

# VALUE CHAIN BRIEFER

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PERSPECTIVES ON THE BUSINESS ENABLING ENVIRONMENT FOR ONE SUBSECTOR



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## RICE IN MALI

### THE BUSINESS ENABLING ENVIRONMENT FOR RICE

Rice is the dominant commercial food crop in Mali, accounting for 12.3 percent of agricultural value. This success has been fueled mainly by public-led investments in large-scale, gravity-fed irrigation infrastructure and some positive policy shifts, such as the liberalization of marketing and processing in the main production zone of the Office du Niger (ON) during the late 1990s and early 2000s. Malian rice production is competitive and can be profitable, benefiting from higher global prices and an increase in the demand for local rice. However, despite this underlying competitiveness, there is little private investment flowing to rice production or processing. Rice processing is inefficient, with high proportions of broken rice. Improved mills would add value and increase the size of the market, and this represents a notable investment opportunity, given proper conditions. The second phase of the Alatona Irrigation Project provides a unique opportunity to develop a public private partnership to invest in large scale rice production. However, the government must take ownership of this commercial vision.

Uncertainties in the export market and the overall constraint to profitability engendered by the Government of Mali (GoM) domestic pricing policy render the subsector less attractive to investment than its fundamental economic potential would suggest. For instance, while there may be an export market for high value Gambiaka rice, it is not exploited because of intermittent and unpredictable restrictions on cereal exports. Unpredictable and protectionist policy constrains development of all aspects of the rice value chain from processing to seed production and is only partially countered by the GoM's *Initiative Riz* interventions in the supply of inputs. Indeed these latter interventions have disrupted the fertilizer market by restricting the supply to a single company, removing any element of competition on quality or performance, while disrupting traders' cash flow through delays in payment. At the same time, most of the fertilizer is used on other crops, sold, or exported despite efforts to mitigate leakage.

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The dominance in the market of three large traders has a negative impact on competition, consolidating power and profit for these traders by effectively reducing the prices paid to growers at the start of the season and increasing prices to consumers later on. The market is far from perfect, and transaction costs are increased as a result. Government oversight in the immediate term, combined with a push to expand to a broader spectrum of buyers in the long term, will allow both producers and consumers to benefit from open competition.

A dependence upon personal networks and reputations for business contacts reduces rice marketing options, and there is little collective marketing and negotiation among producers. Organization of growers into groups would enhance trader and processor interest, increase vertical integration, and reduce transaction costs. Nevertheless, for this to be achieved, existing oligopolies must be broken up.

## **KEY VcCLIR RECOMMENDATIONS**

A comprehensive Mali VcCLIR analysis, complete with prioritized recommendations for reform, will be made publically available in January 2012. The following is an illustrative list of VcCLIR recommended actions that promise to improve the business climate for firms in the rice industry:

- **GoM interventions in the rice market, both social (encouraging lower prices) and trade-based (restricting export authorizations) should be discontinued.** They are a powerful disincentive to investment. For as long as they continue, producers will be unwilling to adopt more intensive production systems and processors will forego investment in much needed new equipment.
- **Support a more competitive trading sector by increasing access to working capital (through such mechanisms as inventory credit).** This reform would stimulate competition amongst traders allowing producers to negotiate higher prices while reducing consumer costs and reducing the current oligopsony. At the same time, this would support the development and/or enforcement of competition law to prevent the dominance of a limited number of traders in the market.
- **Advocate for a restructuring of GoM intervention in input supplies through Initiative Riz.** This program is currently inefficient and poorly managed. If the value of fertilizer can be built into the farming cost structure, then the fertilizer subsidy can be slowly phased out. Agri-dealers should compete on the basis of service, outreach, and credit terms to the customer, and not on the fact that they have a license to provide subsidized fertilizer. The GoM should also make all crops eligible, and streamline reimbursement. Policing the resale of subsidized fertilizer should be done by the industry itself (agri-dealers) with strict sanctions on improper use (rather than speculative resale) of fertilizer.

- **Establish a unit within API-Mali that will be dedicated to identifying, promoting, and coordinating viable public-private partnerships, with a focus on agro-processing.** The agro-input industry could be expanded by launching several modern large scale mills (50-100,000 tons) with greater efficiencies and quality, steering private sector investment toward modern irrigated commercial farms, and assisting independent outgrowers/small farmers.
- **Promote the establishment of mandatory professional self-regulating associations empowered to license and discipline their own members.** An association of agrochemical suppliers formed on such a basis would be able to police the activities of its members and can be expected to be more effective in doing so than local authorities.
- **Improve access to better quality seeds. Current seed legislation recognizes only seed produced through a lengthy, certified, and expensive multiplication process.** Mali has indigenous varieties that are suited to producers' needs and, if multiplied up in a less costly manner, could be sold at a lower price to a wider market. Furthermore, supporting the private sector with legal reform and technical assistance would enable them to undertake their own certification.
- **Encourage the enactment and enforcement of formal contracts.** The vast majority of transactions between rice traders take place without written contracts, which makes proving breach of contract difficult. Standardized, adaptable written contract templates could mitigate reluctance to extend credit to trading partners.



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Nate Kline, Chief of Party  
EAT/Fintrac  
202.621.7349  
nkline@fintrac.com

Deanna Gordon, COTR  
USAID/BFS  
202.712.0623  
degordon@usaid.gov

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