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Agricultural Market Reform in Sub-Saharan Africa

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An extensive review of research findings on agricultural market reforms in Sub-Saharan Africa reveals that reforms have had mixed results and not been fully implemented. Policymakers need to overcome constraints to further reform and build on what has already been achieved. Eight recommendations offer priorities for completing the reform process.

NEED FOR REFORM

In the late 1970s many African countries faced a serious fiscal crisis. Failing industrial sectors, stagnating agricultural sectors, declining commodity prices, and climbing trade deficits had severely compromised the potential for economic growth. The crisis forced many of these countries to accept much-needed structural adjustment and stabilization programs under the guidance of the International Monetary Fund and World Bank. The reform programs sought to reverse balance-of-payments deficits and declining growth rates. Because of the importance of agriculture in Sub-Saharan Africa, agricultural market reforms occupied a central place in these liberalization efforts.

The agricultural reform measures were designed to do four things: (1) eliminate government control over input and output prices, (2) reduce exchange rate overvaluation; (3) eliminate regulatory controls over input and output marketing; and (4) restructure public enterprises and reduce marketing board involvement in agricultural pricing and distribution. The expectation was that improving price incentives for farmers and reducing government intervention in the agricultural sector would be enough to generate a sizable supply response and allow well-functioning markets to emerge quickly.

AFRICA TODAY

Almost two decades later, the general consensus is that the reform programs in Sub-Saharan Africa have not met expectations. Average annual growth rates of per capita gross domestic product and agricultural value-added have been negative throughout the 1980s and 1990s. Economic performance has trailed that of other developing regions. At the beginning of the 21st century, Sub-Saharan Africa confronts a number of daunting problems: extensive hunger, malnutrition, poverty, resource degradation, and the spread of AIDS. Because the majority of the region's population remains dependent on agriculture for its livelihood, well-functioning and efficient agricultural markets continue to be key to improving Sub-Saharan Africa's economic health.

IMPACT OF THE REFORMS

The reform experience has differed from country to country and sector to sector, depending on a variety of factors—among them the stance of prereform policies and the degree of government commitment to reform. But some common themes have emerged in terms of successful implementation and the overall effect on agricultural production and income growth.

Reforms were often partial and commonly reversed. Lack of government commitment to full market liberalization, fear of disturbing existing patron-client relationships, and concern over losing important sources of public revenue were some of the factors that stymied reform programs. In Senegal, for example, the government struggled to maintain control over the processing and marketing of groundnuts, its primary generator of export earnings.

In Malawi, fertilizer subsidies that were to be phased out in the mid-1980s were reinstated when the currency was devalued and transport routes through Mozambique were cut off. The government eventually eliminated subsidies in 1995–96.

Reforms have increased competition and reduced marketing margins. In most countries where reform has taken hold, market liberalization has significantly increased trader entry in food crop, export crop, and fertilizer markets. Greater competition and increasingly cost-effective private-sector trading have lowered marketing margins and improved market efficiency. As a result, farmers are receiving a greater share of the retail or export price, and in many instances real consumer prices have declined.

Grain markets remain risky, informal, and cash based. High transaction costs—including costs of obtaining market information, searching for buyers and sellers, and enforcing contracts—and limited access to credit have kept grain markets risky, personalized, and cash based. This has made it difficult for private traders to make long-term investments in transportation and storage. Consequently, cereal grain prices in Sub-Saharan Africa remain highly volatile compared with other developing countries. On the other hand, vertical linkages in export crop markets that connect multinational traders to domestic traders have helped the latter get credit for purchasing crops from farmers.

Export crop production has responded more positively than food crop production. The larger supply response of export crops is due mostly to two effects of liberalization: the shift of relative agricultural prices in favor of tradable goods, an outcome that has generated higher returns for producers of tradable goods, and the greater profitability in using imported inputs on export crops rather than on food crops.

Fertilizer use has declined in many countries. The disappearance of subsidies and the devaluation of currencies have caused fertilizer prices to rise. Fertilizer-crop price ratios have increased as a result, particularly for nontradable crops such as maize. The higher cost of fertilizer has reduced use in many countries and on many crops, especially on maize in Southern Africa. In general, fertilizer use in Sub-Saharan Africa remains strikingly low. On average, 9 kilograms of nutrient are used per hectare of arable land, compared with 107 kilograms for all developing countries.

Access to extension and credit for inputs have declined. Where state-sponsored credit systems have collapsed, farmers have found it harder to get access to credit. The private sector has not been able to provide credit to farmers because of its inability to enforce loan payment. Access to extension services has declined because governments have cut public expenditure in the agricultural sector.

The impact on crop yields has been disappointing in general. Crop yields under reforms have been mixed but generally disappointing. Many countries have experienced either marginal increases or even decreases in yield.

Reforms have increased the income of small export growers but have had mixed impact on poor farmers. Devaluation and export market liberalization have increased the income of small export growers by 20 percent on average, although the magnitude has varied greatly by country and crop. The effect of the reforms on poor farmers, on the other hand, has been both negative and positive, depending on the net food situation of farmers, the remoteness of their location, and the extent and effectiveness of state intervention before the reforms. Farm households in remote areas are often worse off than they were before the reforms, because of the elimination of uniform nationwide prices that subsidized transport costs and the reduction of noncommercial procurement by parastatals.

REMAINING CONSTRAINTS

The evidence from Sub-Saharan Africa overwhelmingly indicates that improving price incentives for farmers was a necessary measure, but it was not enough to boost agricultural production. Nor have reforms properly transferred structural and institutional functions performed by the state to the private sector. In many cases, the vacuum left by government withdrawal could not be filled by the private sector because of prohibitive risks, high transaction costs, lack of access to information, and absence of contract and property rights laws. In general, the agricultural sector's response to reforms has been constrained by the following: deficiencies in research, extension, transportation, and communications infrastructure that were neglected during reform; inadequate legal and other regulatory infrastructure having to do with contract enforcement, quality control, and property rights, and the lack of good governance in general; absence of fully implemented reforms; and exogenous factors such as drought, disease, and war.

NEW AGENDA

Further progress in developing well-functioning markets will require not only further liberalization, but also a more concerted effort to go beyond the withdrawal of the public sector from agricultural marketing. The state must assume a new, supportive role as market facilitator. One aspect of this role is to strengthen investment in

public goods such as infrastructure, research and extension, and public market information. The second is to foster institutions required for the development of

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competitive and efficient markets. The new agenda for market development in Sub-Saharan Africa includes the following priorities:

1. Fully implement market liberalization. Where reforms are partial and the government is still playing an active role in production and marketing, liberalization should be fully implemented. Market performance improves and marketing costs fall when the government no longer monopolizes trade and a competitive private sector emerges.

2. Provide input credit to farmers. Input and output markets should be linked and contracts enforced in order to make credit available to farmers. The needed institutional frameworks for these actions include traders' associations, contract farming, group lending, and farmers' organizations.

3. Develop a legislative infrastructure. A legislative infrastructure helps to enforce contracts and reduce exchange risk and transaction costs for both farmers and traders. It includes regulations and laws that deal with property rights, contracts, investment, market conduct, and an official grading and quality control system (especially for export crops).

4. Promote smallholder production of export crops. Export crop production has positive spillover effects on input use and food crop productivity, increases access to markets, and has beneficial impacts on the food security and income of smallholder farmers.

5. Invest in transportation, research, extension, and communications infrastructure. Investment needs include transportation and communication infrastructure to strengthen markets and reduce marketing costs, research to develop appropriate crop varieties, extension services to spread technology and improve farm productivity, and timely public market information to help stabilize markets.

6. Promote effective governance and monitor market development. Proper governance can help eliminate rent-seeking behavior, improve the public sector's capacity to monitor market development, reduce risk, and increase confidence among producers and consumers.

7. Provide safety nets to support vulnerable groups. Farmers and consumers in remote rural areas have suffered from the loss of parastatal activity and official price-setting, both of which effectively subsidized high transportation costs. Short-term targeted interventions are needed to support these groups.

8. Maintain credible and sustainable macroeconomic policies. Stable, predictable policies are key to successful liberalization because of their importance in mobilizing savings and investment, fostering private-sector activity, and providing accurate and transparent incentives for consumers and producers.

This brief is based on a forthcoming book by Mylène Kherallah, Christopher Delgado, Eleni Gabre-Madhin, Nicholas Minot, and Michael Johnson. A more extensive overview of the book's findings has been published as a food policy report with the same title. The food policy report can be downloaded at www.ifpri.org/pubs/pubs.htm#fpr.

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