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REFORMING AGRICULTURAL MARKETS IN AFRICA

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Since the early 1980s, almost all African governments have embarked on economic reform programs to reduce state intervention in the economy and to allow markets to play a larger role. In the agricultural sector these programs were designed to eliminate price controls on agricultural commodities, disband or privatize state farms and state-owned enterprises, reduce the heavy taxation of agricultural exports, phase out subsidies on fertilizer and other inputs, and allow greater competition in agricultural markets.

These measures have been highly controversial. Proponents argue that the reforms have improved market efficiency, reduced budget deficits, stimulated export production, and increased the share of the final price received by farmers. Opponents argue that the reforms have destabilized agricultural prices, widened the income distribution gap, and reduced access to low-cost inputs. *Reforming Agricultural Markets in Africa* by Mylène Kherallah, Christopher Delgado, Eleni Gabre-Madhin, Nicholas Minot, and Michael Johnson, published by The Johns Hopkins University Press for IFPRI, reviews the experience of the last 20 years. It evaluates the degree to which the reforms have actually been implemented, their impact on agricultural production and prices, and the net effect on the well-being of African households.

The challenges of evaluating policy changes across a continent are well known: the scarcity of reliable data, the difficulty of separating the impact of policy changes from the effects of other factors (such as drought, AIDS, and changing world markets), and the diversity of experience, both across countries and even within countries over time. Nonetheless, some patterns stand out.

The pace and extent of reforms have varied widely across countries, and the reforms have often not been implemented fully. Food markets have been dramatically transformed in some countries (such as Ethiopia, Madagascar, and Tanzania) but only partially so in others (such as Malawi, Zambia, and Zimbabwe). Export markets are much more liberalized than they were in the 1970s, but a number of countries continue to control exports through state-owned enterprises (such as West African cotton producers). Universal fertilizer subsidies and state enterprises that monopolize fertilizer distribution, once common, are now rare, but fertilizer markets continue to be subject to targeted distribution programs, indirect subsidies, and other forms of intervention (as in Ethiopia, Malawi, and Zambia).

In cases where domestic markets have been liberalized, the private sector has responded with rapid increases in the number of traders, greater competition, and, in many cases, reduced marketing margins. At the same time, most private traders operate on a small scale with minimal investment. Marketing costs remain high because of poor transport infrastructure and uncertainty. Similarly, export marketing has generally become more efficient, allowing farmers to keep a larger share of the export price. Liberalized export markets may be vulnerable, however, to collusion by the small number of exporters, particularly when political connections are necessary to enter the market. Another problem is that, in a competitive market, agricultural traders are reluctant to offer farmers inputs on credit because the farmers can sell to a competitor and avoid repayment.

In cases where producer prices have increased, farmers have responded by expanding output, although the supply response is greater for export crops than for food crops. Furthermore, farmers have generally increased supply by reallocating land from one crop to another or expanding overall cropped area rather than by increasing yields. The overall agricultural supply response is limited by structural factors including poor infrastructure and limited use of purchased inputs.

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Agricultural productivity has increased in a few countries, particularly those in which policy was strongly biased against agriculture before the reforms, but does not show an upward trend overall. The removal of fertilizer subsidies and the liberalization of fertilizer markets has not reduced fertilizer use continentwide, as is often suggested, but it has not boosted fertilizer use either. Fertilizer use has declined or is stagnant primarily on maize (in eastern and southern Africa), but it has grown in several countries (particularly in West Africa) where it is applied to export crops. Overall fertilizer use on the continent continues to grow slowly.

The evidence on the impact of agricultural market reforms on poverty is mixed. On the one hand, some poor groups have been adversely affected. Poor urban consumers in some countries have been hurt by the deregulation of food prices (such as for maize in Zambia and Zimbabwe) or by large devaluations when the staple food is imported (such as for rice in West Africa). In addition, remote farmers may have lost when pan-territorial prices were abandoned (for example, in Tanzania and Zambia). There is, however, little reason to believe that the agricultural reforms have consistently hurt the poor. The urban poor have benefited from lower marketing margins and lower food prices, particularly in eastern and southern Africa. Growers of export crops and crops that compete with imports (such as rice) have generally benefited from export liberalization and exchange rate adjustments. The costs associated with eliminating fertilizer subsidies have been proportional to the quantities of fertilizer used, so larger, commercial farmers were more adversely affected than marginal farmers.

If agricultural reforms in Africa are to fulfill the high expectations of their proponents, improvement will have to be made in four areas. First, the task of liberalizing agricultural markets must be completed. This task implies the withdrawal of state enterprises from direct agricultural production, marketing, and processing, as well as convincing signals from political authorities that the reforms will not be reversed or undermined.

Second, complementary policies in other sectors are needed to enhance the benefits of the reforms and alleviate the negative effects. A stable macroeconomic environment, progress in taming corruption, and stronger legal infrastructure are prerequisites for stimulating domestic and international investment, including that in the agricultural sector. Similarly, programs to provide a credible safety net for households adversely affected by the reforms are justifiable on their own terms as well as for the political sustainability of the reforms.

Third, the withdrawal of the state from commercial activities should not be interpreted as withdrawal from its essential role in providing public goods. Governments and international organizations need to reverse declining investments in agricultural research and extension, improve transport infrastructure, promote the sustainable use of natural resources, and develop public services such as market information, plant protection, and disease control.

Fourth, the government can play a role in promoting nongovernmental institutions in the agricultural sector. Farmer associations facilitate dialog between the government, on the one hand, and farmers and traders on the other. This dialog should guide the design of public institutions such as grades and standards, plant protection regulations, and market information services. Contract farming has the potential to provide inputs on credit and better link small-scale farmers with market outlets for high-value agricultural commodities, but the government may need to play a role in mediating and establishing the ground rules for these arrangements.

Pulling Africa's millions of poor people out of poverty depends on strengthening agriculture and creating economic opportunities in rural areas. Although a range of policy reforms is required to achieve pro-poor agricultural growth, rural people in Africa have little chance of improving their livelihoods without well-functioning markets. This book makes clear what still needs to be done to achieve this essential goal.