STATE TRADING, AGRICULTURAL MARKETING BOARDS, 
AND THE ROLE OF GOVERNMENT IN MARKETING

by

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Governments of most countries in the world, developed as well as 
underdeveloped, play an important role in the marketing and pricing of 
agricultural commodities. In the developing countries there is a pro-
nounced tendency toward increased direct government intervention and 
control over agricultural marketing, markets, and prices. This has been 
particularly evident in Africa since the 1960's with the attainment of 
independence of many African countries. In addition, economic planning, 
with agricultural development planning as an integral part, has increased 
in popularity in much of the developing world. It is important, 
consequently, for agricultural economists to devote attention to the 
rationale for state trading and various forms of direct intervention by 
governments in marketing. Yet, little research has been directed toward 
the role and efficiency of the public sector in marketing.

Much of the literature on agricultural markets and marketing in 
developing countries has grown out of an economic setting of small land-
holder peasants operating within a system of essentially free markets and 
prices. This is reflected in one study which concludes on the basis of 
a review of current research studies in developing nations that "atomistic 
competition is present in most aspects of commodity production and 
marketing in developing nations." The same study emphasizes that while 
factor ownership is frequently concentrated in the hands of a few,
"the domestic food production and distribution sector is usually made up of large numbers of business units competing atomistically." 

While this may accurately describe the marketing systems of some countries, we cannot overlook the fact that economic planning and various degrees of direct government control over markets, marketing, and prices are commonplace in many developing countries. As one searches the literature, he finds few studies directed toward the efficiency of direct government marketing operations.

The objectives of this paper are to (1) review the reasoning behind the extension of government into marketing operations in developing countries, (2) identify the principal types of marketing boards and state-trading operations that are found in developing countries and their functions, and (3) consider the question of balance between government and private enterprise in marketing with implications for research.

Reasons for Government Involvement in Marketing

A comprehensive review of marketing developments in developing countries is contained in FAO's State of Food and Agriculture for 1969. It is significant that a substantial portion of this review is devoted to activities by governments in marketing improvement programs. The reason being, as the authors point out, "that marketing policy in most developing countries in recent years has also involved the extension of the public sector into actual commercial operations, through the establishment of marketing boards and other official trading bodies. In some countries this has been the principal feature of official
policy, involving some replacement of private enterprise in the marketing field."

The principal reasons, according to this review, that have induced governments to limit the role of private enterprise and to increase the scope of their own activities in the marketing field are as follows.

First, a main motivation in many countries is to increase central control over the national economy so that resources can be more effectively directed for rapid development. Problems of policy implementation and administration are considered less formidable with direct government involvement in marketing than if trade were left entirely in the private sector. Price policy, for example, has objectives beyond the scope of marketing, but the two subjects are usually inseparable in a developing country. This is because some measure of control over the movement of commodities is often mandatory to the implementation of public policy to influence prices. Usually the more directly marketing channels are under public control, the easier it is to implement a price policy. The collection of taxes and the control of foreign exchange and trade profits are also facilitated with direct government intervention in marketing in a developing country.

Second, regarding export marketing it is argued that there is an advantage in unified national sales in terms of impact on foreign markets. The Nigerian Produce Marketing Company, for example, handles produce worth U.S. $300 - 400 million per year, which has significant force in world markets.
Third, private enterprise may not exist in the form required for modern marketing services and it is thought that business prospects are insufficient to attract entrepreneurs from other areas. Governments may then feel compelled to provide directly those marketing services needed for agricultural and commercial development. This has been particularly evident in the direct involvement of governments in the provision of marketing services for farm inputs such as fertilizer, insecticides, improved seeds, and farm machinery.

Fourth, in a number of countries, particularly those in Africa, large scale export trade has been controlled by expatriate companies who were regarded as a threat to national economic autonomy. When the functions of these companies were taken over, they were assumed by new public institutions rather than private companies who did not have the organization, capital, or experience to assume the role of the expatriate companies. It is emphasized in the FAO report that "the desire to bring financial and commercial activities more fully under national control has often transcended considerations of short-term efficiency and cost control. On the grounds that economic development policies must be built on local ownership and control of the country's production and trade, some governments have recognized that a period of lower economic efficiency was a necessary price to pay, and have taken steps accordingly." [*9, p. 99*]

Fifth, ideological factors have played an important role in many developing countries with centrally planned economies. Ideological considerations have also been involved in certain countries with mixed
economies where certain private firms are represented by particular ethnic groups. It is considered easier to limit their influence by setting up government operated marketing enterprises.

Finally, the stereotype view of middlemen and the marketing activities with which they are associated as representing unproductive activities is widespread in many developing countries. The term "speculator" is widely used in a purely derogatory sense and there is frequent condemnation of the numerous intermediaries between the original producer and eventual consumer. There seems to be a general misunderstanding in developing countries of the role that private marketing firms play in the creation of time and place utility. Marketing is often viewed solely in its form creation dimension. The failure of politicians to understand the importance of time and place utility may be an important reason for the stereotype view that marketing firms perform unproductive activities. This view also may be reinforced by certain market structure studies by economists which have concluded on the basis of inconclusive evidence that marketing systems in developing countries are often monopolistic, exploitative of farmers and, hence, dampening on production incentives. This point received a thorough airing with inconclusive results as two previous workshops of this group. It is mentioned again in this paper simply to reiterate that noncompetitive market structures are often used as arguments for direct intervention by governments in marketing.
Types of Agricultural Marketing Boards

It is beyond the scope of this paper to attempt a detailed classification of the various forms and types of government intervention in marketing in developing countries. The FAO, however, has made a useful study in which agricultural marketing boards in developing countries are classified into six broad types. They are listed below in descending order of complexity and government involvement in marketing.

1. Market research and sales promotion boards.

They do not own marketing facilities, engage in trade itself, or maintain direct controls over volume or prices. The only element of compulsion is a compulsory levy on sales to finance the board's operations. Examples are the Ethiopia Coffee and Kenya Wheat Boards, the Ceylon Tea Propaganda Board, the Malayan Rubber Fund and the Rhodesian Tobacco Export Promotion Council.

2. Regulatory boards to develop and apply uniform quality standards for export commodities.

Such a board is usually empowered to enforce the application of standardized grading and packing procedures. All exports of the regulated commodities may require a license from the board and be subject to inspection by its staff or existing government services. Examples are the Sisal and Tea Board of Kenya and the Tobacco Marketing Board of the former Rhodesias. Some regulatory boards provide facilities for weighting, grading, storage, packing and processing. The existing marketing structure is subject to modification under the boards regulatory policy and possible obligations to use its facilities.
3. **Boards that stabilize prices without engaging in trade.**

Boards such as the caisses de stabilisation in the former French colonies in Africa were introduced to accumulate reserve funds in prosperous years to draw on to boost internal prices in low-price years. A number of these boards implement price stabilization policies through quantity restrictions and or financial methods such as fixed prices, deficiency payments, stabilization funds and pooling schemes. Imports and exports are controlled. This type of board is used to negotiate prices with processors and distributors on behalf of producers as for tea and dairy products in Kenya and pyrethrum in Tanzania. These boards require complicated administration and are most easily applied where producers are few in number and specialized. Examples are state and federal marketing orders for California fruits, vegetables, and tree nuts and U.S. milk marketing orders.

4. **Boards that maintain buffer stocks of basic food grains to stabilize internal prices to producers and consumers.**

They own marketing facilities and trade on their own account, but operate in competition with the pre-existing marketing structure buying from farmers through licensed agents or the board's own purchasing stations. A number of such boards were set up in many Latin-American and Near Eastern countries in the 1950's.

5. **Monopoly export marketing and price stabilizing boards.**

These boards are the sole buyers and sellers of specified export commodities including sales to domestic enterprises for processing for
export. They may own or hire marketing facilities and price stabilization policies are usually based on fixed producer prices backed by reserve funds. They possess comprehensive powers of compulsion. Examples are boards set up on the British West African model that have been established in Senegal, Cameroon and other African countries.

6. Boards which have a domestic monopoly of trading and processing. They have generally been developed as a means of maintaining the price of a commodity primarily produced for domestic consumption, but where surpluses sometimes need to be exported at a lower price. Examples are the Kenya Maise Marketing Board and the Zambia Grain Marketing Board. Prices are fixed for both producers and retailers. Private marketing firms may be replaced by direct board services or employed as agents of the board.

Not all marketing boards in developing countries would fall clearly into the six categories as defined in the FAO study. The authors point out that, in practice, a board may combine several sets of responsibilities and powers according to the evolution of events in particular countries. For example, the Office of Cereals in Tunisia, the operations of which the writer is most familiar, would probably be classified under type six representing one of the highest degrees of government involvement in marketing. This government-owned marketing monopoly controls prices and handles all domestic grain marketing as well as imports and exports. Prices and margins are administratively determined and controlled from the farm price of wheat through the price of bread at retail (see table).
Marketing Margins for Bread Wheat in Tunisia, July 1, 1965 - June 30, 1966

<table>
<thead>
<tr>
<th>Price per Quintal of Wheat</th>
<th>Price per Quintal of Flour</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(U.S. dollars)(^1/)</td>
</tr>
<tr>
<td>Farm price of wheat</td>
<td>$6.57</td>
</tr>
</tbody>
</table>
| Plus:
  Transportation, storage, and operating cost of Office of Cereals | .79 | 1.04* |
  Price to flour miller      | 7.36 | 9.67 |
  Plus: Milling margin       | 1.00 | 1.31* |
  Wholesale price of flour   | 8.36 | 10.98** |
  Plus: Baker's margin       | 4.10* | 5.37 |
| Retail price of bread      | 12.46 | 16.35 |

*Some prices and margins were reported on the basis of a quintal of wheat and some on the basis of a quintal of flour. To maintain consistency within each column of the table, the prices were converted on the basis of 76.2 kilograms of flour for each quintal of wheat. The * in each column indicates where each conversion was made.

**The wholesale price of one quintal of medium quality flour as sold for home baking. It is assumed that this is also the price at which flour is sold to commercial bakeries.

\(^1/\) Rate of exchange $1.00 U.S. = .525 Tunisian dinars

The private grain trade does not exist officially, but unofficially there is a private trade in the form of a black market. The rationale sited by the Government of Tunisia in setting up its cereals monopoly was to maximize farmers' incomes through "defeating the middlemen" and abolishing private trade in cereals. Another motivating factor undoubtedly was a desire to increase central control over the national economy for effective implementation of price policies for both farm and consumer prices.

Balance Between Public and Private Activities in Marketing and Some Research Implications

The direct involvement of governments in marketing and pricing of agricultural commodities is no guarantee of efficiency and does not obviate the need for marketing research. The researcher must ask how closely the margins and prices established administratively conform to margins and prices as determined in a free market. Such information, while important, is not easy to obtain because the researcher is confronted with the problem of not having standards by which to measure performance. Abbot makes a similar point, "As more marketing sectors are assigned to marketing boards and state-sponsored organizations (such as is the case in several newly independent African countries) or taken over by enterprises integrating production, processing and sales, information on margins will become increasingly necessary as a guide to administrative decision making. Yet the growth of such organizations make effective margin analysis more difficult. The monopoly marketing boards of Burma, Senegal, etc., combine such differing activities that overall price-margin comparisons are meaningless. Material for comparison of
sectoral operations either between boards or with other systems is
difficult to obtain" [1, p. 373].

Few studies exist on the efficiency of the commodity marketing
operations of state trading organizations and marketing boards. They
are traditionally secret concerning their operations and divulge very
little information on financial results. The cereals monopoly in
Tunisia is no exception. The fact that a black market private trade in
cereals thrives in the country, however, indicates that the marketing
margins taken by the organization are too high. Excess capacity in
Tunisia's flour milling industry is also evidence of excessive margins
allowed this sector by the monopoly. This points to a deficiency that
may be typical of most state trading monopolies, that is, the tendency
to set margins at levels that cover the costs of inefficient operations.
This results in more resources being used in performance of marketing
functions than would occur under a free market. Further, there is
little incentive to adopt lower cost methods that may be associated
with new technology so the malallocations of resources may worsen
over time.

Two economists comment on the relative efficiency of public sector
distribution programs of farm supplies. Ruttan concludes that it is
difficult to find examples of direct public distribution programs
which represent effective marketing channels for farm supplies. The
conflict between the demands of economic viability and the use of sub-
sidies to assure clientele loyalty typically results in the dissipation
of agency budgets, thus limiting the coverage of the program to a
relatively few farmers. Distribution costs tend to be exceptionally high in comparison with private sector costs. \[\text{6}\]

Cochrane makes a similar observation on the distribution of new seeds by governments. "But government agencies are notoriously slow and ponderous in operation, and ineffective in pushing a product at the local consumer level. Thus, the production and distribution of certified seeds often languishes or proceeds unevenly when undertaken by government agencies alone. What government agencies require for business-like production and distribution of seed is competition." \[\text{3}\], p. 213\]

I would argue that Cochrane's reasoning would also apply to commodity markets in developing countries. What state trading monopolies require for "businesslike distribution" is competition. Hence, a mixed marketing system involving private firms, cooperatives, and the government may operate more efficiently in the long-run than a state trading monopoly.

It was argued earlier that marketing developments in developing countries seem to be biased toward greater direct involvement of governments in the marketing process. This trend may be reinforced as Mellor observes in Asia where foreign aid agencies very often recommend large-scale activities by the public or cooperative sectors which tend to displace the private trade. He visualizes the proper role of the government as that of facilitating the operation of the private sector rather than as a direct participant in the marketing process. \[\text{8}\], p. 15\]
An important question meriting research in developing countries is how far governments should extend its direct involvement in marketing and how far it should promote private companies, cooperatives, or mixed forms of enterprise. The FAO review of marketing improvement problems in 1969 directs itself to this crucial problem. The reasons for direct government intervention in marketing which represent advantages attributed to such intervention were referred to previously. It is likewise important to mention the potential weaknesses of government enterprise that are also highlighted in the FAO review. \textsuperscript{9}, p. 100-101

The greatest handicap, according to this review, is often the inevitable exposure to political pressures. Developing countries often times have neither the traditions, rules or regulations to enable state-run marketing organizations to be operated for social profitability. Hence, their operations are frequently characterized by personalized, arbitrary actions of management which result in inconsistencies. In contrast the commodity credit corporation in the United States, while not immune to political pressure, operates within a legal framework established by Congress. This tends to result in some degree of consistency in its operations which the private trade can anticipate.

The staffing of public bodies may also be determined by political considerations rather than in accordance with operating efficiency. In many developing countries where unemployment is often a problem, there is considerable pressure to overload the staffs of government marketing
organizations, sometimes with unqualified people. This tendency is compounded by the fact that many state-operated marketing firms make trading profits which are attributable to factors other than operating efficiency. In Tunisia, for example, substantial trade profits are made by the Office of Cereals because of its monopoly on imports of cereals. These imports are sizeable and the largest share come in under concessional sales and grants from donor export countries. This monopoly in turn sells these cereals on the domestic market at prices considerably higher than import prices.

Many government marketing organizations also demonstrate a bias in favor of capital intensive facilities such as modern bulk storage, transport fleets, and automated processing equipment. Further, they often are unduely impressed with economies to scale in marketing operations. Automated equipment, rather than being output increasing, often simply displaces labor which intensifies unemployment problems in labor surplus economies. The returns to capital may be much higher in other lines of economic activity, but this is frequently not considered. The writer observed in Tunisia, for example, the construction of a large, highly automated abattoir on the outskirts of the city of Tunis that represented a large capital investment. Little economic consideration was apparently given to the scale or form of such a plant. Problems regarding the accumulation of livestock for slaughter and distribution of meat and meat products associated with the plant were apparently ignored. Further, indications were that when the plant went into operations it would be operated at only one-fourth of its capacity.
Another handicap of government-run marketing enterprise is the difficulty of creating in a public body, organized along civil service lines, the incentives, drive, and freedom of action conducive to commercial success. Related to this is the disadvantage of public in comparison to private enterprise in adapting to new situations or combining diverse activities. Another complication is that public agencies are frequently required to extend their operations into unprofitable fields, for example, setting up buying stations in remote areas with little volume of production. [9, p. 101]

Despite the problems associated with public marketing organizations in achieving efficiency, governments of developing countries should assume a leadership role in promoting marketing improvements and often times this must involve some direct role of government in marketing. Cochrane argues that there is a need in most developing countries for a government grain marketing organization to even out supplies over the crop cycle and stabilize prices to both producers and consumers. It would purchase grain from farmers at announced minimum prices in periods of large crops and store the stocks for release in periods of short supplies. Hence, the government grain marketing organization would provide a "balance wheel" function which would supplement and reinforce the private trade. The government marketing organization, he reasons, might provide this function by handling 10 to 20 per cent of the domestic supply with 80 to 90 percent handled by the private sector. [3, p. 213] The trick, of course, is to keep such government grain
marketing organizations within the operational bounds of their assigned balance wheel function without absorbing the private trade.

In countries that have chosen greater degrees of direct involvement in marketing such as marketing boards that control marketing, margins, and prices, there are means through which joint enterprises can be fostered between the private trade and such government bodies. For example, marketing boards can hire private firms to act as their agents rather than setting up their own facilities such as buying stations. Here we have an interesting parallel in the operations of the Commodity Credit Corporation, the price-support agency of the U.S. Government. Congressional directives require that this organization must utilize private commercial marketing firms to the fullest extent possible in carrying out grain storage and handling in connection with its price-support activities.

Apart from the direct involvement of governments in marketing activities, an important area of research in developing countries should focus on methods and means through which governments might strengthen and improve the functioning of private, indigenous, markets and marketing firms. Too often the approach taken by governments in the past has been negative. Since private merchants are often assumed to be non-competitive and inefficient, it is thought they need to be regulated, or even eliminated rather than assisted. It is interesting to note that the same stereotype of the American Colonial merchant is found in the early history of the United States. The foreign merchant and later the colonial merchant, furnished the early American farmer both a market for his goods and capital supplies on credit. So the merchant performed the dual
function of lending capitalist and marketing agent. Sparks points out that too little credit has been accorded the American merchant in the development of the agricultural resources of the United States.\textsuperscript{7}

There are a number of areas in which the government can facilitate marketing improvements within the context of the private indigenous marketing system. The government's contributions begin with the provision of necessary infrastructure such as roads, railways, and communication services. Second, marketing is facilitated through laws, rules, and regulations establishing standards of conduct to protect producers and consumers against adverse effects of collusion. The protection of health through sanitary regulations is also important. Government leadership and action is also required in the provision of facilitating marketing services such as uniform weights and measures, uniform grades and standards, market information, research and advisory services. While most marketing economists in developing countries take such services for granted, they are often lacking in developing countries. The writer observed in Tunisia, for example, that market news and information services were rudimentary and poorly developed with the expected consequences of gluts in some markets and shortages in others. Recent studies have shown that the social returns to public information services provided by the USDA in agricultural production statistics exceed the social costs involved in the provision of those services by a considerable margin.\textsuperscript{5}
The excess of returns over costs of public information services in developing countries may be considerably higher.

Another aspect in a positive approach by government toward private, indigenous, marketing systems is the provision of credit services to facilitate technological change and more efficient operations. Small marketing firms often have difficulty in obtaining loans on reasonable terms which retards investment in facilities and improved operational efficiency.

Finally, governments have an important role to play in creating a favorable environment within which private marketing firms can operate. The FAO review summarizes this point as follows:

"In numerous countries, marketing efficiency continues to suffer from the effects of the vacillating attitude of their governments toward private enterprise. Often, in areas where governments have no intention of taking over the functions of private traders and commercial firms, the administration still maintains an attitude that varies between tolerance and hostility. In general it would be better to tackle such problems as the exploitation of producers and high marketing margins by encouraging freer entry to the trade, more investment in facilities and greater competition, rather than by measures which restrict new entrants and threaten those already in business. Suspicion of government intentions can magnify the risks of trading and impede a businessman's investments and efforts without any compensating gain to the rest of the economy. Consequently, in those areas where private enterprise is to continue to provide marketing services, it is logical for the authorities to strive for stable conditions in business and to give the confidence that is essential for investment and expansion." 9, p. 105

Most of us are victims of our own experiences and the writer is not an exception. The Government of Tunisia did little during the decade of the 1960's to create an environment of confidence within which private marketing firms could operate. Rather, a state of confusion occurred as
the government extended its direct involvement in marketing of most agricultural products. This was due in large part to ideological considerations and the associated desire to exercise more direct controls over the economy to facilitate more rapid development. In 1969 there was a pronounced shift in political objectives with administrative changes in the government. A mixed economy became the announced goal. It is questionable, however, whether the government has as yet taken many positive steps to facilitate confidence in the private sector for marketing improvements. A similar deficiency may exist in many developing countries.

Conclusions

A principal feature of marketing policy in many developing countries has been the extension of the public sector into actual commercial operations through the establishment of marketing boards and other official trading bodies. This paper attempts to outline the principal rationale behind the extension of government into marketing operations in developing countries, to identify the principal types of marketing boards and state-trading activities that are found in developing countries and their functions, and to consider the question of balance between government and private enterprise in marketing with implications for research.

While recent marketing developments in developing countries seem to be biased toward greater direct involvement of governments in the marketing process, marketing improvements could also be facilitated through more positive policies aimed at improving private, indigenous marketing systems. Some direct involvement in marketing by governments is often
necessary in developing countries as in developed countries, but such operations may have a greater chance of achieving operational efficiency if operated along with private firms rather than displacing existing systems.

The role of the state in marketing has been a neglected area of research in developing countries as it has been in the United States. As more developing countries adopt various types of economic planning and administrative controls over markets, marketing, and prices such research takes an added significance. A crucial problem in many developing countries is how far government should extend its direct involvement in marketing and how far it should promote private companies, cooperatives, and mixed forms of enterprise. Cross country studies of countries with various types of marketing systems and programs are needed. While such research is difficult, its importance cannot be overlooked.
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