



---

# POLICY SYNTHESIS

*for USAID - Bureau for Africa  
Office of Sustainable Development*

---

Number 12

March 1996

## **Food Marketing and Pricing Policy in Eastern and Southern Africa: Lessons for Increasing Agricultural Productivity and Access to Food**

By

T.S. Jayne and Stephen Jones

Food Security II Cooperative Agreement between U.S. Agency for International Development, Global Bureau, Economic Growth Center, Office of Agriculture and Food Security and Department of Agricultural Economics, Michigan State University

Since the early 1980s, donors and international lending agencies have promoted the reform of agricultural marketing as a central component of economy wide structural adjustment programs in Africa. Although the record of implementation has often been slow and uneven, staple food marketing policy has been transformed over this period. The prevailing wisdom was that by lowering marketing costs, these reforms would reduce consumer food prices, raise producer prices, and generally stimulate farm technology adoption and agricultural productivity growth.

**OBJECTIVES:** This study surveys the empirical record of grain marketing and pricing policy in selected Eastern and Southern African countries (Kenya, Malawi, Tanzania, Zambia, Zimbabwe and South Africa) over the period 1930-1995. The paper addresses five key issues with major implications for food policy in Africa: (a) why the anticipated supply response to market liberalization has not yet occurred; (b) why the common assumption of state taxation of farmers to support a cheap food policy does not apply in most of these countries; (c) why the temporary successes of the state-led approach to stimulating smallholder grain production were unsustainable; (d) why the elimination of government food subsidies associated with market reform has not adversely affected consumers; and (e) why marketing board deficits have risen rather than declined after the reforms were initiated in most countries.

**FINDINGS:** Since the mid-1980s, almost all of the countries of Eastern and Southern Africa have undertaken food marketing reform programs.

These reform experiments have revealed eight main lessons:

1. Where smallholder grain production and uptake of hybrid seed and fertilizer have expanded significantly since independence (Zimbabwe 1980-88; Zambia 1985-90; and to a lesser extent, Kenya 1975-82), this growth has been associated with major investments in state marketing infrastructure, credit disbursement, input delivery, and assured outlets for crop sale. However, this state-led model of service provision to support smallholder productivity growth has involved large state budget deficits, which, especially in the current environment of expanded donor influence over policy, has been politically and economically unsustainable.
2. The assumption that state marketing boards taxed grain producers to support a cheap food policy, often applied to other areas of Africa, is generally invalid in these countries. The controlled food marketing systems of Eastern and Southern Africa were used to transfer resources and income to selected farm groups, whose composition has changed over time with the balance of political power. The transfers took the form of subsidies on farm-gate prices in remote smallholder areas through pan-territorial pricing (uniform prices throughout all parts of the country), concessional credit and subsidized input prices. In many cases, these transfers and investments served to expand grain production beyond levels that would have been achieved in an unregulated market environment.



3. The principal driving force behind food market liberalization in the 1980s and 1990s has been fiscal crises. These crises have strengthened the leverage which donors and finance ministries have been able to exercise over policy. In some countries, reform has also been accelerated by the withdrawal of support for the state marketing system by large-scale farmers. Smallholder farmer groups have generally opposed market liberalization, on the grounds that this would result in a withdrawal of state investments designed to stimulate smallholder production and overcome the dualism of the agricultural system inherited from the colonial period.

4. In each country where pan-territorial pricing policies were effectively implemented, important groups of smallholder grain producers have been, or will be, adversely affected by the withdrawal of the controlled marketing system. However, pan-territorial pricing has imposed important costs on the grain sector and the wider economy, including dampening private investment in grain marketing, shifting production from high-potential regions near urban centers to lower-potential and remote regions where it was often not economically viable, and discouraging more economic patterns of crop cultivation and labor allocation. Pan-territorial pricing in a liberalized market environment is not sustainable and, as recent experience has shown, will continue to impose chronic trading deficits on the state marketing boards.

5. Market liberalization has reduced marketing and processing costs. The benefits of these reforms have accrued largely to urban consumers and grain-deficit rural consumers, in some cases offsetting the negative effects of eliminating consumer food subsidies. Market liberalization has positively affected household food security in grain-purchasing regions. Producers facing low transport costs to urban demand centers (mostly large-scale farmers) have in some cases benefitted from the reforms.

6. Although fiscal objectives have been the principal factor driving reform, marketing board deficits have actually increased in every country examined after the reforms were initiated except South Africa. This is because governments have been generally reluctant to relinquish control over

the setting of the boards' prices and allow them to reflect market conditions in an increasingly liberalized market environment. While the need for more flexible price setting in a market environment has been underscored by many of the boards themselves, senior politicians continue to exercise control over the marketing boards' price setting in Zimbabwe, Malawi, and Kenya. The main concern with devolution of price setting authority is that the more autonomous and commercially-oriented boards would (a) increase price volatility by frequently altering their prices as market conditions change, and (b) pay less attention to the social objectives historically pursued in the region through food marketing policy.

7. There is little evidence to date of per capita grain production growth since the market reforms, which are still in their incipient stages (Table 1, column a). Grain production has been outstripped by population growth in all six countries since the mid-1980s. This reflects, in part, cutbacks in government transfers to farmers under the formerly controlled systems, and limited successes in devising new means to coordinate input delivery, credit, and crop sale which are financially and institutionally viable. The general movement toward structural food deficits has continued in all countries except Tanzania (Table 1, column d). There has been upward movement in food prices toward import parity levels in Zimbabwe and Malawi.

8. Despite the strong rationale for moderating extreme price fluctuations, the market board "buyer and seller of last resort" approach has not emerged as a successful model in the current liberalized market environment for two reasons. First, the costs of such a system may be enormous. Second, these schemes have impeded private investment in the marketing system. Rather than accept the gap between import and export prices as given, governments may encourage market-facilitating investments so as to reduce price volatility and the cost of stabilizing food consumption. As is already evident in almost all the countries examined, rapid private investment has already occurred at the grain processing stages in response to market reform, which played a major role in containing food price spikes during the 1992 drought in Southern Africa.



**Table 1. TRENDS IN COARSE GRAIN PRODUCTION PER CAPITA, AREA, YIELD, AND NET EXPORTS, SELECTED COUNTRIES**

		production per capita (kg)	area (ha)	yield (ton/ha)	net exports (000 tons)	fertilizer use (000 tons)
		(a)	(b)	(c)	(d)	(e)
----- three-year centered moving average -----						
Zimbabwe	1970-74	340	1,286	1.32	628	na
	1975-79	285	1,262	1.18	429	378
	1980-84	267	1,758	1.06	205	471
	1985-89	266	1,697	1.33	314	443
	1990-92	162 (184) <sup>a</sup>	1,366	1.12	-228	451
	1993-94	144 (179) <sup>a</sup>	1,545	1.00	49	442
Zimbabwe (smallholder sector)	1970-74	116	993	.55	na	8.6
	1975-79	117	1,031	.54		27.1
	1980-84	127	1,538	.59		97.2
	1985-89	177	1,542	.98		119.0
	1990-92	108 (131) <sup>a</sup>	1,266	.82		98.0
	1993-94	91 (117) <sup>a</sup>	1,393	.65		86.6
Zambia <sup>b</sup>	1970-74	224	577	1.51	-78	47.9
	1975-79	160	626	1.22	-94	65.3
	1980-84	188	989	1.03	-181	74.3
	1985-89	235	848	1.56	-161	80.4
	1990-94	173 (193) <sup>a</sup>	836	1.46	-239	68.2
Malawi	1970-74	328	1,071	1.13	14	14.1
	1975-79	286	1,049	1.14	-5	21.8
	1980-84	267	1,144	1.16	30	33.4
	1985-89	228	1,185	1.13	-24	43.9
	1990-94	182 (196) <sup>a</sup>	1,322	1.03	-215	58.0
Kenya	1970-74	102	1,129	.93	77	144.2
	1975-79	133	1,222	1.22	71	130.2
	1980-84	132	1,247	1.71	59	155.7
	1985-89	126	1,381	1.81	120	235.1
	1990-94	92 (99) <sup>a</sup>	1,337	1.87	-102	241.5
Tanzania	1970-74	89	1632	0.82	-207	na
	1975-79	145	2330	1.10	-142	
	1980-84	151	2447	1.26	-274	
	1985-89	166	2994	1.31	-113	
	1990-94	130 (127) <sup>a</sup>	3082	1.15	-138	
South Africa <sup>b</sup>	1970-74	327	4,250	1.77	2,435	na
	1975-79	332	4,393	1.97	2,909	
	1980-84	311	4,235	2.19	3,069	
	1985-89	206	3,947	1.81	1,428	
	1990-94	204 (216) <sup>a</sup>	3,437	2.27	1,090	

notes: <sup>a</sup>figures in parentheses exclude the 1992 drought year. <sup>b</sup>figures for South Africa are for maize only. The share of maize in total coarse grain production during the 1980-1989 period is estimated at 91% in Zimbabwe, 98% for Malawi, 95% for Zambia, 92% for Kenya, and 94% for South Africa (USDA 1992).



### **BEYOND MARKET LIBERALIZATION:**

Market liberalization is certainly not an end in itself. Schultz's "efficient but poor" observation of low-resource farmers also describes the functioning of "liberalized" marketing systems in many developing areas. Marketing margins may approximate costs, but these costs may be too high and unstable to encourage rapid private investment and productivity growth throughout the food system.

So far, liberalization and privatization have replaced often unreliable, high-cost, and centralized forms of state marketing with private markets that are competitive but often lacking in information, infrastructure, and are poorly integrated and/or coordinated with other key production and market enhancing activities. Market transactions in the region mainly involve sale of small lots by private negotiation in a context of price uncertainty and poorly functioning credit markets. Farmers do not have reliable access to key inputs and credit to facilitate advance contracts for sale of output. Nor can they secure forward prices for crop sale to ensure that investments in technology and conservation will be profitable. While private food trade in Eastern and Southern Africa has grown, and has brought important tangible benefits, especially to urban consumers, the evidence so far suggests that the anticipated stimulus to technology adoption and food production growth has been weak.

**The major challenges of the newly liberalized grain marketing systems in Eastern and Southern Africa are to contain the effects of price instability, and most importantly, to support technical innovation and productivity growth in smallholder agriculture.**

The gains that food market reform can provide to farm productivity growth and food security have not been fully exploited. The full benefits require active government and donor support to develop and integrate markets, not simply "liberalize" them. This will require coordinated and sustainable systems of input delivery, farm finance, and reliable output markets to stimulate productivity-enhancing investments on-farm. The route to achieving this in other parts of the world has involved a combination of technology generation through sustained research, and institutional inno-

vations that reduce per unit transactions costs and exploit economies of scope and scale in exchange). Experiments with group lending in Africa have shown that the supply of credit to farmers may be increased by shifting enforcement and monitoring costs from the lender to the farm group. This concept --reducing transactions costs from the standpoint of the trader through transacting at a more aggregated level-- may prove to be important in the design of more integrated exchange arrangements between traders and farm groups involving input and credit provision, extension advice, and output sale in one contract.

It is noteworthy that cash crop promotion has often been associated with the successful coordination of input delivery, credit, and crop sale for food crops (e.g., the CMDT/CFDT cotton scheme in Mali). In such schemes, key infrastructural investments had already been made, which provided economies of scope and scale for the distribution of inputs, technical knowledge, and finance to support food crop production and sale. Few successful examples have emerged relying exclusively on food crops. An improved knowledge base of workable institutional arrangements will facilitate the emergence of more sophisticated transaction arrangements that promote productivity growth through shifting and/or reducing market and natural risks, exploiting economies of scope and scale, and coordination of credit, input delivery and crop sale between farmers and trading firms.

\*Funding for this research was provided by the Food Security and Productivity Unit of the Productive Sector Growth and Environment Division, Office of Sustainable Development, Bureau for Africa, USAID (AIR/SD/PAGE/FCP.). The research was conducted under the Food Security II Cooperative Agreement Between AID/Global Bureau, Office of Agriculture and Food Security, and the Department of Agricultural Economics at Michigan State University.

T. S. Jayne is Associate Professor at Michigan State University and Stephen Jones is Senior Research Officer, Food Studies Group, Oxford University. The views expressed in this document are exclusively those of the authors.

This paper is a summary of a report entitled: "*Food Marketing and Pricing Policy in Eastern and Southern Africa: Lessons for Increasing Agricultural Productivity and Access to Food.*," *International Development Working Paper No. 56*. It can be obtained by writing to:

MSU Bulletin Office  
10-B Agriculture Hall  
Michigan State University  
East Lansing, Michigan 48824-1039

This paper is also forthcoming as an SD Publication Series technical paper. It can be obtained through USAID's development information system (CDIE).