make it happen.

The Private Sector Dilemma

There are good reasons why private investors hesitate to invest in transaction security services on their own because this initially requires:

- a large effort in capacity building of clients particularly farmer associations;
- a lot of R&D in the business operations;
- a large operation to reach a breakeven point;
- much easier and faster local tax procedures and market regulations than are presently in place.

This leads to high start up costs that can only be retrieved in the long term at high risk.

Moreover, it is a very complex business operation, combining product and payment security with market intelligence and operational learning all in one. Unfortunately, transaction security in small holder agriculture therefore is a long term investment that is most unattractive in the current environment of expensive capital, impatient shareholders and risky weather. For private investors there is easier money to be made, even though the long term potential of the business may look very promising.

So the private sector is in a dilemma: A national hub of a commercial transaction security service will not start without a local trade agent network in place to pay for it and a trade agent network will not emerge without a national commercial hub to start it. A common venture between the private and public sectors to set up transaction security and thereby increase the efficiency along the marketing chains would break this impasse.

Public Private Partnership

The high start up costs for capacity building and operational R&D postpone profits. Too many regulations, risks and the high cost of

capital combine to make investments in building transaction security services unattractive to the private sector. This is not to say the private sector is uninterested. Many are, but only if the items above are addressed.

The public can bear the costs of training farmers and market chain players in transaction security, contribute to the costs of operational R&D, and make the terms of trade in taxes and finance more favourable. When this happens the private sector will have a clear commercial interest for investing in transaction security services.

Here mutual leverage of public and private funding becomes possible, the basis for any Public Private Partnership: Once the private interest is present then the public interest in transaction security services to small farmers becomes even clearer: AMSDP has shown that food production levels are directly linked to small farmer market security. That small farmers will produce more if they have a secure market might be obvious to many. It might even have been known for a long time. But high on the public's agenda today are food shortages, with little concern for the crucial role that secure and trustworthy marketing must play to increase efficiencies and thereby entice small producers to increase production.

Partnerships between the public and private sectors for a national common venture in transaction security are needed fast, otherwise today's food shortage will be tomorrow's crisis. AMSDP has shown a way forward but it is ending next year. There will be no bumper harvests in Tanzania unless a correctly constructed and resourced private public partnership is developed for transaction security in agricultural marketing.

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