

## THE EFFECTS OF FARM PRICE SUPPORT POLICIES : HOW LEVEL IS THE PLAYING FIELD FOR GRAIN PRODUCERS IN NAMIBIA?

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*In Namibia historically high levels of support to the commercial farm sector have been reduced in recent years in line with general market liberalisation trends. However some support remains. At the same time more attention has been paid to supporting the previously neglected communal sector. The avowed aim of politicians is to ensure that grain producers in Namibia operate "on a level playing field". This paper examines to what extent the policy support playing field has been levelled for all major types of grain producer in Namibia. A methodology is introduced for developing a common measure of the effects of price support across grain producers with subsistence and commercial objectives and across scales of operation ranging from 1 hectare to 300 hectares under grain crops. The findings show that the bulk of grain producers in Namibia, who farm most of the grain area, remain seriously disadvantaged compared to the fewer, larger farms. Ongoing discussions on outsourcing government support services to small farmers is likely to result in the playing field becoming more uneven and other compensating measures will need to be taken if politicians and decision makers are serious about "evening the playing field for all".*

### INTRODUCTION

Government intervention in the agricultural sector since independence has aimed to equally support all types of farmers. This move by government is an attempt to reverse the pre-independence support policies that were biased toward commercial farm interests.

In the 1980s Namibian commercial farmers enjoyed the benefits of the South African policy environment that heavily favoured increased production by large scale, owner operated farms (Kirsten & Van Zyl, 1996). Subsidies and tax concessions for commercial farmers started to be reduced pre-independence, mostly as a result of South African budget cuts. Subsequently the process of

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market liberalisation undid many of the protective effects of the South African marketing acts (Brand *et al.*, 1992).

Since independence the Namibian Government has introduced measures to support communal farming. Thus, while some commercial supports have been removed, communal support measures have been introduced. Where are we now? Has this resulted in an even playing field as far as public sector support to farmers is concerned?

This paper attempts to address that question in respect of grain farmers in Namibia. Most analyses done on price support measures have focused on the commercial sector and have looked at interventions independently. Furthermore, comparisons of gainers and losers have normally been assessed in terms of producers versus consumers. Yet, one substantive aspect in the Namibian context is that most subsistence farmers *are* not only producers but at the same time consume all or a large proportion of the grain they produce.

This paper first develops a measure of policy effects, which enables comparisons to be made across commercial and communal farming situations and between small-scale farm-households and large-scale farms and schemes. This measure is applied to thirteen different farm types in Namibia to assess the evenness of the current price policy environment for grain producers. The implications of changes in policy for the evenness of the price policy playing field is also analysed and discussed.

#### **STANDARD POLICY EFFECT MEASURE FOR GRAIN PRODUCER TYPES IN NAMIBIA**

Grain production is undertaken on a wide variety of farms and in a variety of situations in Namibia. On private tenure land grain production takes place on irrigated and dryland systems. On customary land allocated on a permission to occupy basis, grain production also takes place under both irrigated and dryland conditions. All the foregoing systems are commercially oriented, produce for profit and consume virtually none of the grain they produce.

Most of the land area under grain production takes place on communal tenure land by households producing largely for own consumption. In this category the most common size of production unit is 1-5 hectares, but some operators have up to 15 hectares under cultivation.

The estimation of the effects of price support on these different types of farms requires measuring changes in value of income/subsistence with and without

the support policy in place. To make these comparisons across such a wide variety of farm types requires a standard measure to be used that compares policy effects on an equal footing. The standardised effect measure used in this study was developed in two stages.

In the first stage, a measure of the net value of farm income/subsistence was devised that reflected both the production and consumption effects of price policy, since a significant number of farmers are producers and consumers of grain at one and the same time. The measure called net value of income/subsistence is defined as:

*Net value of income/subsistence = The value of grain sales net of the costs of production and meeting farm-household grain consumption needs.*

Where no grain was sold and the farm is a deficit producer, the measure reverts to the cost of production of own consumed grain plus the cost of purchasing the deficit requirement.

Where some grain is sold, but a large proportion is consumed, the measure reverts to the value of sales less the cost of producing all grains (sold and consumed).

Where all the grain is sold and the quantity purchased for consumption is negligible in comparison, the measure reverts to the standard net income calculation for commercial operations (value of grain produced less costs of production).

In the second stage, a scale neutralising calculation is made so that the absolute size of the price policy effect is proportional to the scale of the farming enterprise. The measure used is the absolute policy effect expressed as a percentage of the costs of grain production.

Thus the standardised measure is defined as follows:

*% effect = Difference in net value of income/subsistence, with and without a price support policy, divided by the cost of grain production, expressed as a %.*

In this paper the above standardised measure is referred to as the *% effect*.

## **PRICE SUPPORT POLICIES IN NAMIBIA: RECIPIENTS AND IMPACTS**

Grain producers in Namibia enjoy price support through measures that increase producer prices of commercial crops and subsidised inputs of various types. Not all producer types enjoy access to the same price support measures. One set of measures is mostly aimed at commercial producers, while the other set is aimed at helping communal farmers.

### **Price support to commercial farmers**

These take the form of support to the maize grain price, and subsidies on water charges and interest rates. Commercial farmers pay for water and credit at rates below the opportunity cost of either. The Department of Water Affairs charges farmers at the Hardap irrigation scheme 1.5 cents per cubic metre. This compares with 15 cents per cubic metre to cover operating and capital costs (Namibia Resource Consultants) and an estimate of value added per cubic metre in commercial crop farming of 14 cents (Lange, 1997). Following the World Bank's recommendation (IBRD, 1997), 15 cents is taken as the opportunity cost for water for irrigated crop farming. Agribank charges commercial farmers 13% on seasonal loans against commercial rates of 20% or more. The impacts of these implicit subsidies are straightforward and direct.

Commercial maize farmers receive higher prices for their produce at the farm gate than they would do if there were no import restrictions on maize grain. Mupotola & Westlake (1997) have estimated that the licensing system, which restricts maize grain imports until the local crop has been bought by the millers results in commercial maize producers receiving 10% higher prices than they would in the absence of the licensing system.

The impact of this 10% increase on maize grain price to the millers goes beyond the commercial maize producers. It results in an increase in the price of maize meal retailed in the rural areas of Namibia. Westlake (1997) has made estimates of the maize meal price effect of the 10% maize grain support measure. These estimates assume perfect competition in the milling industry in Namibia, which is debatable. The Westlake estimates are used in this study, although they almost certainly underestimate the price effect of grain import licensing on retail maize meal prices.

Additionally increases in maize meal prices impact on the retail price of millet grain, the alternative staple grains in the Northern Communal Areas. It is assumed that in the North Central and Kavango Regions the price effect on

millet grain mirrors the price effect on retailed maize meal. In Caprivi millet grain is assumed to compete directly with maize grain.

### **Price support to communal farmers**

These take the form of subsidies on inputs. Tractor hire, improved seed and fertiliser are supplied through the government extension services at below market prices.

The tractor hire scheme is estimated to supply ploughing services to 2.2% of the farmers in the Northern Communal Areas (NEPRU, 1995). A similar scheme in Swaziland was found to supply just 3% of farmers (Biotechnology Consultants, 1990). Scheme users pay N\$40/ha and the government subsidises the balance. Although aimed at smaller farmers, it is the larger ones that tend to gain access to the limited supply. In this analysis it is assumed that all farmers with more than 10 hectares will avail themselves of the scheme. In addition 15% of the middle sized group (6-10 hectares) will have access.

For large farmers, the scheme is assumed to provide for half the area ploughed at a cost of N\$40. This is a saving of N\$100 per hectare, as private hire is costed at N\$140/ha. For the middle sized group, who hire draft power for half their crop area, 15% will cost N\$40 and the rest is costed at the private hire rate of N\$140/ha. This gives a cost per hectare of N\$125, or 89% of the cost of ploughing all the area at the unsubsidised private hire cost.

Fertiliser is supplied under a Japanese aid programme is available to communal area farmers at N\$20 per bag and to Namibia Development Corporation (NDC) schemes at N\$30 per bag. The commercial price is N\$80 per bag. Although fertiliser is hardly used by communal dryland farmers, the large farmers under the Kavango Farmer Support Programme do use fertiliser. They are able to purchase up to 5 tons at the N\$20 price and the remainder at the NDC scheme price of N\$30.

Improved millet seed is available to communal farmers at N\$3/kg. A recent consultancy (Tripp & Balogun, 1997) estimated the cost of producing this seed at N\$10.6/kg, which includes a margin for retailing. This is taken as the market, unsubsidised price. Commercial maize seed is sold to NCA farmers at N\$2/kg, compared to the commercial price of N\$8.5/kg.

## **EFFECTS OF PRICE SUPPORTS FOR DIFFERENT PRODUCER TYPES**

Farm models have been developed for each of the 13 different producer types. The net value of farm income/subsistence is calculated for each producer type, based on current prices. These values are then recalculated based on unsubsidised market prices of maize grain and the supported input types. The difference between the two values is expressed as the % effect of the support measure (relative to grain production costs in the base situation).

Table 1 presents the % effects of the price support policies for different producer types. For small farmers in Kavango (k-s) and North Central (n-s), the effects of price support are negative to the extent of -3 to -5% of grain production costs. This is because these are deficit grain producers, who use little purchased inputs, but who face higher maize meal prices resulting from the maize grain licensing measure. The small farmers in Caprivi and the middle sized farmers in the North Central and Caprivi regions are also deficit producers, so they are negatively affected by the maize grain licensing measure. However they benefit positively from using improved seeds and/or subsidised tractor hire. Overall these farmers enjoy a positive effect from current price support policies ranging from 4-18%.

Medium scale farmers in Kavango and large communal farmers benefit from the maize price support policies as well as the other subsidies available to communal farmers. Overall these farmers enjoy a positive effect from current price support policies ranging from 17-26%.

Private dryland (17%) and irrigated commercial farmers (26%) also fall within this range of benefit, though most of this comes from maize price support and subsidised water.

The greatest beneficiaries from the current price support policies are the parastatal NDC farms and the NDC supported large commercial farms operating in communal areas in the Kavango region. This is an interesting finding, which confirms that political influence is a major determinant of where policy benefits go. However, it is not confined to Namibia or even to Southern Africa. In the EU, for example, 80% of the agricultural support funds go to only 20% of the wealthiest farmers (Lowasz, 1998).

**Table 1: Price policy effects as a percentage of farm production costs**

Household type	Farm production costs (N\$)	Gain of loss from current price support measures as % of farm production							
		Maize price	Tractor scheme	Millet seed	Maize seed	Fertiliser	Water	Credit	Total
NCR 0-5hs (n-s)	679	-3%	0%	0%	0%	0%		0%	-3%
NCR 5-10ha (n-m)	1053	-1%	5%	4%	0%	0%		0%	8%
NCR 10+ha (n-l)	4854	1%	14%	2%	0%	0%		0%	17%
Kavango 0-5ha (k-s)	467	-5%	0%	0%	0%	0%		0%	-5%
Kavango 5-10ha (k-m)	840	1%	7%	12%	1%	0%		0%	21%
Kavango 10+ha (k-l)	4578	1%	15%	4%	0%	0%		0%	20%
Caprivi 0-5% (c-s)	437	-6%	0%	2%	8%	0%		0%	4%
Caprivi 5-10ha (c-m)	1188	-1%	3%	4%	12%	0%		0%	18%
Caprivi 10+ ha (c-l)	6324	2%	15%	2%	7%	0%		0%	26%
FSP farmers (fsp)	51510	7%		4%	0%	53%		0%	64%
NDC schemes (ndc)	914089	11%				22%	0%	0%	33%
Private dryland (p-dr)	138935	13%						4%	17%
Private irrigated (p-ir)	306174	6%					18%	2%	26%

Chart 1a

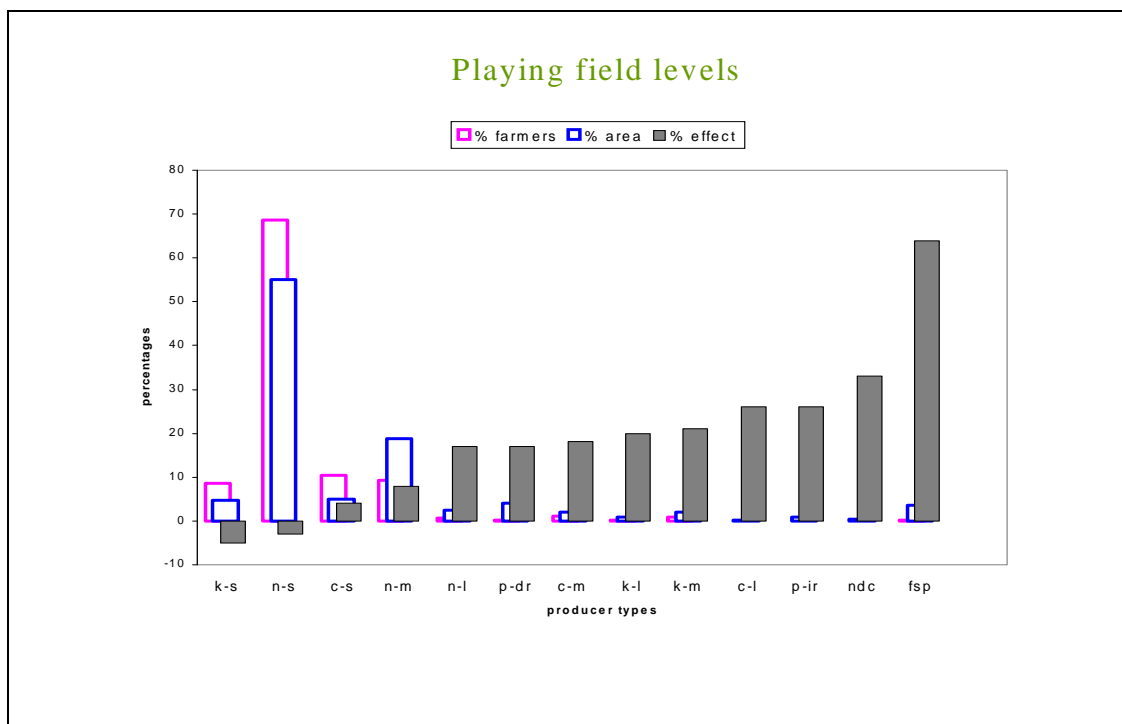
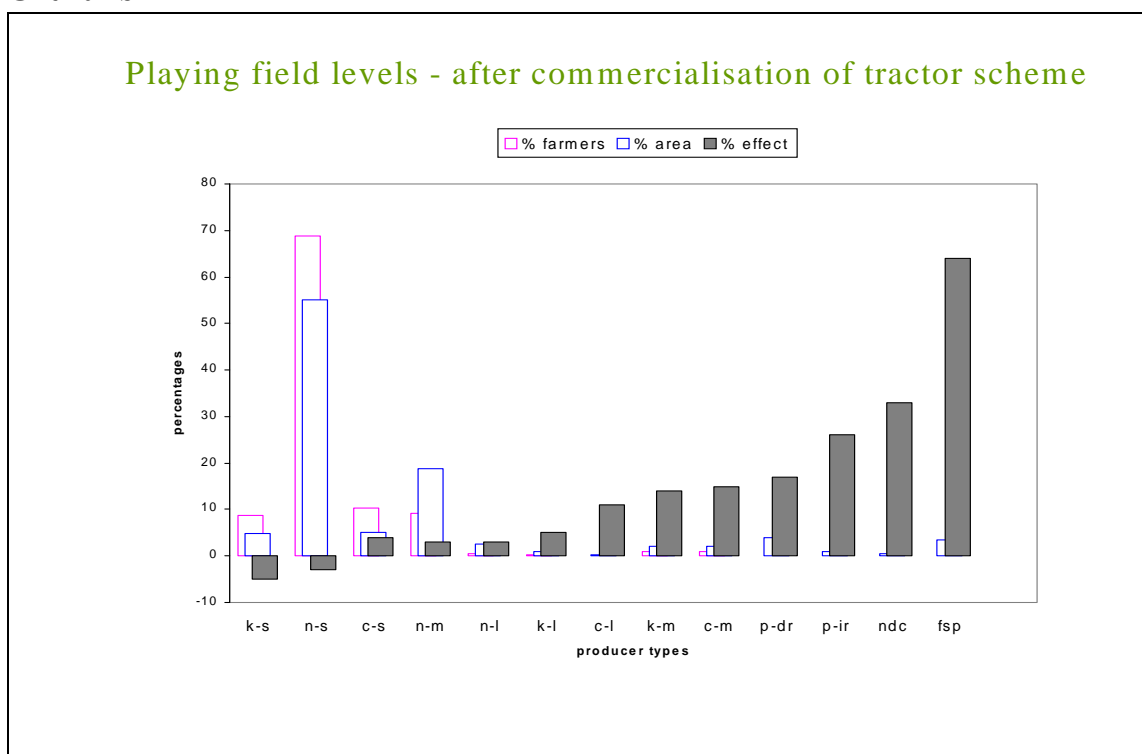


Chart 1b





## THE IMPACT OF OUTSOURCING AND COMMERCIALISATION

Both paragraphs 35 and 179 of Namibia National Agricultural Policy discussed agricultural services provided by the government. In paragraph 179, it is stated that the "Ministry of Agriculture, Water and Rural Development will consider carefully which agricultural services can best be provided by the private sector, including farming communities, NGOs and Co-operatives. Since this statement was made in 1995, not much has taken place. However, recently, outsourcing of government services and commercialisation become a catchword. Accordingly, the Ministry is planning to commercialise the current subsidised tractor hire services. The effect of this on the "evenness of the playing field" is illustrated by comparison of Charts 1 (a) and (b).

When comparing charts (a) and (b) it comes out clearly that if the ploughing support services are withdrawn, the most affected groups are communal middle and large farmers. For example, the Caprivi large farmers (c-1), who enjoy benefits of 25% currently, would have these reduced to 11% if tractor subsidies are removed.

While the private dryland farmers are not affected in absolute terms, they gain *relatively* from the removal of tractor subsidies, as they then enjoy benefits which are greater than all communal area farmers.

The situation with small communal farmers also remains unchanged in absolute terms, since the vast majority of them do not gain access to tractor services. It should be noted here that the small communal farmers, who constitute 75% of all grain producers and cultivate 65% of all grain area, either lose or gain only small benefits from the current price policy support measures.

## IMPLICATION AND CONCLUSIONS

Policy support measures introduced by government have brought the levels of support enjoyed by medium and large farmers in the Northern Communal areas to a similar scale of benefit as enjoyed by private commercial grain producers. This is a significant achievement. However two very important caveats need to be made:

- (a) The push for commercialisation and outsourcing of agri-services is in danger of undermining the levelling achievements;

- (b) For the vast majority of farmers, who cultivate the bulk of the grain area, current price policy support measures result in either negative or very small positive benefits.

The reason for (b) above, of course, is that price policy is not appropriate for subsistence farmers who sell little of their production and use few purchased inputs. Other measures must therefore be considered. One such alternative is in the area of research and extension. Here again the playing field has been very uneven in the past. For example huge amount of resources have been employed by the Agricultural Research Council in South Africa and impressive returns have been measured and reported on by Thirtle *et al.* (1998) in this conference. These investments and returns have been directed entirely at the needs and circumstances of large commercial farmers.

In Namibia the government has taken the bold step of adopting a Farming Systems Research and Extension strategy precisely to target the needs of resource poor farmers and to attempt to redress the previous bias towards large scale commercial farming in the use of public sector research and development funding. This is not a short term solution. It will take time to implement effectively and for dividends to be realised by resource poor farmers.

If government and society are serious about “levelling the playing field for all”, it is important to do three things. First to keep monitoring the situation and measuring relative benefits across all players so that politicians can compare what they like to think they have achieved, with what the actual situation is like for all types of producers. Second it will be necessary to be clear how fashionable trends, such as outsourcing of agri-services, are likely to impact on the wider objectives of equity. Third it will be necessary to go beyond price policy measures and employ complementary strategies, such as targeted use of public sector research and development funds.

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