

# Agricultural Input and Output Market Reform: Issues and Evidence

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with

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Experiences, Lessons, and Challenges

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## Different Opinions About Reform

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Some see positive effects; others disagree. Why?

- “Reform” and “liberalization” are vague terms used without specifying what measures they refer to
- People are confused about whether reforms have actually been implemented
- Difficult to isolate the effects of reforms from the effects of other trend factors
- Implicit view that pre-reform subsidies and government marketing programs could be sustained
- Point of view matters: reforms that bring gains to some may also bring losses to others

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# How to Understand These Differences?

## Outline of Presentation

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1. What do we mean by “reform”?
2. What is the rationale for reform?
3. What does market reform typically consist of?
4. What has been the experience with market reforms in practice? (Examples: Ethiopia, Kenya, Zambia, and Zimbabwe)
5. Challenges for market development in future

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## Meaning and Rationale of Reform

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- Reform = modification of state interventions or policies to gain economic or social benefits
- State intervention — direct and indirect:
  - direct: through government marketing agencies
  - indirect: through policies and regulations
- Rationale of reform may include:
  - gains in economic efficiency (reduced market costs)
  - financial benefits (reduced government budget costs)
  - social and/or political benefits

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## Major Components of Reforms

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- Core policy changes:
  - Remove barriers to private sector involvement (e.g., licensing; movement controls on inputs and outputs)
  - Deregulate producer and/or consumer prices
  - Eliminate taxes and subsidies (implicit + explicit)
  - Privatize state marketing or processing enterprises
- Complementary public investments:
  - Market infrastructure (transport, communications, market information systems)
  - Legal framework to reduce costs and risks of trade

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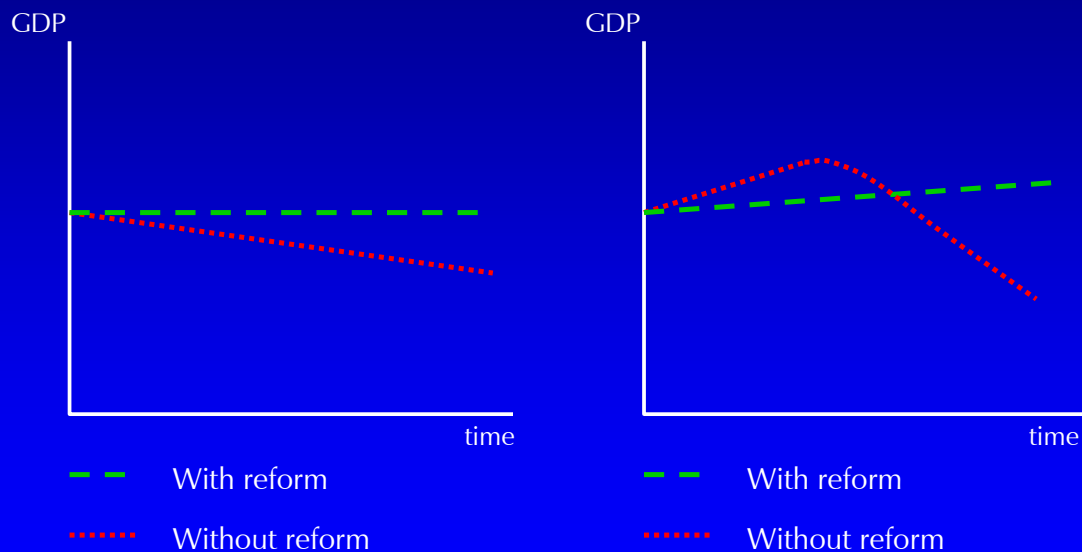
## Evaluating Impacts of Reforms

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- Evaluation from whose perspective?
  - Those who gained from state control of marketing:
    - beneficiaries of subsidies or protected markets
    - they lose when reforms occur
  - Those who bore the costs of state activities:
    - farmers and “non-privileged” private sector firms
    - they gain when reforms occur
  - Impact on overall economy: should be positive
- Impact depends on difference between with-reform and without-reform scenarios

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## With- vs. Without-Reform Scenarios



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## Reform in Practice: Ethiopia

- Fertilizer marketing shifted from old parastatal to new government-affiliated firms, but . . .
- Firms have near-monopoly within region; absence of competitors keeps prices high
- Retail sales of fertilizer still handled by government offices at district level
- Output marketing fairly competitive, but . . .
- Without public sector investment (roads, information), marketing costs are very high

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## Reform in Practice: Kenya

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- Fertilizer market reform included the adoption of most of the “core” reforms
- Vibrant private sector response
- Fertilizer use roughly constant in past 6-8 years, despite falling maize:fertilizer price ratio
- But, output market reforms have been reversed:
  - marketing board again sets maize support price
  - maize import tariff impedes regional trade
- And fertilizer distribution costs, while lower than during the control period, are still very high

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## Reform in Practice: Zambia

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- Policy of eliminating public control over credit and input/output marketing services never fully implemented
- Lack of faith in private sector has led government to maintain influence in fertilizer supply
- Old marketing board (NAMBOARD) abolished
  - but . . . replaced in 1995 by Food Reserve Agency
  - FRA imports/distributes grain, markets fertilizer
- Result: continued low levels of fertilizer use

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## Reform in Practice: Zimbabwe

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- Grain marketing has not been privatized:
  - Grain Marketing Board has remained an important maize trader throughout the reform period
  - GMB has actually expanded its functions; now engaged in grain milling
- Maize prices not deregulated:
  - Control prices on maize meal re-imposed after 1998
  - GMB gives large-scale mills cheaper maize prices and preferential access to maize
- Result: continued high prices to consumers

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## Reform in Practice: Successes

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- Positive response of input traders to fertilizer market liberalization in Kenya
- Increased numbers of small-scale grain mills (all four countries); lower prices benefit consumers
- Elimination of pan-territorial prices in Zambia:
  - govt. deficits reduced, easing macro-economic crisis
  - farmers in remote areas shifted from maize to alternative crops; value of production hardly fell

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## Reform in Practice: Shortcomings (1)

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- Many core reforms not implemented:
  - little investment in complementary public goods
  - preconditions for improved market performance have therefore not been provided
- Evaluation of reform impacts must rest on careful in-country study
- If not, may reach invalid conclusion that liberalization is a failure
- Privatization may just mean replacing the old government monopoly with a private monopoly

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## Reform in Practice: Shortcomings (2)

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- Some reforms implemented, but later reversed
  - marketing policy now more unstable than before liberalization
  - many countries in region have slid farther back in reform process than where they were 5 years ago
- Vicious circle:
  - government hesitation to trust private sector response discourages private sector entry and investment
  - lack of private sector response leads govt. back in

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# Challenges for Market Development

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- How to reduce real costs and risks of marketing?
- How to design marketing systems that induce productivity growth, especially by smallholders?
- How to handle price instability in liberalized markets in cost-effective and low-risk ways?
- How to create a stable policy environment to encourage long-run private investment?
- How to foster collaboration among policy-makers, donors, researchers, and private sector?