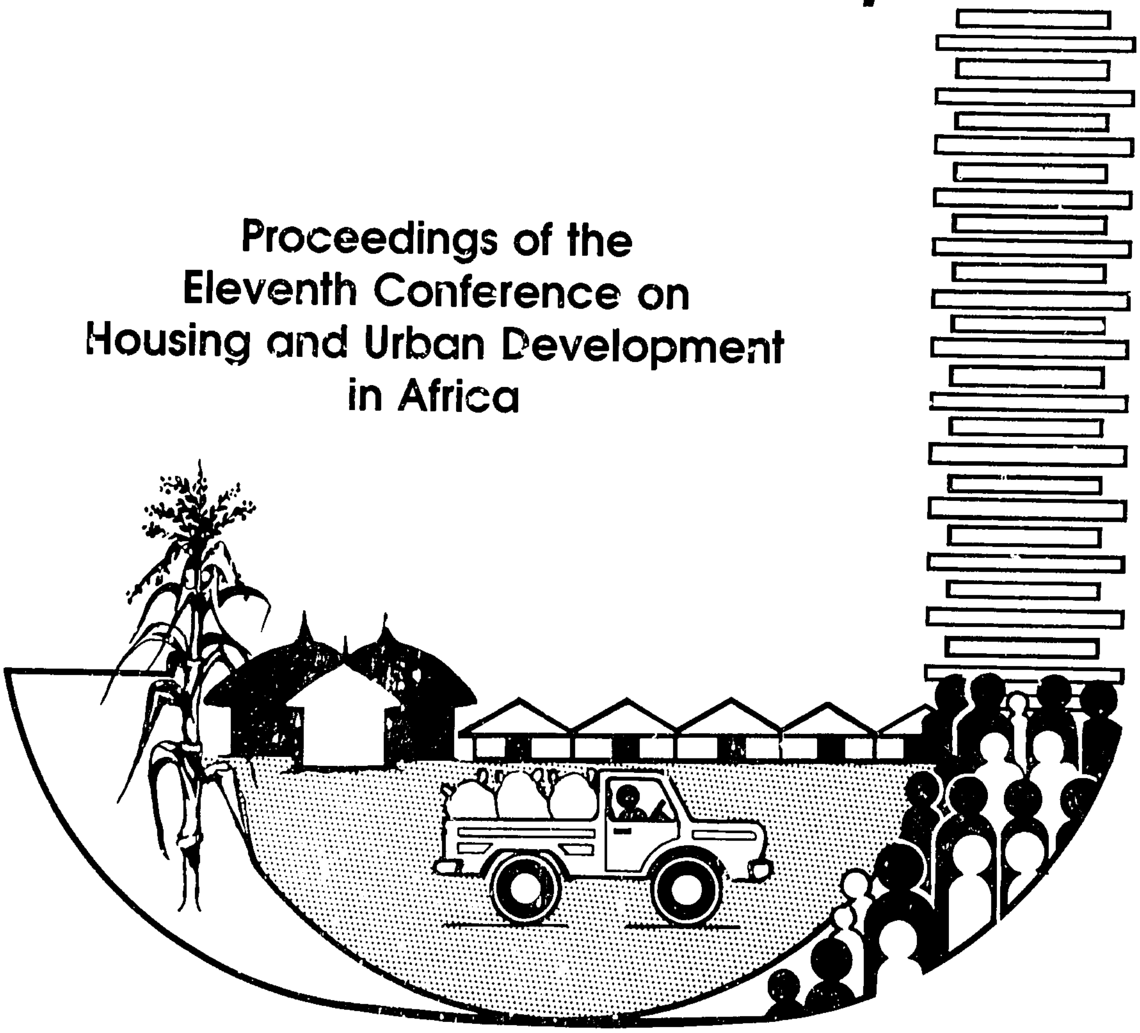
Agricultural Growth and Market Town Development



Proceedings of the
Eleventh Conference on
Housing and Urban Development
in Africa

May 16–19, 1988
Lilongwe, Malawi

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Sponsored by the Ministry of Agriculture of the Republic of Malawi and the Office of Housing and Urban Programs of the U.S. Agency for International Development

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I. Opening Ceremonies

Welcoming Remarks

B. M. Ndisale, Principal Secretary, Ministry of Agriculture, Malawi

It gives me great pleasure to welcome to Malawi all participants in the Eleventh Conference on Housing and Urban Development in Africa. Malawi is honored to have been chosen as the venue for this conference, whose theme is agricultural growth and market town development.

This year's conference theme is of vital significance to our country, which places a heavy emphasis on agriculture for economic development. The government of Malawi also realizes the importance of secondary center development as a means of striking a balance between rural and urban development. I hope that at the end of this conference all participants will come away with new ideas on the interlinkages of these two issues.

I wish all of you a pleasant stay in our country and fruitful and beneficial discussions.

Welcoming Remarks

Peter M. Kimm, Director, Office of Housing and Urban Programs, U.S. Agency for International Development

Since 1974, the Office of Housing and Urban Programs of the U.S. Agency for International Development has been organizing conferences on shelter and urbanization issues. We are particularly pleased to co-host this eleventh conference with the Republic of Malawi, a country which is strategically located in a region of Africa experiencing rapid urban growth.

This conference is historic, as it is the first time agriculturalists and urban planners have come together to discuss ways of stimulating growth and developing market towns.

We have distinguished representatives from 18 countries and various multinational donor organizations attending this ground-breaking conference. The task at hand is indeed challenging.

I extend a warm welcome to all and wish you well in your endeavor to focus on innovative approaches to agricultural growth and market town development.

Mayor M. S. Msosa welcomes delegates to the city of Lilongwe during the conference's opening ceremonies.

Official Opening Address

M. M. Mwakikunga, Minister of Local Government, Malawi

It is a privilege and an honor to be here this evening to officially open the Eleventh Conference on Housing and Urban Development in Africa on behalf of His Excellency, the Life President, Ngwazi H. Kamuzu Banda. Malawi is highly honored to have been chosen as the venue of this important conference. I would like to take this opportunity to welcome you all.

The theme of this year's conference is agricultural growth and market town development. This theme is of great relevance to Malawi, whose mainstay of economic development is agriculture.

At this moment in time, I would like to pay tribute to the dynamic, pragmatic, and foresighted leadership of His Excellency, the Life President, for creating the atmosphere of unity, peace, and tranquility prevailing in this country, which are prerequisites for any meaningful development.

The Life President, recognizing that this country has no significant mineral endowments, but that it is blessed with rich agricultural soils, prudently mapped out strategies and determined priorities in an effort to wrestle with the socioeconomic problems that beset this country in the wake of colonial maladministration. Agriculture schemes covering the whole country according to the circumstances favorable to a particular crop or crops were therefore ushered in by the Malawi government through agricultural development divisions instituted throughout the country. These have buttressed the key agriculture sector upon which revolves the economy of this country. Hence, the whole economic infrastructure is now serving all the rural population and the entire nation.

The Life President has from time to time emphasized the importance of agriculture to his people in this country. And the people have listened to his appeal for hard work in the fields and have diversified the growing of crops for food and surplus for sale. It is, indeed, the policy of the Malawi government that the people of this country must have the three basic needs: enough food to eat, decent clothes to wear, and better houses to live in that do not leak when it rains. While you are in this country, you will learn of the many agricultural endeavors the country has embarked on.

George Trail, U.S. ambassador to Malawi, addresses delegates during the conference's opening ceremonies. He noted that Malawi's "realistic and pragmatic approach to development" includes policies and programs that "directly address the constraints and bottlenecks which inhibit agricultural growth, employment generation, and well-planned market town and urban development" and urged participants to build "a solid partnership among governments, the donor community, and the private sector."

ELEVENTH CONFERENCE ON HOUSING AND URBAN DEVELOPMENT IN AFRICA
LILONGWE, MALAWI
16 -- 19 MAY 1988

M M Mwakikunga, Malawi's minister of local government, presents the conference's official opening address. Seated at his right is conference co-host B M Ndisale, principal secretary of Malawi's Ministry of Agriculture. At his left is conference co-host Peter Kimm, director of the U.S. Agency for International Development's Office of Housing and Urban Programs.

Malawi also realizes the importance of involvement by the rural population in all its development endeavors. Over 80 percent of the country's population is in rural areas. It is for this reason that Malawi has laid great emphasis on rural development under the National Rural Development Programme and the Rural Growth Centres Project. These secondary centers have acted as a cushion against rural-urban migration. Malawi is doing its best to slow rural-urban migration by providing the necessary infrastructure in rural areas. Time permitting, I encourage you to see some of our centers under the Rural Growth Centres Project.

I understand this year's conference will examine several issues, including

- the critical public sector services required to support urban/rural development,
- constraints to growth in the urban and agricultural sectors,
- whether urbanization stimulates or retards agricultural productivity, and
- how market towns can be created.

It is my sincere hope that you will find the facilities placed at your disposal adequate and thus providing an atmosphere that is conducive to stimulating and fruitful deliberations.

In conclusion, I wish to extend my sincere gratitude to the U.S. Agency for International Development and its Rural Housing and Urban Development Office for East and Southern Africa for sponsoring this conference and for their tireless efforts in organizing this annual event.

Once again, I would like to welcome you all to this conference and to Malawi, "the warm heart of Africa." I am certain that you will not only find it stimulating and informative, but a pleasurable and memorable experience to be here with us. Lilongwe is our pride, and we hope you will find it interesting. Lake Malawi, with its fresh waters and renowned *chambo* fish, is not very far from here either. Please enjoy yourselves.

Charles E. Gladson, the U.S. Agency for International Development's assistant administrator for Africa, addresses conference delegates during the opening ceremonies. "Finding solutions to many development problems demands attention to the crucial linkages between urban centers and rural areas," he said. He called upon conference delegates to explore "ways in which these linkages can be strengthened and deepened to support national development throughout Africa."

II. Keynote Presentations

Summary of Keynote Presentations and Remarks by Commentators

Keynote presentations were made by two experts on agricultural growth and market town development, Dennis A. Rondinelli of the Research Triangle Institute and Uma Lele of the World Bank, both located in the United States. Delegates from five countries commented on the keynote speeches: Patrick K. Balopi, minister of Botswana's Ministry of Local Government and Lands; Robbie Matongo Mupawose, director of Zimbabwe Leaf Tobacco; J. R. N. Mlia, head of the Department of Geography and Land Planning at the University of Malawi; Nyaga Kamundi, town clerk of the Meru Municipal Council in Kenya; and Avrom Bendavid-Val, coordinator for rural-urban exchange at Clark University in the United States.

The main points raised by the keynote speakers and commentators are as follows:

- There is a strong need for governments and donors to pay considerable attention to both the urban and agricultural sectors. Although Africa is now the least urbanized region in the world, its rate of urban population growth is the highest. By the year 2000, more than 340 million people, or about 42 percent of the population, will live in towns and cities. Approximately 60 cities will have more than one million inhabitants. On average, agriculture contributes 40 percent to gross domestic product and engages 75 percent of the labor force. Many studies have shown that the expansion of private enterprise in market towns is essential for developing agriculture and for generating off-farm employment. Rural enterprises now provide a primary source of employment for between 25 and 33 percent of the rural labor force in developing countries.
- As agricultural productivity increases and farming becomes more commercialized, farming depends more heavily upon imports to the region (such as pesticides, implements, and transportation equipment) that are produced in cities and distributed in rural regions through market towns.
- Rising incomes from increased agricultural production create demand for a wider range of consumer goods than can be produced in, or distributed through, towns.
- The ability of towns and cities to perform important functions in rural and agricultural development depends heavily upon the diversity and quality of their infrastructure and services; the planning, management, and financial capability of local governments; and the strength of private enterprise to provide necessary services and productive activities.
- Macroeconomic reforms, including producer price and exchange rate liberalization, will stimulate African agriculture. Action will be required on nonprice factors to complement these reforms. There is abundant empirical evidence to suggest that investment in transportation and market town infrastructure helps to develop the markets needed to promote efficient agriculture by improving factor mobility and market information and by reducing transportation costs.
- Urban dwellers and farmers are linked by flows of credit. According to World Bank

studies, only Africa's larger farmers have tended to benefit from institutional credit; small farmers have had to depend upon urban remittances. Agriculture has performed best in countries that have given small farmers good access to credit and land. Where such policies have been pursued, market towns have grown rapidly.

- Although it is clear that policies and programs for developing market towns and strengthening rural-urban marketing linkages will stimulate agricultural development and guide urbanization in mutually beneficial ways, more research is needed into the most effective means. This research should focus on comparisons of organizational structures for decentralizing financial and management responsibilities to municipal governments, effective ways to generate local revenues, and assessments of the structure and performance of critical agricultural marketing subsystems linked to market towns.

Delegates to the conference become acquainted at an evening reception.

Market Towns and Urban-Rural Linkages

Dennis A. Rondinelli, Senior Policy Analyst, Office of International Programs, Research Triangle Institute, USA

Market towns and cities in Africa play crucial roles in agricultural production, food distribution, and marketing. They are likely to become even more important over the next two decades as Africa goes through profound changes of rapid urbanization and agricultural transformation. But international assistance organizations have not fully recognized the crucial roles that towns and cities play in agricultural and rural development. Nor are government investments in urban services and infrastructure or programs for private sector expansion designed to stimulate and strengthen the economic and physical linkages between urban and rural areas.

The rapid urbanization now taking place in Africa will influence the demand for food and the composition of agricultural production for the next quarter of a century. African governments and international assistance organizations must recognize five basic points if they are to adjust their development policies and programs in the future.

- Towns and cities in Africa structure the marketing network through which agricultural commodities are collected, exchanged, and redistributed. Agricultural goods that are not retained for household consumption or traded in rural periodic markets move through a complex network of public and private enterprises in villages, market towns, secondary cities, and metropolitan areas.
- Without this network of towns and cities, agricultural trade is usually restricted to periodic markets in which subsistence farmers exchange goods among themselves or with intermediaries. The incentives for increasing production that come with the ability of farmers to market their goods competitively is lost. In such circumstances, agriculture does not easily expand beyond subsistence production.
- As agricultural productivity increases and farming becomes more commercialized, it depends more heavily on inputs such as fertilizers, pesticides, farm implements, irrigation equipment, storage and refrigeration facilities, and transportation equipment that are produced in cities and distributed in rural regions through market towns and small urban centers.
- Rising incomes from increased agricultural production create internal demand for a wide range of household and consumer goods that can be produced in market towns and small cities or distributed through them. Without access to the goods and services that market towns and cities can provide, there is little incentive for farmers to increase their output and raise their incomes and little opportunity to improve their living conditions.
- The ability of towns and cities to perform important functions in rural and agricultural development depends heavily on the diversity and quality of their infrastructure and facilities; the planning, management, and financial capacities of their local governments; and the strength of private enterprises to provide necessary services and productive activities.

Market towns and small cities in many parts of Africa are already playing a crucial role in providing the services, infrastructure, and utilities necessary to support small- and medium-scale enterprises that generate off-farm employment. Many African towns and cities act as centers of innovation diffusion for new agricultural information essential to increase production (Rondinelli 1983). Many rural nonfarm enterprises—raw material processing, manufacturing, construction, transportation, retailing, wholesale trading, and personal and financial services—are also located in African towns and cities, serving both urban residents and people from surrounding rural areas (Obudho 1983).

In the future, if towns and cities are to play a stronger role in expanding off-farm employment opportunities, facilitating agricultural development, providing employment, and offering the conditions necessary for private enterprise expansion, international assistance organizations and national governments will have to give much more attention to improving their physical infrastructure and public services. Investments in roads, market facilities, transportation facilities, housing, storage, and utilities will be needed in market towns and small cities. In addition, more attention will have to be given to strengthening the capacity of local governments to manage urban infrastructure and services efficiently.

Urbanization and Agricultural Development in Africa

Although Africa is now the least urbanized region in the developing world, its rate of urban population growth is the highest. Urban population is expected to increase on average by more than 4.7 percent a year over the next decade. In 1960, there were only about 52 million people living in urban areas in Africa. By 1980, that number more than doubled to 129 million. At the end of the 1990s, more than 340 million people—about 42 percent of the population—will be living in urban places. In northern Africa more than half of the population, and in southern Africa about 60 percent, will be urbanized (UNCHS 1987).

Cities and towns in all size categories are growing in number and population. The number of people living in towns of less than 100,000 population grew from 24 million to nearly 58 million between 1960 and 1980. The number of cities with 100,000 to one million in population will increase from the 82 that existed in 1960 to 149 by the year 2000. In 1960, there were only four cities in Africa with more than one million in population, and they had less than eight million inhabitants. By 1980, the number of cities of more than a million people increased to 20 and will expand to 59 by the year 2000. Their populations will grow from 37 million to nearly 83 million (UNCHS 1987).

Although cities in Africa are growing rapidly, agriculture plays a crucial role in the economies of nearly all African countries and will continue to do so for the foreseeable future. Agriculture contributes, on average, more than 40 percent of the gross domestic product in African countries. More than 75 percent of the labor force is engaged in agriculture. Primary sector goods account for more than 68 percent of total African exports (World Bank 1986). In addition, African governments derive a large amount of revenues from indirect taxes on agriculture (Lele 1981).

But the average annual rate of growth in agricultural production in much of Africa has declined during the 1970s and 1980s. A number of countries—including Ethiopia, Mali, Mozambique, the Sudan, Ghana, Côte d'Ivoire, Botswana, and the Congo—all had negative average annual growth rates in agriculture during the first half of the 1980s. Moreover, agriculture's share of exports dropped during the early 1980s by 50 percent of its level during the 1960s. Agriculture's contribution to gross domestic product in Africa's lowest income countries declined from about 47 percent in 1965 to about 38 percent in 1984 at a time when industry's contribution rose only from 15 to 16 percent (World Bank 1986).

Importance of Urban Settlements for Agriculture and Rural Development

The roles that African towns and cities play in support of agriculture will become increasingly important over the next decade. Governments in African countries and international assistance organizations will have to deal more effectively with urban-rural relationships in three types of economies:

- in regions where agriculture is still at a low-surplus or subsistence level,
- in regions in transition to commercial agricultural production, and
- in regions with large cities and metropolitan areas.

Urban-Rural Linkages In Low-Surplus Agricultural Areas

In low-surplus and subsistence regions, where less than half of the agricultural production is traded, rural households do not participate heavily in market activities. Much of the traded surplus is exchanged in small lots in periodic marketplaces or is collected at the farm gate by itinerant brokers or traders who resell it in larger lots at markets in towns and cities. Although intermediaries, brokers, and traders play a crucial role in the exchange process in low-surplus areas, if farmers themselves do not have access to markets, they can easily be exploited by middlemen.

The marketing characteristics of low-surplus agricultural regions differ drastically in different parts of Africa and within individual countries. Yet the spatial aspects of marketing have some common characteristics in nearly all low-surplus regions. Among the common features are:

- low levels of marketing interaction among low-income households and weak trade linkages between rural areas and towns and cities,
- strong dependence of most farmers on intermediaries and brokers to collect and market their surplus goods,
- short geographical distances of market interaction for most rural families who trade primarily in periodic marketplaces,
- long travel distances for most rural residents to towns and cities for purchases of specialized goods and services, and
- relatively small numbers of towns and villages with significant levels of market trade. In subsistence or low-surplus regions, widely scattered and poorly connected towns function primarily as rural service centers (Rondinelli 1987a).

In many subsistence regions, there are few market towns and cities that can provide outlets for the sale of agricultural surpluses and for the distribution of inputs and consumer goods and services. Other low-surplus regions may have large numbers of small towns, but the settlements are not physically and economically integrated and their markets are not vertically coordinated. Small-town markets often are not linked to bulking and assembly centers in intermediate cities, and the intermediate city markets are not effectively linked to the larger urban markets for agricultural products. Nor are linkages between market towns and intermediate cities and their surrounding rural areas strongly developed. Thus, only those people living in market towns and cities usually benefit from their services and facilities. Those living in peripheral or far-distant areas have little or no access to either markets or agricultural inputs.

Studies of the Shaba region of Zaire, for example, point out that poorly organized marketing systems and badly maintained roads have permitted only a small number of merchants to transport crops from the countryside to the major cities. This small group of merchants controlled farm gate prices (Nsaku and Ames 1984/85). Because of the lack of or delay in receiving information about market prices—due in large part to their inability to participate directly in market activities—most poor farmers in Shaba were at the mercy of intermediaries who paid a lower price for the agricultural goods than the going market rate in order to cover their high transport costs and earn a profit. After continuing to receive low prices for their goods year after year, farmers in the Shaba region were discouraged from increasing their output, and consumers in towns and cities were forced to pay higher prices for maize in the market. This forced the government to import maize to feed the growing urban population.

Studies in other parts of the developing world indicate that small and marginal farmers usually have more marketable surpluses than agricultural experts expect. But inefficient agricultural marketing systems and limited access to market towns have serious negative impacts on farmers' living conditions. Poor access to markets increases the proportion of marketing costs for all farmers, but has stronger adverse impacts on small- and medium-sized farmers than on large-scale producers (Bohle 1985). When they have a choice, farmers prefer to trade in small periodic markets rather than depend exclusively on intermediaries. Research on grain and livestock transactions in the Cinzana region of central Mali, for example, indicates that the majority of transactions in all commodities take place in weekly markets because these periodic market centers provide better access and terms of trade for small-scale producers (Coulibaly 1985).

The lack of an effective system of market towns in rural regions not only limits the accessibility of farmers to market outlets and increases transport costs, it also limits their access to the social services and consumer goods that provide important incentives for increasing production and household income.

This common-sense conclusion is clearly voiced in the traditional song sung by farmers in Papua New Guinea. Variations are heard in songs, tales, and jokes in other parts of the world as well. It goes like this (Epstein 1985):

The primitive farmer says cash
Is unsatisfactory trash;
It won't keep off rain
And it gives me a pain
If I use it to flavor my hash.

So why should I work out my guts,
At the whim of these government mutts.
My liquor comes free
From the coconut tree
And my Mary makes cups from the nuts.

Should I walk for three days into town,
Sell a sack of spuds for a crown,
Buy a bottle of beer
And fall flat on my ear?
No, I'd rather stay here and lie down.

If I act in a rational way
I'll just sit on my backside today.
When I want a good feed
I've got all that I need
Piping hot and there's nothing to pay.

Cash cropping is all very well
If you've got something to sell;
But tell me, sir, why
If there's nothing to buy
Should I bother? You can all go to hell.

In the absence of accessible markets for selling agricultural surpluses and for purchasing goods and services with increased income, there is little motivation for rational farmers to increase output.

Roles of Market Towns in Commercializing Agricultural Regions

In regions that are in transition from low-surplus to more commercialized agriculture, the requirements for increasing production become more numerous and complex. When the demand for and the supply of agricultural goods begin to grow larger, increased production depends on modern farming technologies that raise both yields from existing land and the output per unit of human time. Modern agriculture depends not only on new technology and research and extension, but also on the production of industrial inputs and on government polices and programs that support agricultural development (Mellor 1967; Wharton 1969).

The linkages that emerge between agriculture and commercial and manufacturing activities in towns and cities as development occurs take a number of forms.

First, as agricultural productivity increases and farming becomes more commercialized, it depends more heavily on manufactured inputs, including fertilizers, pesticides, farm implements, flood control and irrigation equipment, land clearance equipment, tractors, storage and refrigeration facilities, and transportation equipment. Most of these inputs are produced in cities and must be distributed through a network of market towns if they are to reach farmers (Johnston and Kilby 1975).

Second, the economies of market towns and small cities also come to depend more heavily on increased agricultural output. Agricultural products provide inputs for expanding agro-processing industries—those that mill grains and rice, process meat and dairy products, and refine sugar, for example—many of which are located in small towns and cities in rural regions. Agriculture also provides inputs such as natural fibers and livestock byproducts to nonfood processing industries (UNIDO 1972). In many African countries, market towns and small cities offer locational advantages for agro-processing and agribusiness enterprises (Rondinelli 1983).

Third, and equally important, rising rural household incomes from increased agricultural production create internal demand for a wide range of manufactured goods produced in cities. Research shows that where agricultural production has increased beyond the subsistence level, demand has increased rapidly among rural households, initially for clothing, shoes, sandals, combs, brushes, cosmetics, plastic, light fixtures, wooden furniture, bricks and paint for home improvements, bicycles, radios, and electric fans. As incomes continue to rise, greater demand is created for consumer durables such as televisions and motor vehicles (Johnston and Kilby 1975). Market towns and small cities can accommodate the shops and stores that meet growing consumer demand in rural areas as agricultural development proceeds.

Fourth, as agricultural productivity increases, market towns and small cities must play a more vigorous role in supporting small-scale enterprises and generating off-farm employment. Rapidly increasing agricultural productivity frees labor from farming and pushes people from rural areas into towns and cities in search of new employment and investment opportunities. Employment in towns and cities allows farmers in nearby rural areas to supplement household income. Remittances earned by migrants provide additional income for household members remaining in rural areas.

A growing number of studies confirm the conclusion that the expansion of private enterprise in market towns and small cities in rural regions is essential for developing agriculture and for generating off-farm employment (Liedholm and Meade 1986). The World Bank (1978) has found that increasing agricultural production and employment in off-farm enterprises is necessary to raise rural household income, retain population in rural regions, moderate the migration from rural areas to large cities, and diversify rural economies. In many countries, small- and medium-scale enterprises in rural regions are at the nexus of a constellation of activities that accelerate economic growth (Steel and Takagi 1983).

Rural enterprises now provide a primary source of employment and income for between 25 and 33 percent of the rural labor force in developing countries. They provide part-time employment and supplementary income for small-scale farmers and full-time employment for townspeople in food preparation, construction, personal services, transport, agroprocessing, commercial services, and small-scale manufacturing activities. In Kenya, for example, rural nonfarm enterprises include a wide range of these activities that are primarily located in market towns and small cities. Employment in the rural nonfarm sector in Kenya is about eight times as large as in the urban informal sector (Freeman and Norcliff 1981). In many market towns in Africa, women are the primary vendors and retailers of cereals, grains, vegetables, and prepared foods, as well as cottage industry products. Small-scale and informal enterprises in market towns are crucial to enhancing their household income.

Dennis A. Rondinelli, senior policy analyst in the Office of International Programs at the Research Triangle Institute, presents one of the conference's keynote addresses, titled "Market Towns and Urban-Rural Linkages."

Fifth, market towns and cities can also facilitate agricultural and rural development in other ways. Market towns act as centers of innovation diffusion of new agricultural information, methods, and technologies developed in larger urban centers or abroad. The population growth and economic diversification of these towns and cities also influence the agricultural cropping patterns and land uses in surrounding rural areas (Wortman and Cummings 1978).

Finally, the single most important function of towns and cities is that they form an essential marketing network through which agricultural commodities are collected, exchanged, and redistributed.

In nearly all commercial agricultural regions, agricultural goods that are not retained for household consumption, feed, seed, or in-kind payments move through a complex network of public and private enterprises based in villages, market towns, and intermediate-sized and large cities (Rondinelli 1986). Both food and nonfood agricultural products are marketed by farmers in rural areas through cooperatives, itinerant traders, brokers, hullers, processors, and millers, or directly by farmers themselves in village periodic markets. Food products are also sold in market towns to brokers and truckers, commission agents, and government marketing agents, or directly to consumers in marketplaces. Often, some portion of the agricultural products sold in villages and towns is bulked by traders, brokers and truckers, processors and assemblers, and commission agents for resale in regular markets and to wholesalers and retailers in larger towns and cities. Government marketing boards, wholesalers, and brokers often rebulk goods not sold in town and small city markets for sale in metropolitan areas to exporters, urban wholesalers, retailers, public institutions, supermarkets, informal sector vendors, restaurants and hotels, grocery stores, and a wide range of other outlets. Thus, towns and cities not only facilitate the marketing of farm products, but are essential to the whole chain of exchange on which commercial agriculture depends.

In brief, where they function effectively, market towns and small cities provide outlets for agricultural goods and products of cottage industries from surrounding rural areas. They provide investment and employment opportunities for both town and rural residents in a wide range of agricultural processing and market-related trade activities. They function as agricultural supply centers, providing equipment, seeds, fertilizer, machinery, repair services, and information needed for agricultural development. Many towns and small cities also offer an impressive array of economic, personal, commercial, public, and social services needed by rural households.

Market Towns as Links to Agricultural Markets in Large Cities

International assistance organizations and African governments have largely ignored the role of large cities and metropolitan areas as markets for agricultural goods and the importance of market towns in linking rural areas to them (Rondinelli 1987b). Where they exist in Africa, large cities are important market centers for agricultural goods produced in peripheral and rural areas. For example, in Tanzania, farmers from the rural hinterlands of Dar es Salaam, Morogoro and the coast region, Moeya, Arusha, and Lushoto all supply the major wholesale market in the city of Dar es Salaam (Sporrek 1985). The largest amounts of food are bulked at villages and towns well known to producers in the supply areas by truckers, middlemen, and small-scale wholesalers.

In most large African cities, the distribution, preparation, and sale of food involve a large number of workers in both large and small enterprises and in informal sector activities. The linkages between the formal and informal sectors involved in urban food distribution and sale are usually quite strong (Rondinelli 1987b). The wholesale market in Dar es Salaam, for example, distributes food to supermarkets, numerous provision and food stores, and hundreds of small groceries. About 60 percent of the food in Dar es Salaam is marketed through small shops, and about 25 percent is sold by street and market vendors or by rural producers themselves (Sporrek 1985). Much of the investment and employment in the informal sector in African cities is related to food distribution, preparation, and sale and employs the labor and entrepreneurial skills of women.

For farmers in many rural regions with commercial agricultural economies, large cities and metropolitan areas are the final markets for their products and the sources of many of their manufactured inputs and consumer goods.

Policy Implications for USAID and Host Country Governments

Although the U.S. Agency for International Development (USAID) and other international assistance organizations have provided marketing assistance for poor farmers and for small-scale enterprises involved in urban food distribution, they have not thus far focused their attention on ways of strengthening the systems of market towns and cities on which increased agricultural production, employment expansion, and enterprise development so heavily depend. Much of the assistance that has been given by international organizations in the past has been for improving marketing systems. Nor have most governments in Africa given serious consideration to locating their investments in agricultural support services, physical infrastructure, housing, and urban social services and facilities more effectively in market towns and small cities. They have ignored the opportunities to locate investments in ways that will strengthen relationships among these investments and the capabilities of towns and cities to facilitate agricultural marketing and private enterprise development.

Given the rapid pace of urbanization in Africa and the urgent need to increase food production in rural areas and expand employment opportunities in urban settlements, policies that focus on strengthening urban-rural linkages will become crucial to the economic progress of African countries over the next two decades.

USAID and other international assistance organizations can make an important contribution to solving the food production and employment problems in Africa by providing financial and technical assistance that strengthens the marketing systems and the network of towns and cities in which markets are based.

Policy Dialogue and Policy Reform

International assistance organizations can play an important role in helping governments in African countries to reassess and coordinate their national polices affecting urbanization and agricultural development. The problems of agricultural development, employment generation, and enterprise development are inextricably related. If agricultural development and employment expansion programs are to be successful, national policies must contribute to creating five conditions (Mellor 1986):

- There must be an acceleration in the growth rate of agricultural production. In most African countries, increases in agricultural output will come through changes in technology and pricing policy.
- There must be widespread access to land ownership and secure tenure rights for small-scale producers.
- Expenditures from increased income derived from accelerated agricultural production must create demand for a wide range of goods and services produced by enterprises in towns and cities.
- An effective marketing system must be created to lower food prices and encourage employment in nonagricultural sectors by making labor less expensive than the goods and services it produces.
- A well-integrated system of market towns and cities with appropriate infrastructure and services must be available to provide agricultural inputs and technology, provide consumer goods and services, support small- and medium-scale enterprises that generate off-farm employment, and provide market outlets for agricultural surpluses.

National polices can support or inhibit the creation of these conditions. The ability of market towns and cities to facilitate increased agricultural production depends on appropriate agricultural pricing policies. If government policies and pricing restrictions act as disincentives for increased agricultural production, there is no reason to believe that the existence of market towns alone will create incentives for increased output.

In countries with predominantly low-surplus agricultural production or in which the private sector is weak, governments may have to take a strong role in providing at least a minimum package of agricultural inputs. Governments may have to provide credit to cooperatives or private enterprises to supply farm inputs that farmers cannot easily provide for themselves, individually or through cooperative activities, or that private enterprises cannot offer effectively or efficiently.

Investment in Market Town Infrastructure and Services

International assistance organizations can play an important function in helping African governments with the allocation and location of investments in infrastructure, services, and facilities in market towns and cities. Because investment resources are scarce in most developing countries, many projects that are needed to support agricultural development and off-farm enterprises cannot be scattered widely over the countryside. They must be concentrated in strategically located settlements that have adequate populations to support them and that are accessible to people living in a large surrounding rural area.

The most important elements of an infrastructure and services investment program for market towns in low-surplus and commercializing agricultural regions are:

- basic market-support infrastructure, especially community storage facilities, adequate transportation facilities, and farm-to-market and intermarket roads that can increase the physical access of farmers to market towns and small cities.
- public services, facilities, and utilities that support small- and medium-scale enterprise development in market towns and small cities. Public facilities are especially important for industries providing basic consumption goods and agricultural inputs.
- basic health, education, and social services that improve the productive resources of town dwellers and the rural population. Once in place, they can create the preconditions that allow private enterprises and nongovernmental organizations to offer a wider range of personal and commercial services in small towns and cities (Wanmali 1985).
- investments in market facilities, credit, and technical assistance for small- and medium-scale commercial, farm supply, agricultural processing, and food distribution enterprises in towns and cities. Priority for investment should be given to towns and cities that are strategically located to serve a large rural population from surrounding areas.

In making investments in services and facilities in market towns in Africa, USAID and African governments must take into consideration the special role that women play in both agricultural production and marketplace trade. It is estimated that 85 percent of the rural women in Africa work in agriculture and that 80 percent of food consumed in rural areas is produced, processed, and stored by women (Cassem 1987). Women often make important decisions about the allocation of agricultural products between household retention and commercial marketing. Women are heavily involved in—and in some countries have a crucial role in managing—all aspects of the food system in market towns and cities. Their needs as participants in distribution, marketing, and processing must be considered. The facilities and infrastructure provided in market towns should be designed to meet their activities. Women's participation in program planning and implementation can strongly influence the success of investments aimed at strengthening the economic functions of market towns.

USAID can also help African governments improve the financial management capacity of municipal governments in market towns and small cities, develop new methods of raising local revenues for providing infrastructure and services, and improve municipal management capability to maintain them. USAID can play a crucial role in helping national governments in Africa decentralize appropriate services to the local level and create decentralized financial and management capabilities in local governments and nongovernmental organizations.

Investments in Urban-Rural Physical Linkages

Although most governments in developing countries allocate inadequate resources to agriculture and marketing, significant changes in urban-rural marketing systems can be brought about without massive new investment. Careful locational analysis and planning of current investment to promote a pattern of decentralized concentration of productive activities and market facilities in existing market towns and cities can begin to strengthen the capacity of these places to facilitate agricultural development. Strengthening the marketing functions of towns and cities must be done carefully, incrementally, and strategically. Not all towns and cities in a region can or should have a full range of marketing services, facilities, and infrastructure. One of the benefits of having a well-developed and integrated system of towns and cities is that it provides access to a wide range of functions for a large number of people without each settlement having to provide all of them.

USAID has already developed applied methods of regional analysis that can be used to identify the market towns and cities that perform important support functions and to determine their investment needs (Rondinelli 1985). Incremental changes in the allocation and location of already-planned investments can be the basis for building a stronger network of market centers from which to provide the services, facilities, and productive activities needed to stimulate rural economies.

For these towns to perform their functions effectively, however, they must be linked together physically in a network that forms an integrated market system. Investments are needed in roads, telecommunications, and rail and waterway transportation. USAID's studies of urban-rural investments in developing countries indicate the pervasive impacts these physical linkages can have on both agricultural and urban development. Among the benefits of farm-to-market and arterial roads in countries with conducive agricultural policies have been lower transport costs, significant agricultural production increases, changes in crop composition, adoption of commercial inputs, and more effective agricultural extension services (Anderson and Vandervoort 1982). The extension of road systems also facilitates the spread of agricultural processing activities in rural regions, increases land values in areas along the roads, and stimulates new and more effective marketing patterns. Roads increase access to off-farm employment and provide easier access for a larger number of rural households to social and public services located in towns and cities.

Conclusions

In brief, development programs for market towns and cities that improve urban-rural linkages and strengthen regional marketing systems can make important contributions to increasing agricultural production, expanding employment, and promoting private enterprise.

But before USAID can engage in policy dialogue with governments in Africa or extend financial and technical assistance effectively, much more needs to be learned about urban-rural food and input-supply marketing systems in developing countries. Although USAID has sponsored a large number of commodity marketing studies in developing countries, neither it nor other international assistance organizations have done extensive research on the spatial characteristics of urban food marketing systems or the regional patterns of market interaction.

Nor do we understand fully the social and economic changes—some of which can be adverse for the poorest rural household in the short run—of expanding market systems in subsistence agricultural regions.

Much more research also needs to be done on the dynamics of market towns and small city growth and on the kinds of investments that support and facilitate development of market towns and small cities at different stages of growth.

Little comparative research has been done on the strengths and weaknesses of different organizational structures for decentralizing financial and management responsibilities to municipal governments in African countries or on the most effective means of generating local revenues.

Despite these gaps in knowledge, however, policies and programs for developing market towns and cities and strengthening urban-rural marketing linkages will offer USAID and

African governments a challenging opportunity in the future to stimulate agricultural development and guide urbanization in mutually beneficial ways. The success of those policies and programs may well determine the success of national economic development efforts in Africa during the next decade and the early years of the next century.

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Markets, Marketing Boards, and Cooperatives: Issues in Adjustment Policy

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Introduction[1]

The structural adjustment efforts underway in many African countries since the early 1980s have sought to liberalize existing restrictions on markets and have, as a result, led to a vigorous debate about the relative roles of markets and marketing boards and, in turn, roles for the private and public sectors in African economies. Whether to tax the export crop sector and/or to establish a public sector monopoly in the procurement and export of these crops (ideas virtually taken for granted until the early 1970s) are currently at the center of discussions about the appropriate policy objectives for both governments and donors. In addition, cooperatives, which were promoted by donors and governments in the 1960s as sources of grass-roots participation in the development of factor and commodity markets, are again being supported as part of the liberalization effort in an attempt to establish a middle ground between the public and private sectors. The renewed interest in cooperatives stems partly from African governments' reluctance to adopt many of the donors' privatization and liberalization initiatives. It also reflects the fact that much of the experience from failed efforts to promote cooperatives in the 1960s and 1970s (e.g., the importance of grass-roots orientation and support and the problems caused by excessive government intervention in cooperatives) has been forgotten.

In order to understand the role of markets and marketing in agricultural development, it is necessary to understand the importance of exchange relations—as distinct from markets per se—for optimizing resource use through their ability to promote improved allocative efficiency, increased productivity of resources over time, interregional specialization, adoption of new technology (by enhancing the availability of information and modern inputs), higher welfare levels (by determining household consumption levels), and production incentives through improved access to goods and services. In order to foster expanded exchange relations and, in turn, markets, it is necessary to generate an agricultural surplus—a prerequisite of which is satisfaction of subsistence needs. At the same time, however, a necessary incentive for producing a surplus is the opportunity to exchange for other goods; hence, surpluses and markets are interdependent. Therefore, in order to develop exchange relations, it is necessary to ensure the satisfaction of subsistence needs, increase productivity, and ensure that the correct environment and opportunities for exchange exist. Ensuring that these requirements are met involves, first, the timely availability of inputs and production technology, and second, the means for reliable and adequate payments for output, as well as opportunities to purchase necessary consumer goods.

In order to fulfill these requirements, it is necessary to ascertain the extent to which markets facilitate the development of exchanges that optimize resource use in the ways outlined above. To the extent that markets do not promote such development, the subsequent question becomes to what extent collective action (e.g., cooperatives) or government intervention are necessary or effective as devices to improve the operation of markets and thereby encourage exchanges. Whether collective action is even feasible at early stages of development is an open question, given that small producers have historically shown less ability to organize themselves than either their urban counterparts or large-scale agricultural producers. The potential for and success of collective action, in turn, helps to define the extent to which public sector intervention is appropriate, specifically, whether the government should simply facilitate the functioning of markets by improving competition or whether it should go further and regulate prices, marketing margins, and the quantities exchanged.

In the context of the debate over the appropriate role for the public, private, and parastatal sectors in agricultural marketing, the questions raised by Wellisz and Findlay (1988) about the general applicability of the neoclassical paradigm and its portrayal of the state "as an instrument to achieve abstract objectives of national welfare" are of particular interest. They argue that two crucial assumptions are necessary to support the neoclassical model in its portrayal of the necessary functions of the public sector. If these are not fulfilled, then

> many aspects of economic life that are deemed irrational by traditional neoclassical analysis—such as high tariffs in small open economies or heavy public expenditure—become explicable as expressions of the interests of the relevant groups. In a world of oligopolistic group interests in the private sector and an autonomous state in the public sector, the "invisible hand" is not always benign: self seeking does not necessarily promote the common good. (Wellisz and Findlay 1988, 78)

The first of the two crucial assumptions is that self-interested individual behavior be confined to the provision of directly useful goods and services for oneself or others through exchange.[2] Second, it is assumed that the state seeks to maximize an objective social welfare function and thereby acts as an impartial mediator between different parts of society. In other words, it is presumed "that governments always do only what they should do" (Wellisz and Findlay 1988, 60). The exception to these assumptions in many African and other economies, especially with regard to agricultural marketing policy, suggests that neoclassical prescriptions about the role of the state relative to the private and cooperative sectors need to be reconsidered when designing and implementing agricultural policy.

In light of the conclusions reached by Wellisz and Findlay and past experience, the ability of unfettered market forces to encourage the development of exchange relations is problematic. At the same time, the effectiveness of public sector intervention in promoting such development remains an open question, especially given the problems encountered when the government is expected to behave impartially.

The purpose of this paper is to explore the role of agricultural marketing, including the parts played by the private and public sectors, in promoting the development of exchange relations in the six MADIA countries—all in the context of recent policy reform recommendations. Although the conceptualization of exchange relations presented above is divided along the lines of production and exchange, for the purpose of policy analysis it is more effective to think of marketing variables as divided into two categories: price and nonprice factors.

As construed in recent adjustment programs, price factors have emphasized the level of producer and input prices and the impact of exchange rates on domestic prices. More generally, however, price factors also include relative wage rates, intersectoral terms of trade, and the stability of prices. As with price factors, adjustment policy has emphasized a few nonprice factors, specifically, supplies of input and output services and the roles for the public and private sectors in their provision.

Reflecting this dichotomy, the balance of this paper is divided into four parts. The first section briefly summarizes the content of policy reform in the MADIA countries as it pertains to agricultural marketing. Following that is an explanation of the rationale for public sector intervention in marketing. Next is an examination of the experience of the MADIA countries with public sector intervention and the implications for policy reforms. This analysis is based on the framework presented above, i.e., adjustment policy is evaluated in terms of its ability to foster exchange in the agricultural sector and to identify and address the capacity of markets to encourage the development of exchange relations. The role of cooperatives in the MADIA countries is examined in the subsequent section. The paper concludes with a discussion of the implications of the experience for future policy revisions.

The Pattern of Agricultural Marketing Reform Policy

The reform policies agreed to by donors and African governments, chiefly in the form of structural adjustment and sectoral loans made by the World Bank and supported by other donors, have contained measures that applied to pricing and marketing policy, including the reform of parastatals. Although it is not possible to describe in detail the specifics of these reform policies in the space available, an overview for the MADIA countries will give the flavor of the relevant provisions.

In most MADIA countries, the exception being Kenya, there has been a tendency to tax export crops and subsidize food crops. The taxation of agricultural output has been in the form of implicit taxation due to currency overvaluation and/or explicit taxation typically levied via a marketing board. Among the MADIA countries, Tanzania and Nigeria have been characterized by chronic and large overvaluation of the currency. In Nigeria, the taxation of export crops combined with high prices for food crops has caused resources to move in the direction of food crop production.

The direct taxation of some agricultural exports has been common in all the MADIA countries except Kenya. The level of direct taxation can be approximated by comparing the ratio of producer prices to international prices at nominal exchange rates.[3] (The combined impact of direct and indirect taxation can be seen by examining the ratio of producer prices to international prices adjusted for purchasing power parity exchange rates.) Differences in pricing policy are particularly striking for individual commodities. For example, the major coffee producers among the MADIA countries are Kenya, Tanzania, and Cameroon, and the difference between the favorable prices paid by Kenya and the comparatively low prices paid by the other two countries is striking, as is the impact of currency overvaluation in Tanzania on producer prices.[4]

As a consequence of the distortions introduced through pricing and exchange rate policy, a primary goal of the early adjustment programs—and a primary accomplishment—in many of the MADIA countries was to increase producer prices and correct currency overvaluation.

In addition to changes regarding producer prices and currency overvaluation, some donors (chiefly the World Bank and USAID) have also addressed the pricing and marketing of inputs, primarily through policies governing fertilizer imports and subsidies. For the MADIA countries, only Kenya in recent years has not had a subsidy on fertilizer; the other countries have in various degrees subsidized the price farmers pay for fertilizer directly and/or indirectly through overvaluation of the currency, with Nigeria having the highest rate of both direct (80 percent) and indirect subsidy. Liberalization policy for fertilizer has, in general, focused on removing subsidies and privatizing distribution networks. For example, in Malawi the subsidy removal program that was agreed to called for the gradual elimination of the subsidy and eventual privatization of distribution. In Cameroon, the subsidy on fertilizers used on coffee was to be eliminated and import licensing liberalized so as to encourage private sector participation in importation and distribution. Similarly, in Senegal the fertilizer subsidy was to be eliminated, although donors have financed a limited subsidy for those farmers able to pay cash. In Kenya, the government and donors have agreed to liberalize fertilizer import arrangements in an attempt to make supplies of fertilizer more timely and less costly by creating a larger role for the private sector.[5]

With respect to nonprice reforms of agricultural marketing policies, recommendations have varied according to individual country circumstances, but typically have sought to reform institutions, reduce the role of the public sector in marketing, and encourage private sector activity. For example, as a result of Kenya's relatively strong performance on pricing issues, adjustment loans have concentrated on other areas, e.g., the Agricultural Sector Adjustment Operation (ASAO) sought to improve production and investment incentives with a focus on marketing and private sector development along with restructuring of the public investment and expenditure program.[6]

In Malawi, policy reforms affecting the Agriculture Development and Marketing Corporation (ADMARC), the national marketing parastatal, have centered on divestiture of assets not related to smallholder agriculture, enforcing the requirement that ADMARC operate on commercial criteria (a condition that has caused concern with respect to fulfilling price stability and buyer/seller of last resort functions). This would include the closure of some seasonal markets, liberalization of trading regulations so as to encourage greater private sector activity in grain trading and eventually fertilizer distribution, and elimination of the fertilizer subsidy.[7]

In Senegal, following the liquidation of the Office National de Coopération et d'Assistance au Développement (ONCAD) in 1980, groundnut marketing was turned over to the groundnut crushing firms and the Société Nationale de Commercialisation des Oléaginaux du Senegal (SONACOS). Cooperatives became the agents, acting as middleman between the farmer and the crushing firms. In 1986, due to financial losses among the crushing firms and the increasing parallel trade in groundnuts, donor pressure led to the transfer of groundnut marketing to three agents: the cooperatives, the crushing firms, and private traders; however, SONACOS continued to regulate the system and provide marketing finance (Jammeh 1987). Although SONACOS continued to control the running of the market, cooperatives were free to trade and keep profits on transactions. Critics of the reforms claim that the crushing firms still control the market and that financing is still only available through SONACOS.

An important part of these institutional reforms has been the privatization of some agricultural marketing functions; however, the discussion of this point is postponed until we have discussed the experience with privatization.

Rationale for Public Sector Intervention

Earlier it was noted that in order to foster the development of agricultural exchange it is necessary to ensure the satisfaction of subsistence needs, increase productivity, and maintain the correct environment for exchange. Derivative of these general needs are several specific requirements, including

- an entrepreneurial class capable of undertaking risk;
- free entry to markets;
- an adequate infrastructure;
- transport and communication networks able to ensure the efficient movement of information, goods, and services;
- efficient markets for inputs and outputs, including financial services (i.e., no market failures);
- distribution equity; and
- food security.

Many African governments have assumed that these requirements cannot be fulfilled by the private sector and, therefore, that direct government intervention in agricultural marketing is required.[8] As a result, most African governments have concentrated on substituting for freely operating markets (usually through the use of parastatals) rather than devoting attention and resources to supplementing the requirements for competitive markets. The specific areas of public sector intervention have tended to emphasize the problems of risk in agriculture, the need for price stability, the public sector's need for revenues, the scale economies that characterize some investments, the competitiveness of markets, the need for a buyer/seller of last resort, and inadequate financial markets.

At the heart of the rationale for intervention is the nature and degree of risk in agriculture. Not only is agriculture recognized to be a more risky enterprise than others, even in the more industrialized countries, but also because rain-fed agriculture, as practiced in Africa, tends to be more risky than other forms of agriculture in developing countries, e.g., irrigated agriculture in Asia.[9] It is argued that the peculiar risks of agriculture mean that markets are unable to achieve the desired goals, e.g., credit availability for small farmers and the transition from subsistence to commercial production.

An additional source of risk confronted by African farmers is that found in output markets and can be divided into risks associated with yield, price, and supply. These risks tend to be the result of a high degree of variability of rainfall, market forces, and the unpredictable nature of public policy and its implementation, factors that are not always independent. When risks are correlated, they cause producers to give priority to meeting household food requirements, opting for stable but lower yields through mixed cropping, varying planting dates to reduce crop failure, and stressing the production of drought-resistant crops.[10]

The inaccessibility of markets, weak and expensive communications, and fluctuating yields and prices are the most important factors reinforcing producers' disinclination to be dependent on the market for food supplies. Again, de Wilde offers an insight into the conflict caused by the need for food security and the resulting inability to specialize in higher value cash crops:

> Subsistence entails the comparatively inefficient use of land for production when such land could be better devoted to cash crops . . . The African farmers are caught in a vicious circle, for the inadequacies of the market prevent them from raising their output through specialization, while their own desire for food security inhibits the growth of the market. (de Wilde 1967, 22)

The risks associated with the variability of weather conditions are frequently correlated with policy induced risks. For example, in much of east and southern Africa, where parastatal monopolies prevail, a domestic food crop failure leads to increased commercial food imports by government and higher costs of distribution of public food in transporting grain to rural areas. As welfare considerations lead to incomplete recovery of import and distribution costs, the financial losses of marketing parastatals are closely related to the size of domestic production deficits. These losses reduce the parastatals' ability to make timely delivery of production inputs or to make full and timely payment for purchases of output in the following year.[11]

The Need For Price Stability

The most frequent rationale for price stability is that "some degree of domestic agricultural price stabilization is essential for the long-term efficient allocation of private resources in a risk-prone agriculture" (Lele 1988a, 192).[12]

For food producers, price fluctuations may discourage farmers from moving out of subsistence food production and into higher value cash crops and, as a result, may retard agricultural development as a whole. Uncertainty stems from variability in the prices of the potential cash crop as well as the food crop; if either the food price is too high or the cash crop price too low, the farmer's food security is at risk. Faced with such uncertainty, farmers are more likely to concentrate on staple food production, whereby subsistence can be better ensured. Similarly, the uncertainty arising from price instability is seen to explain the reluctance of smaller farmers to adopt more expensive, higher productivity methods; the farmer will be reluctant to invest scarce capital (which often means going into debt) if the return is seen as unpredictable. Aside from constraining overall performance in the agricultural sector, there may also be distributional implications in that only larger farmers, with a greater risk-bearing capacity, will adopt higher productivity methods. The source of instability will vary depending on the type of crop:

> . . . instability of export crop prices in many countries is externally induced; instability in food crop prices, on the other hand, reflects changes in domestic supply as well as the international market conditions, including the unpredictable nature of food imports. Similarly, due to differences in the nature of supply response between annuals and perennials, stabilization policies may also be different among types of crops. (Lele 1988a, 192–193)

In addition, because of the structure of marketing and the differing opportunities for alternative selling arrangements, governments may have more control over producer prices for export crops and can often decide how much of international price fluctuations will be passed on to producers; in the complete absence of a government role, producers receive the full fluctuations (Lele 1988a).[13]

On the consumer side, government motivation has been to protect consumers or groups of consumers from excessive price changes for staple foods. This is particularly important in the case of the poor, for whom food prices, especially food grains, are the largest determinant of real income.

Since the poor are often landless or urban poor, they must purchase their food, and large increases in food prices decrease their real incomes and put households at risk.[14]

The Public Sector's Need for Revenues

The evidence presented earlier demonstrated that among the MADIA countries, taxation of export crops has been common. Interestingly, donors accepted taxation of agriculture prior to the early 1970s; since then, however, this form of taxation has been widely criticized. Although the importance of this source of revenue has declined as trade and income tax revenues have increased, the public sector still needs revenues, especially as governments are being pressed to reduce budget deficits (by reducing expenditures and increasing revenues) and since the taxation of agriculture has been successfully used to generate investable surpluses in other countries (e.g., in Taiwan, where rice was heavily taxed, and in Nigeria, where, before the influx of oil revenues, marketing boards were an important source of investment funds for development purposes).

Scale Economies Requiring Large-Scale Capital Investment

The marketing and processing of export crops require lumpy public investments in transport and communication infrastructure to ensure the timely supply of inputs and collection of output. Further, the financing and management skills associated with developing export crop processing and marketing are often substantial. The presence of scale economies in many areas of agroprocessing necessitates vertical integration with marketing and frequently with production. A combination of the need for these relatively more sophisticated entrepreneurial skills and the policies of the colonial governments limited the participation of indigenous Africans in export crop marketing and processing. Marketing boards, individual European companies, and Levantine and Asian traders with access to finance handled international and domestic wholesale trade and crop processing. After independence, governments were concerned that African entrepreneurs would not emerge rapidly enough to meet the needs of the export industry and that scale economies in processing implied oligopsonistic control of the sector. Consequently, public monopsonies and government imposed cooperative marketing and processing societies replaced firms formerly operated by non-Africans. The centralization of public sector control over marketing and processing arrangements has, in many instances, created the very situations that governments feared would be the outcome if they had not intervened shortly after independence and has led to the view among many observers that the public sector is not well suited to manage this type of centralization and explains some of the pressure among donors for a greater role for the private sector. In addition to the lumpy nature of investment in marketing and processing, there is the issue of the need for public sector investment in physical infrastructure and its implications for agricultural development. There is abundant evidence to suggest that infrastructural investments facilitate the development of markets by improving factor mobility and market information and by reducing transportation costs and risks.[15]

The Buyer/Seller of Last Resort

The government's need to function as a buyer and/or seller of last resort stems from concern about the ability and willingness of the private sector to ensure the timely and economical availability of inputs and markets for output in all areas of the country. The public sector has frequently sought to perform this function by allowing parastatals monopsony and monopoly authority in the agricultural sector. Even in those situations where the private sector is not prohibited from operation, it is frequently hindered by government restrictions.

Inadequate Financial Markets

Concerns about the lack of access to capital markets caused post-independence governments to take over control of numerous marketing and processing operations. It should be stressed, however, that inadequate capital markets also pose a major constraint to production. Covariance of risk over large geographical regions with uncertain rainfall increases the risk of default on repayment and reduces the scope for development of private financial markets in many parts of semi-arid regions, especially as low average labor productivity keeps surplus accumulation at a low level. A shortage of cash at critical periods is a constraint in purchasing fertilizers and hiring additional labor for land preparation, weeding, and harvesting. Unlike in Asia, where the informal rural financial markets provide up to 60 to 70 percent of rural finance, interseasonal capital transfers among households that can facilitate input purchases are less developed in Africa. Also in contrast to Asia, agricultural employment contracts in Africa are not yet sophisticated enough to alleviate the risk of financial market failure.

Related to inadequate financial markets have been restrictions on ethnic groups. The relative absence of domestic financial markets that are accessible to small farmers has meant that those groups with access to the modern banking system have tended to exercise oligopolistic influence on domestic trading by financing local African traders involved in crop purchasing. This potential for oligopolistic control is made worse, as even Bauer (1981) has acknowledged, when physical infrastructure and communications are poor, when turnover is low so that large amounts of working capital are needed, and when the instability of production and prices places a premium on access to timely market information. Therefore, a difficult policy question is how to encourage the development of an indigenous African entrepreneurial class in an environment of intense competition from European and Asian entrepreneurs.[16] Public policy in post-independence Africa has been directed toward the development of an indigenous middle class that is typical of the growth of nationalism in the developing world.[17]

The rationale for public sector intervention discussed here demonstrates that the public sector has a role to play in agricultural marketing, although that role has rarely been well defined and has frequently experienced implementation problems. Further, confusion and lack of information about the nature and operation of the private sector have led many governments to assume a peremptory role in marketing—typically attempting to replace markets with parastatals. The next section examines experiences from the MADIA countries with regard to public sector intervention and the effectiveness of policy reforms.

Experience with Public Sector Intervention

The experience of the MADIA countries with public sector intervention can be divided into four areas that are related to the focus of nonprice policy reforms: marketing costs, stability of agricultural institutions, price stability and food security, and privatization.

Marketing Costs

One of the most pervasive themes of donor reform of parastatals has been the concern over excessive marketing costs and the allegation that these costs are due to inefficient operations. Although it is correct that inefficiencies exist in many parastatals, it is important to understand that they are due to a variety of causes, not all of which are within the control of the parastatals—a point that has implications for the way in which inefficiencies are addressed in reform programs. Assessing the size of marketing costs (defined here to be the difference between the value of payments to producers and the total expenses incurred in selling the crop either internally or externally) is difficult, as data on these costs are incomplete and frequently unreliable. Further, it is difficult to compare costs between countries, as related transport costs can vary significantly among countries and tend to be high in Africa due to the weak physical infrastructure.[18]

In addition, it is important to distinguish between inefficiencies caused by poor management as distinct from those factors over which the parastatal has little control, e.g., political pressure to create employment that results in overstaffing, political appointees in senior management positions, and failure to reimburse parastatals for expenses incurred that are outside the legitimate operations of the parastatal.[19]

The point to stress here is that although marketing boards frequently incur losses on some of their operations, this alone does not mean that they are inefficient or that these functions should be curtailed or eliminated. Instead, it is necessary to examine the sources of the alleged inefficiencies and desired functions of the parastatal before action is taken. Case studies from Malawi, Senegal, and Tanzania help to illustrate these points.

The efficiency of Malawi's marketing parastatal, ADMARC, began to decline in 1979/80 as marketing costs per ton increased significantly; this can be attributed to increases in all three of the main components (direct, administrative, and finance costs) of total marketing costs.[20]

Average total marketing costs per ton of crop purchases for 1972/73 to 1978/79 were K 85.73 and for 1980/81 to 1986/87 were K 172.89. (Between 1980 and 1986 the gross domestic product deflator increased by approximately 100 percent.) Among the elements of total marketing costs that showed disproportionate increases were transport charges, employment costs (due to increases in the number of employees), and finance charges. The average number of head office senior staff increased from 428 to 742 between 1980/81 to 1982/83 and 1985/86 to 1987/88, while the average number of junior staff increased from zero to 1,224. Over this same period, the average number of staff members in the field increased from 16,095 to 24,089, indicating an increase of 58 percent in total employment between the two periods—during which time average annual purchases increased by about five percent (Deloitte, Haskins, and Sells 1987, annex 3).

The increase in finance costs is particularly dramatic; between 1979/80 and 1986/87, the average finance charge per ton of purchases was K 26.96 per ton as compared to K 9.68 per ton for the 1972/73 to 1978/79 period. The increased finance charges are due largely to the increase in producer prices (and the reduced ability to cross-subsidize within the crop trading account) that accompanied the structural adjustment loans and the resulting decline in financial surpluses available to ADMARC for covering the cost of payments to producers.[21]

Clearly, the rise in per-ton costs experienced by ADMARC has several sources. In the case of transport costs, the increase is due to external factors beyond the parastatal's control.[22] The rise in the number of employees per ton of purchases seems excessive and is a legitimate area for policy reform efforts to address. In the case of increasing finance costs, efforts to ensure higher producer prices are commendable, but the costs to ADMARC in the form of higher overdraft charges—and perhaps more important, liquidity problems that have led to delays and limits on the amount of purchases—have been high.[23] The latter experience indicates that reform policy needs to consider a broader range of issues when evaluating the impact of higher producer prices.

In the case of Tanzania, there has been widespread criticism of the large marketing margins charged by the National Milling Corporation (NMC) and other parastatals and the fact that producer prices are derived as residuals (Bryceson 1985; World Bank 1983). Most of the problems of the parastatal sector result from the nature and degree of government involvement.

> The split responsibility between the Ministry of Agriculture and the State House for appointment and supervision of parastatal management is no less an important factor in explaining inadequate control over parastatals. The Executive Chairman of the Board of Directors is a Presidential appointee, and the Minister appoints Board members. The parastatal general manager is bureaucratically essentially equal to Principal Secretary of the Ministry. The Ministry does not have the jurisdiction to dismiss a general manager, even in cases of flagrant violations of management standards, but can only recommend action to the Board of Directors or the President. Further, when appointments are made

centrally, frequently criteria other than commercial or managerial acumen seem to enter in the choice of a general manager. Since the State House makes CEO [chief executive officer] appointments across the spectrum of the roughly 400 parastatals, its span of control is far beyond levels which would be considered desirable under reasonably well working systems of management. It is no wonder, therefore, that the degree of control needed on a daily basis to ensure managerial efficiency in the agricultural sector is not exercised and major decisions even about the future of the organization itself . . . remain pending for years. (World Bank 1983, 84–85)

In addition, the same report details a pattern of inefficiency in the parastatals' operation. The weak financial and physical performance has been the result of several factors, including weak or nonexistent accountability, poor management and technical skills, lack of competition, an externally imposed pricing policy, poor terms of trade for crops, and parastatals' habit of providing a complete set of social services—including education and medical facilities, work and private transportation, prepared food services, provision stores, mechanical workshops, and sports teams—for its employees. The report also details the decline in physical productivity and finds that from 1965 to 1980, while volume (production or quantity handled) increased by 18 percent, parastatal employment increased by 37 percent, leading to a decline in labor productivity of 14 percent. Only two parastatals decreased employment between 1975 and 1981. While the NMC increased its labor productivity noticeably between 1974/75 and 1977/78, between 1977/78 and 1980/81, processing volume decreased sharply, with the result that the same number of employees handled roughly half the volume. For all parastatals, during the same period a decline in volume of 17 percent was accompanied by a decline in employment of one percent.

The financial records that are available show that most crop parastatals have accumulated large losses. In 1980/81, only the coffee and sugar parastatals showed a profit; the remaining nine showed combined losses of T Sh 692 million (US$ 84 million), or 21 percent of the value of their processed commodities. The NMC alone was responsible for over two-thirds of total losses, representing 31 percent of its sales. The World Bank's report goes on to point out that while administrative costs have been excessive, they are a relatively small part of losses. In the case of the NMC, administrative expenses were only one percent of sales, while financing costs and costs of sales (which reflect purchase plus transport and processing costs) accounted for 97 percent of losses in 1980/81. The report emphasizes that even significant reductions in administrative expenses would have little effect on losses. Rather, "losses are overwhelmingly due to inadequate margins, excessive transport and processing costs, and unduly great accumulation of interest and financial charges" (World Bank 1983). As a consequence of these losses, the crop parastatals have had increasing overdrafts with the National Bank of Commerce (NBC), the only commercial bank in Tanzania; in 1981 these overdrafts reached T Sh 5,127 million, or 80 percent of the NBC's lending.

The impact of government decisions on the profitability of the parastatals must be acknowledged in the case of Tanzania.[24] Therefore, any attempt to reform parastatal operations in Tanzania must begin by reducing government involvement in management decisions and selection.

In the case of Senegal, Jammeh (1987) argues that parastatal marketing costs for groundnuts were far too high from 1960 to 1970 and rose regardless of objective conditions: "excessively high margins for OCA [Office de Commercialisation Agricole] represent a classic case of cost inflation arising from state protection of inefficient public institutions and 'strategic' enterprises" (Jammeh and Ranade 1986, 44). The excessively high marketing costs that characterized ONCAD were attributable to mismanagement and corruption, e.g., the rapid expansion in the agency's personnel. In only two years, ONCAD's staff tripled from 400 to 500 full-time staff in 1966 to 1,800 in 1968. Staff size increased further to 2,097 in 1974 and 2,964 in 1979. As a result, during this period salaries accounted for over half of the agency's operating expenses. This excessive growth in personnel cannot be justified by increases in ONCAD's marketing functions nor by increases in groundnut transactions. The expansion was largely the result of political pressure to provide employment positions and a management group that was more concerned with personal advancement than limiting marketing costs. The impact of these increased operating costs on marketing margins can be seen in terms of the steady increase in margins charged per kilogram of product dating from the mid-1970s.

More recently, a major use of investment funds has been a diversification program aimed at moving away from a strategy strongly favoring groundnut production to reduce the risk of relying solely on groundnuts. Investments in agricultural production were decreased and investments in industry and construction increased. Investments within agriculture shifted away from groundnut production toward other crops, rural development projects, irrigation, and groundnut processing. As a result, there existed the anomalous situation in which public sector investment in groundnut processing increased despite slowing agricultural production of this crop. Operating capacity of processing firms grew from 695,000 tons in 1976 to 895,000 tons in 1987, while the actual capacity used as a percentage of total operating capacity fell from 95.5 percent to 59.2 percent during the same period.

Uma Lele, division chief of the World Bank's Special Studies Division, addresses conference delegates during the presentation of a keynote speech titled "Markets, Marketing Boards, and Cooperatives: Issues in Adjustment Policy."

Jammeh goes on to describe how marketing costs were lowest during the period in which private traders were allowed to compete with the cooperatives. In addition, the parastatal had several policies that served as disincentives to producers, including onerous credit procedures. The result of these procedures was to cause delays in cooperative purchases, thereby encouraging producers to seek alternate marketing channels, even if on disadvantageous terms. Finally, "abuses and irregularities" in the parastatal's input distribution program were common: shortages or late arrival of, or damage to, inputs; diversion of needed supplies onto parallel markets for personal gain; regional imbalances favoring the groundnut basin; and patronage. In some cases, inputs requested by cooperative officials would sit in warehouses while being charged to unknowing members. It should be noted, however, that while inefficiency was a problem, many of the policies that contributed to this inefficiency were beyond the parastatal's influence. Foremost of these was the setting of producer prices for the year by the president himself, or by a delegated committee, and their announcement the day before the opening of marketing season.

Another example of the escalation of marketing costs, particularly finance costs, stemming from more than one source comes from the experience with the Nation l Cereals and Produce Board (NCPB) in Kenya. The overall deficits of the maize board in recent years are as follows: 1980/81, K Sh 312 million; 1981/82, K Sh 363 million; 1982/83, K Sh 468 million; 1983/84, K Sh 259 million; 1984/85, K Sh 979 million; and 1985/86, K Sh 647 million—an increase of over 100 percent in five years. These large deficits and the associated borrowing are due to a build-up of stocks related to unusually high levels of production and increasing indirect overhead costs (administrative costs). These large increases in overhead costs "cannot be explained by corresponding increases in either the volume of business activity or the annual level of general price inflation in any of the years, with the exception of 1985. This analysis clearly suggests a significant absence of effective management and control of expenditure within the NCPB in the past" (Coopers and Lybrand Associates 1987, annex 8:5). This increased level of inefficiency contributed to higher deficits, despite the increase in the margin per bag, which rose from K Sh 40.25 in 1980 to K Sh 133.55 in 1986 (Coopers and Lybrand Associates 1987, annex 8).

Instability of Agricultural Institutions

A crucial nonprice factor for improving the performance and productivity of farmers, especially those with small-scale operations, is the quality of institutional support.[25] The instability of agricultural institutions—most notably marketing parastatals—has contributed to undermining the confidence of farmers in these institutions and, therefore, their willingness to rely on factor and output markets. As with marketing costs, however, this instability is frequently beyond the control of the parastatals—a factor that needs to be taken into account when reforms are considered. Examples from Tanzania and Senegal will help to illustrate this point.

In Tanzania, marketing institutions have been in a state of nearly continuous change since independence, with most changes directed toward achieving greater central control over agricultural production and marketing. Candler (1986) shows that in virtually every year between 1961 and the early 1980s, there has been a major change in marketing arrangements. Following independence in 1961, Tanzania experienced extensive growth in cooperatives, which the government encouraged as a means of counteracting the dominance of Asian traders. In 1963, the government created the National Agricultural Production Board (NAPB) as the coordinating institution for cooperative grain trade. By 1966, the cooperatives were supplying almost all of NAPB maize purchases (Bryceson 1985, 56). In 1967, the Arusha Declaration called for the creation of multipurpose cooperative societies to replace the marketing cooperatives that were accused of promoting capitalist relations. In the following year, guidelines were implemented that effectively transferred control of the cooperatives from individual boards to state-appointed managers. This was part of an increased government role in marketing, partly in order to collect revenue, that became especially important after the abolition of the direct tax in 1969 and was reflected in the creation of new crop authorities. In 1971, a decision was made to treat Ujamaa villages as multipurpose cooperatives, thereby confusing the role of existing cooperatives.

Over the next five years, decisions were made that profoundly changed the nature of cooperatives until, in 1976, all cooperatives were abolished and replaced by the NMC (Candler 1986, 6–10). Dissatisfaction with the NMC quickly mounted, however, due mainly to the frequency of late or missed payments for purchases, major financial losses due to being required to sell at prices below cost, large storage losses (estimated by some at up to 30 percent), and various "leakages." In response to these and other problems, the system was altered in 1979 and purchases were begun on a crop-specific rather than the former area-specific basis. In the face of rising parastatal losses (financed by overdrafts on the NBC that were so large as to be considered a threat to that bank's economic stability) and continued dissatisfaction with performance, in 1980 a commission was appointed to study the situation and led to the reestablishment of cooperatives in 1982.

Another example of instability in Tanzania comes from the experience with cotton marketing. The Lint and Seed Marketing Board (LSMB) was created in 1953 to coordinate cotton sector activities and market seed and lint, while cooperatives performed ginning and oil refining and accounted for much of the success of smallholder cotton during the 1950s and 1960s. The LSMB was replaced by the Tanzania Cotton Authority (TCA) in 1973, which centralized all cotton activities and then took on the cooperatives' functions when they were dissolved in 1976. In 1984, TCA transferred responsibility for some gins and oil mills to the regional farmers' corporation, whose shareholders were Ujamaa villagers. In 1985, the TCA was dissolved and replaced by the Tanzania Cotton Marketing Board (TCMB), but responsibility for gins and primary marketing was returned to the newly restored cooperatives (Lele, van de Walle, and Gbetibouo 1988, 35).

These reorganizations inevitably led to financial confusion and difficulties that, in turn, resulted in delays in payments to producers. Further, the separation of responsibility for credit, input distribution, and farm gate purchasing contributed to extremely low repayment rates, which aggravated financial difficulties. More recently (1986–87),

> excellent weather and promising developments in the policy environment, including an improved producer price promoted under the adjustment program, led to a bumper crop . . . , but institutional factors constrained even the management of the supplies which resulted. The TCMB is reputed to have purchased less than two-thirds of the crops because of lack of funds, transportation problems and weaknesses of the cooperatives . . . (Lele, van de Walle, and Gbetibouo 1988, 35–36)

Institutional instability has also characterized Senegal, beginning with the abolition of cooperatives in 1967. There were a number of institutional changes that hurt the groundnut sector, the most important of which was the institutional arrangements for services. In this regard the changes in Senegal are reminiscent of those in Tanzania because they involved the abolition of private trade and the creation of a parastatal, ONCAD, in its place. ONCAD, however, encountered financial difficulties when farmers were unable to repay because of recurring droughts and the government directed it in 1981 to forgive producer credit for inputs for which ONCAD was not reimbursed. At the same time, overexpansion of its staff due to political pressures and mismanagement of funds contributed to problems with the reliability of input supplies. When ONCAD was abolished in 1980 as part of a structural adjustment agreement, its smallholder credit program was eliminated and to date has not been replaced by a program of comparable coverage.

The institutional instability experienced by Tanzania and Senegal has obviously undermined smallholder confidence in parastatals and contributed to unreliable sources of supply for parastatals and agroprocessors. This, in turn, has affected the availability of working capital, interest costs, the liquidity problems of parastatals, and exacerbated problems of excess processing capacity. It is this set of problems that has attracted the attention of donors interested in improving the performance of agricultural institutions. A common solution to the problems of parastatals has been to restructure the institution; privatize several of the functions performed by the marketing board, e.g., input distribution and output marketing; and eliminate or scale back other functions, e.g., food security and buyer/seller of last resort operations.

Food Security and Price Stabilization

The experience of many of the MADIA countries with respect to their attempts to promote price stability has been to introduce additional uncertainty that has led to greater price and supply instability. The main effect of a number of these policies has been to discourage producers from participating in the official market by setting producer prices too low and cause them to use alternate marketing channels instead. As price stability has generally meant keeping consumer and producer prices low, farmers often have an incentive to evade government marketing channels in favor of the private market, even if the transaction costs of such activity are high. In Tanzania, for example, the proportion of marketed surplus making its way into "unofficial" markets has been estimated to be as high as 50 percent for maize and 85 percent for rice, primarily as a consequence of low producer prices (World Bank 1986). In some cases, domestic supply has been lost through smuggling. Prices in parallel markets are not only higher than in government marketing channels, but, due to the costs imposed by secrecy, are much higher than would be the case in the absence of government controls.

Even where announced prices are competitive with those in private markets, government inefficiencies introduce another element of uncertainty into marketing. As noted above, financial constraints on ADMARC in Malawi, for instance, have occasionally prevented it from purchasing all the maize that was offered for sale, and in Tanzania, the NMC's weak financial situation has produced problems with timeliness of payments. Administrative inability to adequately reach all selling markets also increases producers' uncertainty about their ability to sell their output. All of this encourages producers to avoid official markets and sell on parallel ones. In Senegal, for example, administrative arrangements concerning payments to farmers were so onerous that many producers withdrew from the official market, contributing to a decline of 30 percent in the percentage of production marketed between 1968 and 1971 (Jammeh and Ranade 1986). In cases where there is compulsory procurement of production at fixed prices, uncertainty can arise both from the prices to be set as well as the quantities to be procured, leading to speculation, as was the case in India during the 1960s. Finally, government reliance on imports for price stabilization introduces another potential source of uncertainty. Due to conditions in the international market and the political situation in the donor countries, imports are notoriously unreliable, as India discovered during the U.S. government's "short tether" policy in the 1960s. This may lead to increased speculation over levels and pricing of imports and possible withholding of supplies from the market.

Although one of the most important objectives of government involvement in agricultural marketing has been the achievement of food security, the indicators that are available for the six MADIA countries suggest only limited success in reaching this goal. For example, preliminary estimates made with United Nations Food and Agriculture Organization (FAO) data show that per capita caloric levels have been mostly static or declining over time, the exception being Tanzania, which showed positive growth in availability.[26]

Another indicator is data on food aid and cereal imports. In general, while per capita caloric availability has been stagnant or declining, cereal imports to the MADIA countries have been increasing, especially in Cameroon, Nigeria, Senegal, and Tanzania. Kenya has had large imports from 1980 onward, while Malawi has had to rely on imports in only a few years. Cereal imports in the two oil exporting countries, Cameroon and Nigeria, rose mainly after the onset of the oil boom, especially in Nigeria, where they increased by about 450 percent between 1975 and 1978.

Although food imports do not necessarily indicate food insecurity, several of the MADIA countries have been receiving increased food aid since 1970, particularly Kenya, Senegal, and Tanzania. Moreover, the percentage of cereal imports received as food aid seems to have increased in several countries, at least until 1984/85, which may imply a deterioration in food security.

Since 1970/71, Tanzania has received the most food aid of the MADIA countries, although Kenya received the higher percentage of cereal imports as aid. On a per capita basis, Senegal has received the highest levels of food aid, averaging nearly 14 kilograms per person.

Finally, Malawi, which had received little food assistance prior to the recent influx of refugees, has not needed to import significant quantities of food during the post-independence period and has even on occasion exported limited quantities of maize. Recent evidence indicates, however, that achieving national food security has not also meant achieving household food security, as there is substantial malnourishment in rural areas of Malawi (Quinn, Cuiligo, and Gittinger 1988).

The Private Sector and Privatization

The thrust of many of the reforms of agricultural marketing institutions in the MADIA countries has been on reorganization and transferring functions from parastatals to the private sector. This emphasis has prevailed even though little is known about the structure and performance of private agricultural markets in Africa. The private markets that do operate are generally confined to food crops because governments control the distribution and marketing of export crops. Even where the private sector is allowed to operate freely in marketing and agroprocessing (e.g., cotton and rubber in Nigeria), trade by licensed buying agents is often alleged to be uncompetitive. Also, private investments have not been forthcoming in agroprocessing of even those crops for which the demand for the processed products has been growing, perhaps due to annual fluctuations in the supply of raw materials. At the same time, the inadequate level of investments in processing constrains the growth of the supply of agricultural raw materials. The reasons for inadequate private investments in agroprocessing are not fully understood, but, in part, are due to a lack of credit facilities and poor rural infrastructure.

Despite gaps in our knowledge about the private sector and market forces in Africa, some inferences can be made. In those instances where free domestic agricultural trade is permitted and where there is free entry, certain ethnic groups have tended to dominate trading, i.e., free entry does not preclude some types of concentration. Whether these traders are able to influence prices in their favor is another question. The characteristics of traditional trading systems (large numbers of traders, ease of entry, low capital requirements, and limited market power) preclude rents being earned. Even in those situations where a few traders are seen to handle a large share of the marketable surplus in many markets, the evidence indicates that they are not able to influence through collusive action if, and this condition must be emphasized, there is adequate transport and if exchange of market information among producing markets and between producing and consuming markets is effective (Lele 1977, 501).

Further, evidence from India indicates that excessive price differences among markets arise because of

- poor dissemination of price information and poor communications between markets that impair the ability of traders to arbitrage between markets;
- inadequate and/or unreliable transport facilities that allow shortages and deficits to persist and cause large price fluctuations;
- poor handling facilities that cause excessive losses in shipment, thereby significantly increasing transport cost and price differentials between markets;
- the absence of an accepted standard of weights and measures; and
- lack of enforcement of an open bidding system.

As observed in Lele:

> These factors suggest that the solution to monopolistic practices is not to discourage trade through overt or covert means as is done by many governments, but rather through governmental action to remove the above conditions which lead to monopolistic practices. The former course usually only exacerbates exploitation, by reducing the number of intermediaries and thus by increasing opportunities for monopolistic practices. (Lele 1977, 502)

The early experience with privatization in the MADIA countries tends to confirm these impressions.

In the case of Malawi, privatization of grain trading was intended to provide farmers with an alternate marketing channel and increase the efficiency of crop procurement. Although the first buying season in which private traders participated under the new scheme (1987) coincided with a large influx of refugees and therefore increased demand for maize, implementation proceeded smoothly.[27] Nonetheless, there are several issues that need to be addressed before the privatization can be said to have been successful. The increased demand for maize caused the market price to increase above the official price, thereby causing the volume of ADMARC's purchases to fall considerably below the level of recent years. Although purchases increased somewhat in 1988, there is concern about ADMARC's ability to fulfill its mandate to achieve food security under these circumstances. In addition, the two most serious problems faced by private traders—transport constraints and lack of access to credit—have yet to be addressed. Without reliable transport and access to credit, private sector performance will fall well short of expectations and likely come to be dominated by the few traders who have access to these requirements. Finally, the privatization of grain marketing in Malawi—and the anticipated privatization of fertilizer marketing—has left ADMARC in the position of being held to commercial operational standards, i.e., no losses, while having responsibility for loss-making development functions. For example, ADMARC is expected to ensure national food security through stock holding at the Strategic Grain Reserve and is expected to pay producer prices that preclude any taxation to finance the costs of its food security and price stabilization functions.[28] At present, approximately 75 to 80 percent of the rural population is within eight kilometers of a seasonal market location. Improving service to the remaining 20 to 25 percent of the population is difficult, as ADMARC is constrained politically from closing markets and financially by donors from incurring the costs of a net increase in markets.

Thus, although the technical implementation of increasing the private sector's role in grain trading has been successful, there are several aspects of privatization that remain unresolved. These remaining problems have the potential to undo the success of privatization and/or leave unattended many of the marketing needs of farmers.

Senegal's experience with attempts to increase private sector involvement in agricultural marketing have been less successful than those of Malawi. As noted earlier, the corruption and weak performance that characterized marketing parastatals in Senegal caused donors to press for privatization of fertilizer distribution. At the same time, however, subsidy removal, reduced availability of credit, and increased climatic variation have caused the attractiveness of fertilizer use to diminish. As a result, the private sector has demonstrated reluctance to make the necessary investment to become involved in fertilizer distribution. The lack of private sector participation combined with the inability of the public sector, due to financial constraints, to function as a seller of last resort has meant that the distribution of fertilizer has suffered and accordingly has contributed to the decline in fertilizer use (Lele, Christiansen, and Kadiresan 1988).

In Cameroon, the inefficiency of the state agency responsible for importing fertilizer—in part due to shortages of foreign exchange—caused delays in procurement and distribution. Liberalization of import licensing combined with measures intended to encourage increased private sector involvement with procurement and distribution were recommended. Success has, however, been limited by the commercial banks' unwillingness to provide credit to importers that are not able to provide collateral in excess of the amount of the loan. In addition, numerous cooperatives have had difficulty securing financing from commercial banks for fertilizer purchases. Thus, while the liberalization/privatization has enjoyed some success, there are areas where public sector involvement is still necessary.

At the same time, efforts by the public sector to substitute for the operation of private markets have suffered serious problems. Fear of ethnic control of marketing has contributed to the restrictions imposed on numerous markets by African governments. Underlying these restrictions is the presumption that public sector monopolies are superior to the outcome if the private sector were allowed to act in restraint of trade. In all three of the East African countries in the MADIA study, the marketing boards for the staple food (maize) have been authorized to act as monopsonist. Although this authority does not preclude the operation of private trade, it does mean that they will be less effective than would otherwise be the case, especially since all three of the East African countries have, or have had until recently, legal restrictions on the quantity of maize that can be transported across district boundaries. Further, these restrictions extend to the crops that smallholders are permitted to grow, e.g., in Malawi, burley tobacco production is limited to estates.

In Senegal, the government's concern over dependence on groundnuts, the "exploitation" of small farmers, and the poor natural resource base has led to "increasing state control over the marketing system" (Jammeh and Ranade 1986, 28). This has meant that the government determines producer and consumer prices for all major food and export crops, as well as regulating and conducting the marketing and distribution networks. In particular, all "strategic goods" must be marketed through official channels, a requirement that has most affected Senegal's most important strategic crop, groundnuts. While private traders operated until the end of the 1966/67 marketing season, "private trade was tolerated only as a transition to full state monopoly" (Jammeh and Ranade 1986, 40). Even before the final phase-out, traders were subject to certain conditions, such as restrictive licensing and credit arrangements and a limit on the percentage of marketable surplus they could buy. Alongside the government's increasing involvement in processing, the private processing firms—which had been granted a government monopoly—have not been allowed to use their own funds for marketing, so as not to give them "unfair advantage" over government-sponsored cooperatives.

The lesson that emerges from experience with privatization and liberalization efforts in the MADIA countries confirms lessons learned from other developing countries, i.e., the ability of the private sector to function effectively in the area of agricultural marketing depends on the environment in which traders must operate. This environment is defined by many of the elements used as a rationale for public sector intervention in marketing, including

- the presence of an entrepreneurial class able to undertake risk;
- contestable markets;
- an adequate infrastructure, including transport and communication networks that allow the efficient movement of information, goods, and services;
- efficient markets for inputs and outputs (i.e., no market failures), including financial services; and
- food security.

Unfortunately, the public sector, due to its distrust of private markets and of ethnic domination, has concentrated its efforts on substituting for rather than supplementing the private sector. The result of this policy has been, in most cases, a lack of competition in the provision of marketing services that has contributed to the frequent inefficiency of marketing systems. The inefficiency that has often characterized this effort, combined with a change in the attitude toward the public sector on the part of donors, has caused reform policy to encourage increased private sector involvement in marketing, but frequently without ensuring the adequacy of the environment. Reliance on markets alone will not necessarily ensure competitive pricing or marketing of crops where scale economies exist or where historical factors explain oligopolistic tendencies, nor that food security will be ensured, that the timely availability of inputs will be achieved, or that markets will exist for output. The implications of this experience for future donor policy will be explored after a brief analysis of the role that cooperatives can play in agricultural marketing.

Cooperatives

The importance of agricultural marketing cooperatives in the context of policy reform is that they are frequently perceived by governments as an alternative to privatization, i.e., as an intermediate step between state control of agricultural marketing institutions and privatization. The public sector's concerns about an increased private sector role in marketing discussed above, along with the government's diminished control of crucial areas, e.g., food security, make cooperatives an attractive alternative to privatization. Further, because successful cooperatives are characterized by extensive grass-roots participation in management, the services provided by cooperatives are frequently those necessary to support the development of the membership's exchange relations and participation in markets. For these reasons, it would seem that cooperatives should play an important role in agricultural development; however, the performance of cooperatives in most of the MADIA countries has been disappointing, the exception being Kenya. In order to understand the nature of the conflict between the ingredients required for successful cooperatives and the role typically envisioned by the state for cooperatives to play, it is necessary to understand the nature of cooperatives.

> The broader concept of co-operation . . . acknowledges the interaction between eco-

> nomic and socio-political power and, therefore, recognizes the frequent need for structural change or for political mobilization for co-operatives to be able to benefit the poor. According to the broader view even with such change or innovation, but particularly in the absence of either paternalism and external assistance in the form of leadership, management and finances are inevitable as a step towards more voluntary and self-reliant cooperatives in the long run. (Lele 1981, 58)

A cooperative that fulfills this definition becomes, by its very nature, a force capable of making demands of the political system and, as such, may be perceived as a threat. In contrast, a cooperative that is sufficiently centralized in its management and decision-making authority so as to assure the state a modicum of control will typically fail to meet the needs of its membership. As a consequence, at least from a political perspective, cooperatives have the best chance of success when the political leadership of the country is secure and willing to tolerate groups with divergent interests.

Among the MADIA countries, Kenya has provided the most encouragement for cooperatives in the form of organizational support by developing a highly decentralized system that articulates and responds to producer interests, with the result that cooperatives represent about 50 percent of small farm households. The coffee processing and marketing cooperatives are by far the most active, accounting for half the membership in agricultural cooperatives and 71 percent of the turnover (Lele and Meyers 1987).

An excellent example of the problems caused by excessive intervention is that of cocoa marketing cooperatives in Cameroon. Prior to independence, there was an active independent cooperative movement, with the result that by 1960 there were 217 primary centers and higher level cooperatives for marketing cocoa. In 1963, most of these cooperatives were dissolved because their independence threatened the state (Schwettmann and Shillinglaw 1986, 10). Ten years later, a series of reforms directed at cooperatives was undertaken by the central government.

Reforms of the period were conceived largely in a top-down manner, faced with the necessity, as the ministry saw it, of rapidly establishing a cooperative "presence" at all primary cocoa markets to protect the individual seller from manipulation by the private cocoa buyers (Schwettmann and Shillinglaw 1986, 11).

Although these reforms offered the potential of farmer control over primary cocoa marketing organizations, this was never realized, as the state continued to dominate the management and operation of cooperatives. The pattern of continued government involvement in cooperatives, including secondment of large numbers of officials, represented a failure to distinguish between structures imposed by the state in response to the perceived urgencies for development and requirements for promoting exchange relations and markets at the household and local level.

In assessing the condition of a sample of cocoa marketing cooperatives, a recent report (Schwettmann and Shillinglaw 1986, 17) concludes that the structure of the present system suffers from fundamental conflicts as evidenced by the precarious financial situation of the cooperatives: 11 of the 15 examined were technically bankrupt. The failure of cocoa cooperatives was attributed, at one level, to inadequacies in the financing system on which the cooperatives depend, excessive costs within the cooperatives due to weak management, and poor management advice provided by state agencies charged with supporting the cooperatives. At a more fundamental level, however, it can be argued that the real problem with the cocoa marketing cooperatives is that the membership is neither able to nor interested in influencing the operation of the cooperatives. For example, the size of the cooperatives is too large to facilitate comm nication or allow a sense of community. Anc r dimension of the size problem is the absence of intermediate levels of farmer control, meaning that the gap between centralized management and the village—which is the natural administrative and organizational unit—is not bridged. The centralized administrative style of the cooperatives stifles initiative on the part of the membership. The result of this structure is that the cooperatives are "largely the creation of their managers, and these in turn are for the most part an emanation of the state" (Schwettmann and Shillinglaw 1986, 58).

Similar experiences with state involvement in cooperatives have characterized Tanzania and Senegal, who have alternately encouraged independent cooperatives and tried to control them through increased state involvement.

In Tanzania, cooperatives were encouraged before and immediately after independence, with the result that their strong grass roots grew into political strength in the form of a willingness to challenge the authority of the ruling party. Consequently, cooperatives were perceived as a threat to the existing political authorities and placed under increasingly centralized control. As the members lost control over the operation of the cooperatives, the cooperatives became less effective in furthering the interests of their members. This, along with increased corruption, contributed to the decision to abolish cooperatives in 1976 and replace them with crop parastatals (Bryceson 1985).

In Senegal, the government legislated a cooperative statute in 1960, which grew out of the pre-independence French efforts, aimed at establishing a nationwide network of agricultural cooperatives. The new program, which was sponsored by Prime Minister Dia, was intended to "provide a genuine feeling among its members that the coop was theirs, totally preempt credit and marketing from private traders and moneylenders, and thwart efforts by the *marabouts* to capture the new institutions" (Waterbury 1986, 81). The program was, however, inimical to the interests of so many rural interests, most notably the *marabouts*, that it contributed to Dia's demise and was eventually termed "boy-scoutism" by Senghor himself. After 1964, the *marabouts*, party members, extension agents, and officials of ONCAD had made their own local arrangements, with the result that cooperatives were under the influence of local patrons.

Although the nature of the cooperatives changed, the institutions were still encouraged by the government: by 1970 there were 1,870 cooperatives in Senegal, with over half (1,060) in the groundnut basin. Throughout the 1970s cooperatives were under the jurisdiction of ONCAD, an affiliation that effectively converted the cooperatives into state-run entities within the agricultural bureaucracy and hurt their image and performance. The dissolution of ONCAD, the increasing politicization of cooperatives, internal corruption, and pressure from donors caused the government to reform rural cooperatives. As was the case earlier, the philosophy behind the reforms advocated by donors and some government agencies was that "a unit must be found whose members trust one another, who will police themselves so that free-riders do not take over, who will feel directly responsible for their affairs and for their production, and who will hold larger cooperative structures responsible to them" (Waterbury 1986, 82). As might be expected, such a cooperative organization would threaten several rural interest groups, not the least of which are the *marabouts*, therefore causing the government to seek a compromise. Features of the compromise include larger cooperatives (in Sine-Saloum average membership rose from 200 to 1,730), little change in personnel and patrons that manage cooperatives, and the absence of grass-roots participation in organizing the new cooperatives. As a result, the new cooperatives are not likely to be any more successful than the earlier attempts.

In addition to questions about the control and political potential of cooperatives, there are other factors that influence the success of cooperatives. Experience suggests that cooperatives dealing with export crops have been more successful than those that deal with food crops because many export crops require further processing and, unlike food crops, they often cannot be used for domestic consumption or sold easily in rural markets. A centralized marketing facility is, therefore, easier to organize in the case of export crops than for most subsistence-related productive activities. Also, crops that require processing provide scope for economies of scale where the value added is usually substantial.

Although promotion of food cooperatives continues to receive enthusiastic support from a broad range of interests, their success has been

Conference delegates listen attentively to the keynote presentations.

limited. Even in Kenya, major crops marketed through cooperatives (other than coffee) are predominantly cash crops, with the exception of milk. To date, cooperatives have marketed only small amounts of food crops, except in certain maize surplus areas. Cooperative management has rarely been found to be efficient when commodities are bulky and low value, e.g., maize, or have complicated and expensive processing requirements, e.g., cotton and sugar.

Cooperatives may be effective in selling inputs, as market margins for fertilizers and seeds are often fixed through government policy. Normally, if demand for inputs is low, private traders are usually reluctant to get involved in input distribution, as costs of distribution tend to be high in relation to the prices that can be charged. As a result of these factors and to reduce the problem of adulteration of inputs, cooperatives have been encouraged in many countries for input marketing. Even then, effectiveness in getting inputs to small farmers depends on timeliness of imports, the extent to which small farmers can make use of inputs effectively, and the effectiveness of the system of distribution. In reality, the delays and inappropriateness in distribution by cooperatives reduce return to input use and yield an unreliable channel for further promotion of new technology (Lele 1981).

In summary, cooperatives should not be seen as a single alternative to either markets that are dominated by private traders or government operated parastatals for two reasons. First, the observed failures of either public or private sector agricultural marketing structures, e.g., excessive price differences among markets and monopolistic practices, are in reality due to a lack of competition and/or weak marketing infrastructure. These same problems would hinder the effective functioning of cooperatives. Second, efforts by governments to propose cooperatives as a middle ground between private and public sector marketing structures in the hope that such an arrangement allows government more control over marketing are doomed to failure. The experience of government intervention in cooperatives makes this abundantly clear. If, on the other hand, efficiently managed cooperatives are encouraged to operate simultaneously, i.e., compete, with private and/or public enterprises, they can play an important role in increasing competition and improving services.

Summary, Conclusions, and Implications

Most of the policy reform programs implemented by marketing parastatals during the 1980s in Africa have emphasized the need to improve performance by applying commercial criteria to their operations. Most commonly, these criteria require the elimination of losses with the result that part or all of the agency in question is privatized. Traditionally, however, most African governments have been reluctant to allow anything other than selective and closely regulated private sector involvement in agricultural marketing. This reluctance stems from several concerns, including the loss of political power that can accompany economic decentralization, erosion of control over crucial economic functions such as food security, doubts about the ability of the private sector to perform essential development tasks, and the loss of revenue opportunities. Historically, it was these concerns that caused African governments to substitute state marketing organizations for the free operation of agricultural markets. A common manifestation of official reluctance to embrace the private sector is the renewed interest in marketing cooperatives, in part because of their potential to serve as a middle ground between the public and private sectors.

The experience of the MADIA countries suggests that these issues need to be examined in a broader context, beginning with the need to establish a pattern and custom of exchange relations in the small-scale agricultural sector as a prerequisite to the successful operation of markets and sustained growth of agricultural output. The development of exchange relations—as distinct from markets per se—contribute to efficient resource use in a variety of ways, including allocative efficiency, increased resource productivity, interregional specialization, adoption of new technology, and production incentives through improved access to goods and services. Expanded exchange relations, however, require that an agricultural surplus be available for exchange. Generating an agricultural surplus, however, requires the presence of exchange opportunities; hence, there is interdependence between the two. In order to develop exchange relations, then, it is necessary to ensure that subsistence needs are met, increase agricultural productivity, and provide the correct environment and opportunities for exchange.

The role of agricultural marketing institutions is to encourage the process by helping to meet these needs.

In attempting to meet these needs, the six MADIA countries have tended to conform to a pattern that has been common throughout post-independence Africa: replacing private trade with government operated parastatals and/or cooperatives. The rationale for this action has been that public sector intervention is necessary to

- reduce the inherent riskiness of agriculture for small-scale farmers,
- promote price stability,
- provide revenues for public investment,
- support large-scale investments that the private sector is unwilling or unable to attempt,
- function as a buyer and/or seller of last resort, and
- address the constraints imposed by inadequate financial markets

—all of which are regarded as necessary ingredients for expanding exchange relations.

The experience with public sector intervention in agricultural marketing in the MADIA countries indicates a clear need for agricultural marketing parastatals to become more efficient, e.g., witness the experience with marketing boards in Tanzania and Senegal. Although there is a tendency to assume that the failure of many parastatals is due to inherent inefficiencies, the sources of inefficiencies often lie beyond the control of the parastatals, e.g., pressure from the central government to overstaff. The perceived inefficiencies may also be due to development functions that the parastatal is obliged to perform—typically without reimbursement. Nonetheless, policy reform programs have addressed the inefficiencies by imposing commercial operating criteria, often combined with the stipulation that certain functions—and sometimes entire agencies—be privatized. While acknowledging that the performance of many parastatals in the MADIA countries has been disappointing, it is important to recognize that the interests of farmers are best served by promoting competition in the provision of agricultural marketing services while ensuring that certain minimum services are available. The presumption that the private sector alone can provide the necessary services is as erroneous as the judgment by national governments that parastatals could effectively replace the private sector in agricultural marketing.

Therefore, in order to achieve success in the broader context referred to earlier—expanding exchange relations, agricultural surpluses, and markets—it is necessary to ensure both increased competition and the provision of certain minimum agricultural marketing services. The private sector can provide increased competition and can clearly perform some tasks more efficiently than parastatals; however, the public sector must ensure that certain requirements are met before the private sector can be expected to function effectively. These include

- encouraging the development of an entrepreneurial class capable of undertaking risk;
- encouraging free entry into markets;
- creating adequate infrastructure, transport, and communication networks for the efficient movement of goods; and
- promoting efficient financial markets that are able to support commodity markets.

At the same time, the public sector must be in a position to guarantee the provision of those services needed to encourage farmers to expand exchange relations by producing surpluses and becoming more dependent on the market. These services include guaranteeing markets for inputs and outputs (buyer and seller of last resort) in all areas of the country, price stability, food security, and providing/coordinating investment in human and physical capital. Although parastatals can play a role in providing these services, there must be a clear accounting of the commercial and developmental functions the parastatal is expected to perform and how these will be financed. The weakness of many parastatals in the MADIA countries has been the lack of accountability combined with an overload of unprofitable functions sometimes unrelated to smallholder agriculture, which result in ever larger marketing margins and, therefore, disincentives to producers.

With respect to the role of cooperatives, the experience of the MADIA countries indicates that cooperatives must be carefully managed and defined. Cooperatives cannot be used as substitutes for parastatals with the public sector controlling their operations, since by their nature they require active and democratic grass-roots participation in order to ensure their genuine success.

Taken together, the requirements of effective agricultural marketing will obviously require a broad and long-term perspective on the objectives of agricultural marketing as well as a long-term program for achieving these goals.

Notes

1. This paper was coauthored by Robert Christiansen, an economist in the Special Studies Division of the World Bank. It reflects research undertaken as part of a wider World Bank research study directed by Uma Lele on managing agricultural development in Africa (MADIA). The MADIA study has involved detailed analysis of six African countries (Kenya, Malawi, and Tanzania in East Africa and Cameroon, Nigeria, and Senegal in West Africa). Seven other donors (USAID, UKODA, DANIDA, SIDA, the French and West German governments, and the EEC) are participating in the study, which has three main areas of focus: (1) the relationship of domestic macroeconomic and agricultural policy to agricultural performance over the past 20 to 25 years; (2) donors' roles in the development of agriculture; and (3) the politics of agricultural policy. Currently, the results of research are being distilled into a series of book-length, country-specific volumes; cross-country papers; and synthesis volumes.

2. Clearly, not all economic behavior is consistent with this assumption. Lobbying, for example, involves using resources to obtain government regulations that benefit a particular group, frequently at the expense of others.

3. These ratios ignore transport cost differences, which can be substantial, e.g., Malawi does not have direct access to an ocean port, whereas all other MADIA countries do. A preferable ratio would use producer prices as a percent of the price realized by the marketing parastatal.

4. A similar point can be made for cocoa prices in Nigeria and Cameroon. For Nigeria, the impact of currency overvaluation in the early 1980s offsets the fact that Nigeria had a lower rate of nominal taxation than Cameroon. The same points can be made about the rate of taxation among the various producers of cotton and groundnuts. For the three East African countries, the impact of pricing policies for export crops on production incentives for the staple food crop (maize) can be seen by comparing the ratio of producer prices for major export crops to maize producer prices. In Kenya, the absence of significant taxes on tea and coffee combined with the high value of these crops results in a high ratio, whereas in Malawi and Tanzania the taxation of export crops means that the ratio is much lower than would otherwise be the case, thereby indicating that maize has been a considerably more attractive crop than the export crops in Malawi and Tanzania. This helps to explain the emphasis placed on maize production by smallholder producers in Tanzania and Malawi. See Lele and Meyers (1987) for a detailed account of trends in maize and export crops in each of the East African countries.

5. Although we do not disagree with the need to improve several aspects of fertilizer import, distribution, and pricing arrangements, we have argued elsewhere that a more cautious and analytical approach is necessary in order to design a policy that encourages fertilizer use by taking account of both the price and nonprice variables, e.g., the quality of extension services, timeliness and reliability of fertilizer supplies, and the availability of credit (Lele, Christiansen, and Kadiresan forthcoming).

6. As an example of a more specific reform effort, the World Bank has attributed the limitations of Kenya's cotton industry to the institutional weaknesses of the Cotton Seed and Lint Marketing Board (CSLMB), the failure of research, and the volatility of climate and the world cotton market. The 1985 midterm review mission of the Cotton Processing and Marketing Project made liberalization of cotton trade and divestiture of CSLMB a condition of project extension. The World Bank regarded privatization as a possibility, but the government took divestiture to mean the return of the gins to the cooperative sector (Lele and Meyers 1987, 74–75). A number of issues concerning the cotton sector remain outstanding. One concerns the meaning and pace of privatization advocated by the World Bank. Some observers argue that small itinerant traders can handle cotton purchasing from producers, but that credit markets are not yet well enough developed to finance cotton trade and that private entrepreneurs are unlikely to operate the cotton processing industry in the immediate future.

7. For a more detailed account of the liberalization of grain trading see Christiansen and Stackhouse (forthcoming). For the details and consequences of the fertilizer subsidy removal program see Lele (forthcoming); Lele, Christiansen, and Kadiresan (forthcoming); and R. R. Nathan Associates (1987).

8. Concerns over the ability of the private sector to function effectively seem to center on inexperienced entrepreneurs (a variant of the infant industries argument); ethnic group dominance of crucial markets, especially food; and the need to perform certain development functions that are inherently loss-making and therefore shunned by the private sector.

9. The risk associated with reliance on rain-fed agriculture is further compounded in Africa because climatic variations are much greater in most of Africa than in North America or Europe, not only because the low, declining, and highly variable rainfall experienced in Africa in recent years is a problem, but also because the availability of information regarding the likely failure of rains is poorer in Africa than elsewhere (Lele 1988a).

10. See de Wilde (1967), Ruthenberg (1980), Collinson (1972), Lele (1979), Balcet and Candler (1982), and Lele (1988a).

11. The availability of imported food and, therefore, reliable supplies of food for farmers dependent on the market can also be jeopardized by shortages of foreign exchange and the vagaries of donor food supplies (Lele 1988a, 200). Shortages of foreign exchange are common, given the volatility of primary commodity markets on which most African countries rely for much of their foreign exchange earnings and employment. For a detailed discussion of the degree of dependence on agriculture as a source of foreign exchange and employment see Lele (1988b).

12. In India, for example, much of the early impetus for intervention in the form of support for agricultural prices came from the need to ensure a guaranteed minimum return so as to facilitate investment in new agricultural technology. In the context of agriculture in developing countries, wide fluctuations in prices are seen to be a major cause of farmers' reluctance to depend wholly on the market, especially for food.

13. An additional production oriented argument for price stabilization has been made in the context of correcting the domestic terms of trade for agriculture in order to encourage long-term growth. While improvement in the terms of trade in favor of agriculture may induce some immediate aggregate supply response, a sustained response cannot depend on continued price increases:

> . . . upward price adjustments cannot be expected to continue once the initial price distortions have been corrected, especially in view of the limited international market prospects for many of Africa's traditional export and food crops. Once the price distortions are corrected, important issues regarding long-term agricultural growth relate more to the stability of the pricing environment. (Lele 1988a, 209)

14. See Lele (forthcoming), Christiansen and Southworth (1988), and Mellor (1978).

15. Despite the benefits of transport infrastructure, underinvestment has been characteristic of many of the countries for the following reasons: (1) the benefits are long term and difficult to measure; (2) the link between market development and transport networks is not fully understood; (3) because benefits to markets are indirect, they are less tangible; (4) employment potential of other prospects are greater than with road maintenance; (5) concentration of power in central governments means that local governments are generally unable to maintain roads; and (6) the

benefits in terms of unifying the country (economically and politically) are frequently overlooked. For a more detailed account of the links between transport infrastructure and agriculture see Gaviria and Lele (forthcoming) and Lele, Gaviria, and Bindlish (forthcoming).

16. So far, African governments have tended to view private modern entrepreneurship as an infant industry to be developed and nurtured largely through the establishment of public enterprises. For example, in Malawi, Asians are prohibited from engaging in trade outside the four designated urban areas in the country. Recently, when the system of agricultural trading was liberalized to allow private traders to purchase selected crops directly from producers, Asians were denied permission to engage in such trade. Although the infant industries argument may have some appeal as a device for promoting African entrepreneurs, as is the case with most arguments based on need for protection, there is a tendency to foster inefficiency. Bauer (1981) has argued that restrictive government practices, by guaranteeing African entrepreneurs large profits, have tended to undermine the importance of risk bearing, thereby arresting the rate of development.

17. This may be because colonial Africa was not characterized by a tradition of public action directed toward improving the competitiveness of domestic markets, as was India, where the Regulated Market Acts improved the standardization of weights, measures, grades, and marketing charges; established the method of collection and dissemination of price information; and broadened access by the trading class to institutional credit. The Agricultural Produce (Grading and Marketing) Act of 1937 empowered the Indian government to make rules to lay down grades and standards for agricultural produce; issue certificates to organizations or parties that wish to affix the prescribed trademarks; and exercise quality control on such graded produce (Lele 1977). The absence of such a regulatory tradition in Africa may be explained by the absence of an indigenous class of moneylenders and traders, signifying the less developed rural capital and commodity markets in most parts of Africa. Many donors have, however, paid little attention to investigating systematically the prevailing market conditions or the role of governments in promoting such conditions.

18. It has been demonstrated by Lindauer, Meesook, and Suebsaeng (1988) that in most African countries, wages in parastatals are often higher than for comparable government positions, while private companies have higher pay scales for skilled workers and lower scales for unskilled workers than do the governments. For example, in Zambia, parastatals' salary levels for unskilled workers ranged from 13 to 48 percent over government levels (Lindauer, Meesook, and Suebsaeng 1988, 13).

19. An example of the latter is the creation of the strategic grain reserve in Malawi. Although ADMARC borrowed money to construct the reserve and paid for the maize inventories at the direction of the government, it was not reimbursed for this expense.

20. Total marketing costs plus the value of payments to producers equals the total expenses. Direct costs are the sum of selling, buying, and direct expenses from ADMARC's trading accounts. These costs include transport, packing, and storage costs; auction floor charges; insurance; marketing costs; grading, ginning, milling, and fumigation costs; and seed distribution costs. Administrative costs are comprised of expenses incurred by ADMARC's head offices, such as salaries and travel expenses of central office staff, legal and professional fees, rent, and insurance costs. Finance costs consist of interest payable on long-term loans and bank overdrafts.

21. For the period 1978/79 to 1980/81, the average size of ADMARC's bank overdraft was K 2.5 million or K 12.6 per ton of purchases as compared to K 21.2 million or K 64 per ton of purchases for the 1984/85 to 1986/87 period.

22. The transport costs incurred by ADMARC have increased significantly since 1979, due largely to devaluation of the currency and increasingly insecure external transport routes. See Lele (forthcoming).

23. The problems that ADMARC has suffered in this regard can have serious consequences for farmers' confidence in the marketing parastatal and, therefore, willingness to rely on markets for food supplies. For an account of the impact of delays in ADMARC's purchases see R. R. Nathan Associates (1987).

24. Another example of the government's influence on parastatals is the case of domestic food grains. The NMC is required to purchase at prices set to encourage production and sell at prices set to allow consumers access to food at a reasonable cost. For example, between 1972 to 1975 and 1978 to 1981 in real terms, the government lowered the margin for maize to sembe conversion by about 55 percent (World Bank 1983), while during the same period official producer prices for maize were raised by 24 percent and official consumer prices were lowered by 23 percent. According to the team investigating the NMC's financial affairs, in 1981/82 government-set retail prices for preferred cereals, drought staples, and pulses were below the NMC's retail costs (World Bank 1983).

25. For more detailed accounts of the role of institutions in agriculture see Lele, van de Walle, and Gbetibouo (1988); Lele, Christiansen, and Kadiresan (forthcoming); Jammeh and Lele (1988); and Lele et al. (forthcoming).

26. The tentative nature of these estimates should be emphasized, as should be the fact that using different data sources may change the conclusions. For example, government data give a far gloomier picture in Nigeria, while in Kenya government data suggest an improvement in food availability—the opposite of what FAO data suggest. The dependence of one's conclusions on one's data sources in this context is discussed in a forthcoming paper by Lele, Westlake, and Fishstein.

27. See Christiansen and Stackhouse (forthcoming), Lele (forthcoming), and Bowbrick (1988).

28. Historically, ADMARC has financed its loss on the maize trading account through a subsidy from the profits earned on tobacco and groundnut trading. Recent price increases for these commodities preclude this method of financing in the future.

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The conference was attended by more than 150 delegates representing 18 countries. Participants from Lesotho, above, sign in at the conference registration table.

III. Discussion Committee Reports

Summary of Discussion Committee Reports

Conference delegates were divided into discussion committees following the keynote presentations. Each of the seven discussion committees spent two days discussing the conference theme, which was agricultural growth and market town development. Each committee included a diversity of delegates: urban and rural experts, farmers, large- and small-scale business people, publishers, engineers, economists, sociologists, anthropologists, government officials from many African countries, and representatives of many donor agencies. The committees' conclusions and recommendations, which were presented to the conference as a whole, are summarized here.

Market Towns

- In the words of one committee, the market towns under discussion at the conference "represent a leap in sophistication from the traditional market centers which are typical of rural Africa." To promote improvements in agricultural productivity, traditional market centers that are now limited to very local exchange must be transformed into market towns that will be linked to other trading and processing centers. The committees agreed that market towns can include large as well as small towns and that secondary cities and other towns also have important roles to play in stimulating improvements in agricultural productivity.
- Market towns that promote agricultural development serve many functions:
  - They are communities where farmers and others can buy the goods and services they need.
  - They are centers of information for farmers on prices, markets, and technical options.
  - They provide storage and processing facilities, buildings for traders, and places to acquire farm implements and other farm inputs.
  - They can be training centers.
  - They are sources of formal and informal sector credit.
  - They are centers of primary and secondary education and health care.
  - They are administrative and government service centers.
- In selecting sites for market town projects, locations that are already economically active should be favored. In general, stagnant or declining areas should be avoided. However, selection criteria should be flexible. There may be a strong case to make for selecting previously neglected areas for potential development based on the availability of natural resources, the eradication of pests, or an increase in producer prices. In addition, selection criteria must be economically and socially sound; too often, the choices have been dominated by political considerations, leading to projects that cannot be sustained.

Local Government

- Effective market town support for agricultural development is associated with the decentralization of responsibilities to local authorities, since the local government is in a position to be more sensitive to local development potential and needs.

- The case for decentralization is reinforced by the need for projects to be sustainable and independent of central government subventions. To this end, projects should be based as much as possible on local human and financial resources. However, it is unrealistic to assume that it will be possible to rely entirely on local resources, particularly for countries at an early stage of development and for smaller market town projects.
- Effective decentralization requires taking steps to make the local government less financially dependent on the central government. Strenuous efforts should be made to raise more local revenue through development levies and business and property taxes. Raising local revenue will be easier to achieve if people can see a close association between the taxes and charges they pay and the services they receive. This is a more difficult association to make if all taxes and charges are remitted to the central government.
- Institutional development, training, and technical assistance will be required to give the local government the capacity to manage its own development. Particular attention will have to be paid to financial management, including revenue collection. Training will also be required in the areas of tax assessment and valuation.
- Local authorities, particularly those from larger towns and market towns servicing a large agricultural hinterland, should have a business promotion function. An economic development officer could be appointed to market the location to business people from outside the area and help local and outside business people locate sites, deal with infrastructure supply agencies, and meet regulatory requirements.

Infrastructure

- Poor infrastructure was identified by each of the discussion committees as a major constraint. There was widespread agreement that better main and feeder roads would probably do more to increase agricultural productivity than almost anything else. Many—if not most—market towns in areas of high agricultural potential have very poor roads, water supply, sanitation, electrical power, and telecommunications.
- Care must be taken to identify the most productive investments in infrastructure. The problem with meeting infrastructure needs is that the necessary long-term financial and human resources are in very short supply. Long-term infrastructure maintenance and rehabilitation absorb most of the resources that can be raised. In selecting the best infrastructure programs, it is important to trace the benefits from the market towns into the rural areas, from urban to agricultural activities. Further research into rural-urban linkages will help analysts to advise decision makers in this regard.
- Market towns and their hinterlands would benefit greatly from attention being paid to the maintenance of infrastructure. In particular, many roads are so badly maintained that they effectively cut farmers off from market towns. Road maintenance was thought to be so critical by some of the committees that they recommended setting up special road maintenance funds based upon vehicle taxes.

Informal Sector

- Due attention should be paid to the informal sector, where many microenterprises flourish. This sector employs almost everyone working in the smaller market towns and the great majority in larger secondary towns. In most cases, support for microenterprises means ceasing to discriminate against them in terms of regulatory requirements and access to suitable sites.
- Means should be sought to improve the supply of credit to all microenterprises, including those in the informal sector. Some committees thought that the key to this is granting secure land tenure, so that property

can be used as collateral. Others urged that improved access to credit not await lengthy and expensive land titling exercises, citing cases where credit is made available to farmers and urban business people on the basis of individual trust and competence. Cooperatives and "solidarity groups" can also be set up to overcome problems associated with the lack of physical collateral. All committees agreed that market interest rates should be charged.

Multisectoral Relationships

- Nongovernmental organizations (NGOs) tend to be very active in market towns and rural areas. There was some disagreement on how to incorporate their activities into market town projects. Some committees favored formal integration or strict government supervision so that government and NGO agendas can be harmonized. Others favored a more informal relationship. However, in designing market town programs, recognition should be given to the important role that NGOs can and do play in promoting programs for women. In many countries, the trading activities that link farmers to markets and one market to another are organized and carried out by women.
- Market town projects, because of their multisectoral characteristics, provide a unique opportunity for donor collaboration and for a particularly close working relationship between donors and the central and local government departments involved.

Discussion committee members debate the issues raised by the keynote speakers in their presentations.

Report of Discussion Committee 1

Chairperson: Robert A. Obudho, Associate Professor, University of Nairobi, Kenya

The policy issues and recommendations offered here are to assist in understanding the interrelated nature of agricultural productivity and market town development and to assist in developing strategies on how to facilitate agricultural productivity through rural-urban linkages.

What is a market town? These are growth points, some of which have developed as administrative centers, where people go for services. A market town is popularly known as a trading center. A town could be a central place within an agricultural area characterized by the presence of specific infrastructure and institutions.

Issue. The private sector environment is not conducive to private sector participation in the development of market town agriculture.

Recommendations

- Simplify government procedures for private/small-scale investment/enterprises.
- Create good producer price incentives.
- Remove constraints in the land tenure system.
- Provide security of ownership of land.
- Establish land use planning mechanisms.
- Create an environment to encourage private investment.

Issue. Financial and credit facilities are not available to local participants in the development process of a marketing system.

Recommendations

- Make credit available at market rates, but relax the borrowing criteria.
- Open financial institutions/banks/mobile banks.
- Provide business promotion services in market towns.

Issue. Women, who are major participants in the production process and in agriculture marketing, do not have equal access to services/opportunities.

Recommendations

- Ensure that women get equal access to land, credit, and other investment opportunities.

Issue. Appropriate research and training programs are not available for local participants at market towns.

Recommendations

- Set up business centers.
- Conduct research within similar agronomic regions.
- Encourage national/multinational organizations to carry out research and training in marketing areas.
- Encourage vocational training at business centers.

Issue. Infrastructure is given inappropriate priority and provided with inadequate resources.

Recommendations

- Decide the critical infrastructure in order of priority according to regional needs.
- Encourage the private/public sector maintenance of infrastructure through the use of fees.
- Set up a special framework for proper linkages between market towns and other centers.

Issue. Limited access is provided to small enterprise opportunities related to market town development.

Recommendations

- Encourage support of the rural sector.
- Encourage investment incentives in market towns.
- Use appropriate local technology/material.

Issue. Power and decision making are concentrated at the national level.

Recommendations

- Decentralize the public sector to the local level.
- Delegate collection of revenues to local authorities.
- Avoid duplication of services/activities.

Issue. Some areas lack peace and security.

Recommendations

- Attempt to ensure peace and security for the entire country in order to facilitate economic development.

Issue. Criteria for selecting sites for market town development are inconsistent.

Recommendations

- Balance economic feasibility/viability and equity objectives when selecting sites for market towns.

Issue. Parastatals fail to fulfill their statutory roles and cooperatives fail to improve their performance.

Recommendations

- Give parastatals operational autonomy.
- Gear statutory laws toward market town development.
- Review and account for use of public funds.
- Encourage, strengthen, and support cooperative activities.

Issue. NGO involvement in market town development is not controlled and coordinated.

Recommendations

- Improve the control and coordination of NGOs in market town development.

Issue. Donor and host government development programs lack good collaboration.

Recommendations

- Foster better collaboration between the donor and host government in market level programs by adjusting to the recommendations above.
- Initiate market town development from the grass roots.

Issue. Market town development programs lack continuity following termination of donor assistance.

Recommendations

- Withdraw from projects gradually to facilitate the sustainability of benefits.

Report of Discussion Committee 2

Chairperson: Davinder Lamba, Executive Director, Mazingira Institute, Kenya

Following is a brief account of the issues that we considered, but which do not appear in the subsequent account of the issues and recommendations that were agreed upon. In some cases the issues did not lend themselves to the format of issues and recommendations, and in others the lack of time, expertise, or both did not allow the committee to go as deeply into an issue as it would have liked.

Market Towns

Some of the initial period in the committee's discussion was devoted to the definition of a market town. It was soon decided that size itself is not an indicator, for although there are many small towns in which the market is a dominant activity, the market is also a feature of many larger towns. Thus the dominant function of the town was considered the most important indicator, and it was decided that town size would not be considered a limiting factor in determining whether a town is or is not a market town.

Areas of Low Potential Productivity

Certain areas of many countries in Africa have a low level of agricultural productivity. One cause of this may be a lack of opportunity for higher productivity due to climatic and soil conditions. There are no obvious interventions that can increase production in these sectors, but there may be a need to facilitate marketing. The problem is that lack of a regular and convenient market for livestock makes it less likely that they will be regarded as a source of regular income. Typically, they are often kept in reserve as insurance against hard times, but when hard times come, generally as a result of drought, prices are at their lowest and the value of the asset is not realized. No conclusion was reached about whether the marketing activity should be linked to an urban center.

However, from the experience of the committee, it was also noted that there are areas of low productivity where output might be enhanced by improved markets and urban development. The question then arises as to what types of investment might be most appropriate, particularly with regard to the danger of creating "white elephants." Another and safer approach is to let the marketing be driven by improved agricultural output. Much depends on conditions. For example, where a new road has opened a region to larger markets, this might well justify spending money on urban development so as to encourage increased agricultural output.

Another factor considered was that of equity. The committee discussed whether it is fair to channel all investment into areas of high potential productivity. Experience from Malawi showed that earlier attempts to concentrate on areas of low productivity had been very difficult to operate. As a result, it has now been decided to concentrate on developing areas of high potential productivity.

Another inequity which affects all remote areas is that of the higher cost of inputs due to the extra cost of transport. Some governments handle this by standardizing prices and entrusting distribution to parastatals. This approach is successful when administered well, but is difficult to operate well. Others do so by means of price controls, but it is often found that the margins are insufficient to cover the additional transport costs. As a result, the farmers who were intended to benefit from the price controls have no convenient source of inputs and have to travel considerable distances to obtain them. Thus, the issue of how price controls operate was considered an important point of study, as was the possibility of reducing costs in remote areas by tax and other incentives and concessions.

Cost Recovery and Maintenance

The committee made no attempt to examine this issue in detail, but felt that it was a subject that required careful thought. All investments have important implications for the users and the operators as far as costs and maintenance are concerned. On the one hand, there is the issue of how costs are recovered. In the case of utilities and commercial or quasi-commercial facilities, the user charges may be set to recover the costs. In such cases, care needs to be taken to ensure that such charges are not a disproportionate burden on the users or, if a subsidy is to be applied, that the source of the subsidy and the consequence of such subsidy are clear. In other cases, such as major infrastructure projects, there is no obvious way to recover costs. Roads are the most common example.

Costs do not include just the initial capital; maintenance is a major expenditure. Responsibility and funds for maintenance have to be considered in all calculations of user charges and long-term funding by the government.

Another issue that could be borne in mind when making infrastructure investments is that, wherever possible, government expenditures should generate private expenditures and investments.

Private Sector

Two themes relating to the private and public sectors are not covered in the issues and recommendations. The first is the question of who does what. No consensus was reached—or even attempted—on this, as it was felt that conditions vary too much among countries to make generalizations appropriate. Some members of the committee felt that great care needed to be exercised in any privatization of parastatal or government activities, as there is a danger that the private sector will find them unprofitable and therefore cease them altogether, or else will make good profits which the government—or the parastatal—sorely needs to keep itself going. It was possible, however, to agree that there are appropriate roles for both sectors in all economies.

The second question concerns the impact that a greater role for the private sector might have on market towns. For example, if a parastatal were to divest itself of its operations in a town, what would be the effect on employment, the retail sector, the demand for building land, and the degree of choice for consumers? It appears that very little is known of this, and though it is commonly supposed that an increase in economic activity might be expected from such privatization, more research needs to be undertaken.

Informal Sector

One of the pre ing needs of today's Africa is employment generation, and the informal sector is expected to provide a substantial proportion of the supply of new jobs. However, although lip service is often paid to the concept of helping the informal sector, it is often harassed in practice. The recommendations cover many ways in which the informal sector needs to be better supported by the public sector, but there was one matter in which there was a variety of opinions and recommendations could only be made for further study and review.

The issue, briefly, is this: Many governments have loan programs for small businesses. These are at concessionary terms and often incorporate an element of technical assistance. Unfortunately, however, the default rate for these loans is quite high, and the cost of administering such a program is considerable. As a result, the number of beneficiaries is small, and most small-scale entrepreneurs have no source of credit apart from the usurious neighborhood moneylender. Would it not be better, thought some members of the committee, to decontrol interest rates so that the formal financial sector would be willing to lend to the small business sector? The formal sector would be willing to do so if interest rates were sufficiently high to cover the risk. The small business sector would be willing to borrow under those terms, which would be better than those available from other sources. Time did not allow this to be resolved, but it was considered an interesting and important area for further study.

Donors

The subject of donors provoked strong reactions. Examples were quoted of solutions being imposed on recipient countries, of unreasonable conditions being imposed on grants and loans, and of demands for excessive studies.

The other side of the coin was expressed in terms of the need for donors to ensure that funds are properly spent, but it was agreed by all—donors and recipients—that there could be no justification for some of the examples of donor behavior cited to the committee. The recommendations reflect the need for better relations between donor and recipient, especially in multisectoral projects such as market towns.

Infrastructure, Other Investments, and Improvements

Issue. In what ways could market centers be improved as places for trading in crops and livestock, especially livestock from semi-arid, arid, or pastoral areas? What infrastructure and other investments best assist agricultural marketing and production and the development of market centers?

Policy Recommendations

- Prioritize investments to include a determination of sustainability.
- Establish criteria for placement of physical facilities.
- Examine price control policies to determine if they inhibit the availability of inputs.
- Examine veterinary controls that unjustifiably inhibit the movement of livestock.
- Examine physical planning and engineering standards for infrastructure.
- Create incentives to stimulate investment in market towns.

Investment Recommendations

- Identify critical items in descending order of importance (e.g., roads, water, electricity, telecommunications).
- Encourage public investment that is designed to generate substantial private investment.

Institutional Support Recommendations

- Improve market information on prices, market times, and so on.
- Train local authorities in the areas of planning, bookkeeping, tax assessment, and so on.

Support of Formal and Informal Private Sector Activities

Issue. How would increased private enterprise activity stimulate the development of market towns? How could a supportive environment for the informal sector be introduced in market towns? How can credit be made available to small-scale enterprises to allow them to participate fully in market town development?

Policy Recommendations

- Articulate and publicize a positive government policy in favor of private sector activity.
- Conduct more policy-oriented research to determine if substitution of the public sector by the private sector leads to decentralization and the growth of market towns.
- Simplify licensing for commercial activities.
- Relax building codes.
- Review policies regarding terms and availability of credit to small-scale entrepreneurs.
- Create incentives for banking institutions to locate branches in rural areas.

Investment Recommendations

- Consider establishing a loan guarantee fund aimed at small entrepreneurs.
- Establish low-cost physical facilities, including health, sanitation, and day care facilities, to support private sector activities.

Institutional Support Recommendations

- Organize marketing networks and pricing systems.
- Train entrepreneurs to gain access to formal facilities.

Interest Group Representation in Policy/Decision Making

Issue. How can community-based organizations participate more effectively in decision making about agricultural productivity and marketing? How can these organizations be fostered?

Policy Recommendations

- Conduct consultations prior to outside interventions.
- Reduce government domination of the activities in farmers' organizations.

Institutional Support Recommendations

- Provide appropriate training.

Donor Intervention in Multisectoral Activities

Issue. What accommodations can be made by donors in consideration of the multisectoral aspects of market town development? What accommodations can be made by recipients?

Policy Recommendations

- Promote flexibility, coordination, communication, and sensitivity to multisectoral aspects.
- Recognize the long-term requirements of multisectoral projects.
- Encourage recipients to facilitate donor coordination.
- Provide opportunities for recipient ministries to participate more fully in donor planning.

Institutional Support Recommendations

- Schedule donor-recipient meetings and exchanges.

Report of Discussion Committee 3

Chairperson: E. Kalyati, Principal Secretary, Ministry of Community Services, Malawi

In examining the role of agricultural productivity in market town development, we began by stressing that the ultimate goal of these developmental efforts is to improve people's well being. The format we adopted was first to consider the issue of increasing agricultural productivity. Here we discussed policy, implementation, and institutional support measures. This was followed by a consideration of means to strengthen market town development.

Agricultural Productivity

Issue. With regard to agricultural productivity, we recognized the existence of many different kinds of farmers (large- and small-scale commercial farmers and those working on communal lands) and their importance in agricultural development strategies. Agriculture also needs to be considered in its role as a residual employer with the means to slow down the drift to urban centers. While specific measures may need to be directed toward different categories of farmers, the following general policies can be followed to stimulate agricultural development:

Recommendations

- Increase producer prices.
- Set fair prices for farmers' produce. Defining what constitutes a fair price, however, is not always easy, since the cost of production on the local level may be above world prices.
- Establish fixed prices before planting time and provide prompt payment for commodities.
- Increase credit facilities. In many cases, commercial banks need to liberalize their terms, especially with regard to what they are willing to accept as collateral.
- Increase technical assistance and the development of improved production packages.
- Streamline transportation and marketing systems.
- Develop the necessary supportive services in agricultural research and extension.
- Give support to the role of women and children in agriculture. Recognize that many households in rural areas are headed by women, and that women in male-headed households play critical roles in agricultural production. Increase efforts to direct extension and other support structures toward their needs.

Market Town Development

Issue. Turning now to the committee's deliberations on market town development, we first debated the issue of what constitutes a market town. The definition we arrived at stressed functional characteristics rather than location or size. That is, we focused on what functions towns perform in relation to the surrounding rural areas and vice versa. These linkage considerations were central to our discussions. Policy areas that need to be strengthened to increase the effectiveness of market town development include the following:

Recommendations

- Decentralize government authority. It was pointed out that functions have often been decentralized, but not authority. The powers of local authorities and the funds they command need, in many cases, to be increased.
- Implement revenue sharing measures.
- Establish effective education, health, housing, and sites and services programs.
- Design and implement job creation programs.
- Improve infrastructure, especially roads and communication networks.

- Promote mechanisms to assure that all groups within the community participate in planning and decision-making processes.
- Promote partnerships between the private and public sectors in areas such as housing, education, and health.

Public and Private Sector Roles

There was general recognition that the public sector has an important role to play in regulating the process of privatization. The committee strongly noted the importance of establishing a dialogue between the public and private sectors. A clear understanding must be reached concerning the expectations and roles of both parties. In this regard, we considered the issue of who actually constitutes the private sector. Here we identified three principal actors: small household or family-based business ventures in the formal and informal sectors; mid- and large-scale national traders and enterprises; and multinational firms.

It was the consensus of the committee that, while it is recognized that multinationals can play a beneficial role, first priority should be given to stimulating the private sector on the local level. This is the only way to assume long-term benefit for the community and the nation. Assistance to the private sector in terms of business advisory services and credit facilities is essential. It was also recommended that foreign firms should make efforts to localize as soon as possible.

In our discussions concerning the role of parastatals, we noted that while many of their commercial functions could be privatized and made to operate in the black, these organizations do have an important developmental role to play, especially in the area of food security.

The keynote presentations stimulated an interesting discussion on the role of donors and especially of "white elephants." It was pointed out that the long-term sustainability of projects requires careful review by the donors themselves, the national governments, and local communities. It was recommended that we embark first on small-scale projects, that donors pay recurrent costs, and that more attention be paid to training. Training is especially important in light of efforts toward greater decentralization of authority. We need trained officials at the local level.

The issue of NGOs also came in for discussion. In many countries there has been a proliferation of these organizations. While most perform many beneficial functions, some have separate agendas. Governments may need to exercise greater supervision over these organizations.

It was recognized that governments need to implement macroeconomic policies that will stimulate market town development. The issues here include exchange rates, repatriation of profits, licensing, liberal allocation of foreign exchange, and the creation of a favorable climate for investment.

Finally, we recognized the importance of local level and formal sector organizations in mobilizing efforts toward market town development. Included here were cooperatives and other farmers' organizations, as well as the political party.

Report of Discussion Committee 4

Chairperson: Jonathan M. Zamchiya, Director, Department of Physical Planning, Zimbabwe

The committee began by discussing the two goals of these discussion committees: to better understand and appreciate the interrelated nature of agricultural production and market town development and to develop a list of intervention strategies to be employed to increase productivity through market town development. To that end, our committee developed a general definition of a market town, then moved to list problems in each country represented here. Finally, a list of interventions applicable to market towns regionwide was developed, with the hope that by the application of these interventions, the development of market towns can be stimulated and the quality of life and productivity of the region surrounding market towns can be enhanced.

Central to an understanding of the solution is a clear definition of a market town. Our committee came up with several characteristics which clearly define a market town. It is a place that performs an intermediary function to facilitate agricultural productivity. It is an area with common services that people need either daily or periodically, a place where inputs for agricultural production pass to producers and their outputs pass to consumers with efficiency. Other characteristics are a certain degree of economic self-sufficiency and the ability to influence the surrounding areas through the provision of services and job opportunities. It was recognized that market towns represent a leap in sophistication from the traditional market centers which are typical of rural Africa.

Transportation

Issue. Transportation is a basic theme to market town development. Farmers must have a means of bringing their crop to markets and of getting inputs such as fertilizer and new seed varieties to their farms. Transportation is also needed to speed development of services in town and the transport of produce to urban centers.

Recommendations. Development of an adequate road system, both farm-to-market and market-to-urban-areas, is crucial. These roads must be maintained, and institutions such as local governments must exist with sufficient capacity to carry out their maintenance.

Access to Inputs and Services

Issue. There must exist in these towns basic services such as electricity, water, and sanitation. Additional services such as storage facilities, stores to purchase fertilizer and other inputs, schools, and health facilities must also be present.

Recommendations. Competent, well-run municipal management is essential to ensure that basic services are provided for businesses that provide inputs to farmers and other producers. Governments must provide agricultural extension and other basic services where necessary and must support, not hinder, the development of small businesses. Also of importance is the provision of storage facilities for grain.

Provision of Credit

Issue. There must be a source of capital available for agricultural and commercial enterprises. Specialized banking and credit facilities for both farmers and small businesses have to be present.

Recommendations. Where appropriate, either the government or the private sector must provide adequate credit for production. Ease in obtaining this credit must be assured. The availability of agricultural credit is basic to the definition of a market town. Some specialized needs include credit insurance for farmers, the direct financing of agricultural inputs, and credit for small businesses. Interest rates must not be onerous and must match the actual cost of funds.

Land

Issue. Market centers will ideally exist in areas of good agricultural potential with land available for production. A moderate climate and sufficient water will enhance growth prospects. It was noted that an unfortunate result of market town development is the loss of productive land to urbanization. However, eventual increases in agricultural productivity generated by the development of the market town will offset this.

Recommendations. A system of land tenure that provides basic security for development must be in place. The market town itself can serve as a creative force in determining the optimal use of land.

Pricing and Marketing

Issue. Unrealistic prices do not provide incentive to increase production, and farmers sometimes suffer because of government intervention to protect local producers of farm inputs. Simply put, there must be sufficient profit and incentive for farmers to continue and increase production.

Recommendations. Producers must get a price that is fair as incentive to continue and increase production. They must also be paid quickly, in cash rather than promissory notes, as happens in many government-sponsored arrangements.

Labor and Housing

Issue. Market towns and the surrounding farming areas require a source of labor, which needs access to adequate housing.

Recommendations. The supply of housing for labor was recognized as important, but the committee reached no consensus as to the priority of intervention here. Given limited resources, the supply of housing was felt to be important, but not crucial.

Political Stability

Issue. Finally, it was recognized that a very basic need is a stable and peaceful environment in which development can take place.

Recommendations. No recommendations were made.

Report of Discussion Committee 5

Chairperson: Harry Garnett, Senior Analyst, Abt Associates, USA

The committee agreed to adopt a broad definition of a market town: it could include a large secondary town in a largely agricultural hinterland as well as a small market center. The town itself was to be defined in terms of its economic and social service area.

The committee decided to approach the discussions based upon country reports and the actual experience of delegates. It was also decided to limit discussion and suggestions to practical ideas that could be justified in terms of available human and financial resources.

The committee decided to focus on answering two questions that are typically posed by governments and donors:

- Which towns should be selected and what selection criteria should be used?
- Which interventions are most important: policies, investments, or institutional development?

Selection of Locations

A thorough study of the development potential of candidate locations is required. An underlying principle is to select locations that are already economically active and are attracting migrants. In general, stagnant or declining areas should be avoided.

However, single factor selection criteria (such as population growth rate) should be avoided. For example, future development potential as well as current growth should be considered. New growth potential may be created by, for example, increases in agricultural prices or the eradication of pests. Some areas might have distinctive natural resources with promising potential for exploitation.

In countries with infrastructure in poor shape, it is useful to try to identify locations that have high growth rates despite poor infrastructure. Another exception to the basic principle of selecting locations where population growth rates are high is towns that have been deliberately neglected as a matter of policy. If such towns once grew rapidly and were than starved of infrastructure, they might be revived.

In reality, most towns are selected for secondary or market town programs on political grounds. In some instances, the selection has been dictated by donors without the full agreement of local people. Very often these projects fail, since there is no long-term economic base.

Care should be taken in using census statistics as the measure of a town's importance. Market towns have an influence beyond the boundaries of their enumeration districts, and their populations vary greatly on a daily basis.

In general, stimulation of the towns selected should demonstrably be able to complement agricultural development. It is important to understand the linkages though which this will happen.

It has been observed that concentrating on a particular town may cause others to decline. This is not necessarily a bad phenomenon. Movements of population are a necessary part of development. Regional studies should be carried out to determine the effect of developing particular towns on surrounding areas.

Local people should be involved in the locational choices. If they disagree with central planners, projects are unlikely to succeed.

Central governments have, and will continue to have, an important role in deciding which towns are to be developed. Given human and financial resource constraints, this choice probably cannot be left to regional or local governments.

However, central government decision makers should not plan excessively. Programs should have built-in flexibility, as some locations may begin to grow unexpectedly.

The committee was unable to agree upon the sizes of towns that should generally be the focus of development activities. Some favored, as a general principle, large secondary towns in agricultural regions, while others preferred small rural centers very close to the farmers. There was also disagreement on the relative importance of economic and social criteria in selection of a location. However, all agreed that development should be self-sustaining.

Strategic Interventions

Improving the road network was identified as the single most important factor in strengthening the role of market towns in promoting higher agricultural productivity. The maintenance of main and feeder roads is so important that funds should be earmarked for that purpose. Some countries have allocated petrol and vehicle licensing taxes to the road fund.

Credit should be made available to farmers and other business people through market towns. In some instances, commercial banks can be the channel, while in others, special schemes have to be set up.

Credit can be, and is, made available to farmers and small business people on the basis of individual trust and competence as well as the collateral represented by clear title to land. Some committee members nevertheless thought that establishing clear title to land would help increase agricultural productivity.

Support to local small-scale enterprises should also include training. Market towns have a very important role to play as centers of information on prices, markets, and technical options. They should also be training centers.

Certain physical facilities tend to be required in market towns: storage and processing facilities, buildings for traders, and places to acquire farm implements.

It has been found that market town programs tend to omit an economic or business promotion function. Local authorities should have economic promotion units that facilitate local business development and attract new business seeking a location.

As much as possible, local development projects should be based upon local human and financial resources. It is unlikely, however, that they will be able to depend entirely on local resources. Strenuous efforts should be made to raise more local revenue, perhaps through development levies or property taxation. Local financial management, including revenue collection, should be improved.

There should be strong local input into the selection of the physical infrastructure for market towns. There should, as much as possible, be a local contribution to the provision of that infrastructure, perhaps in kind, in some circumstances.

Governments should be wary of directing businesses to particular locations. They should interfere as little as possible with private business decisions, but where they do want to develop a particular location, they should rely on positive incentives rather than negative controls.

A particularly important role for donors is to support training programs to upgrade local institutional capacity.

Many members of the committee expressed strong feelings about donor-recipient relations. It was felt that donors are too dominant in that relationship. The committee agreed that donors should consult much more closely with local officials and professionals while projects are being prepared. In addition, more local rather than expatriate staff should be employed in project preparation and management.

There was also some disagreement about who should provide facilities (such as storage and processing) in the market towns. It was agreed that this should be left as much as possible to the private sector. Some committee members thought that if the private sector did not provide the facilities at the selected location, then the public sector should do so. Others thought that if the private sector chose not to do so, then the wrong location had been selected in the first place.

Report of Discussion Committee 6

Chairperson: Donald Mead, Economist, Ministry of Finance, Rwanda

Strategic Interventions

In specifying the priority of interventions for increasing agricultural productivity, the committee focused on types of interventions that would yield immediate impacts. The following were felt to be the most important, in order of priority:

Transport network. An adequate transport network was felt to be the first priority in order to get agricultural products to markets. This involves investment in roads (particularly feeder roads) as well as vehicles. Investment should begin in areas where there is existing productive capacity facing transport/marketing constraints. The investment in feeder roads should be made by the government (central and/or local), with local responsibility for maintenance. Investment in vehicles should be private, with incentives from the government in the form of credit availability and preferential pricing systems for those carrying out a marketing function in remote areas. In recommending priority attention to the transport network, the committee recognized that supporting policy interventions may be needed to ensure that the ensuing benefits accrue to the farmer (rather than, for example, being captured by the middleman).

Direct support. Direct support to farmers was considered to be the next priority intervention for raising agricultural productivity. This support includes the provision of extension services (dissemination of information on technologies, etc.) and inputs (fertilizers, seeds, implements, agrochemicals). The committee recognized that these often have an important foreign exchange component, so the resulting production increases would need to be evaluated taking account of this factor. As a corollary, the committee felt that agricultural productivity could also be enhanced by improvements in the standard of living of farmers not directly related to agriculture, for example, in improved supplies of water, fuel, and social services.

Market center infrastructure. The third priority of intervention was felt to be in market center infrastructure. The main categories considered include sheds and other storage facilities, water and sewerage, and electric power. While some of these infrastructure investments would need to be financed by the central government and/or donors, it was felt that many should be self-financing. Establishing rules requiring either beneficiaries or local authorities to pay a substantial part of the costs would be an effective way to direct investments to activities that provide a higher return.

Selection of Locations

Geographical dimensions and the strength of supporting institutions should be considered in selecting locations for market town development.

Potential productivity. Emphasis should be placed on the development of areas of high potential productivity based on an assessment of soils, water availability, population density, and accessibility to national and international markets. These factors have sometimes been ignored for political or social welfare reasons, often resulting in underutilized or wasted resources.

Size. A distinction was made between rural centers, which are essentially collection points, and rural towns, where markets are substantially larger. The priority for infrastructure development varied from country to country; in more sparsely populated countries, priority was placed on rural centers, whereas in more densely populated countries, the primary emphasis was on towns.

Local involvement. As much as possible, the decision-making process should involve the local people who are directly affected. Where possible, it should reflect existing economic forces already at work and/or cost-benefit analyses.

Institutional support. Many types of development institutions need to be strengthened (or created) to support the development of market towns and agricultural productivity:

- agriculture-related institutions (research centers, extension services, training colleges, agencies involved in plant protection)
- credit institutions (agriculture and rural small enterprise credit sources, commercial banks)
- land titling/surveying/registration offices
- cooperatives
- local governments/town managers/town councils/marketing boards
- national polic analysis units, to avoid the variability of donor whims and build policy on national priorities

Specific Issues

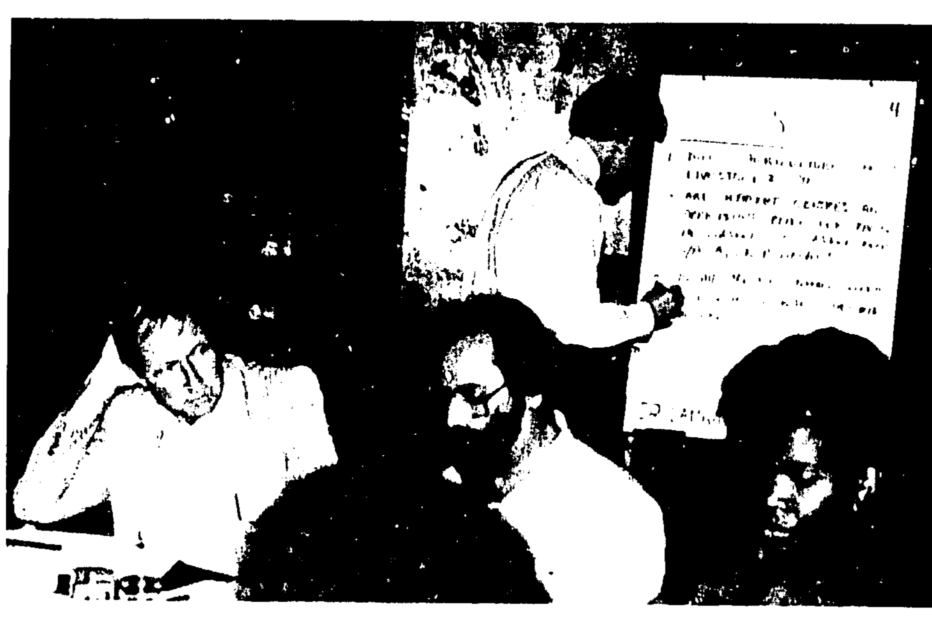
Exports vs. food crops. Priority should be given by the government to actions that will promote basic food production. Where it is possible to do so, food self-sufficiency should be aimed for, even recognizing that there might be some costs attached to pursuing this objective. Within this context, it was recognized by the committee that a balancing of interests is required. We recognized the need to generate foreign exchange through export crops, but also recognized the risks attached to reliance on international trade, particularly relating to price instability and the changing availability of food imports. In general, it was felt that the balance should be achieved with less emphasis than in the recent past on export specialization and more emphasis on basic food production.

Smallholders vs. plantations. In line with a policy emphasis on basic food production, the focus of the government in promoting increased agricultural productivity should be on smallholders, who are, generally, the major food producers. In coming to this position, the committee recognized that although in some cases there may be economies of scale in large-scale production, the distribution of benefits that result is usually not equitable and, further, that there are environmental pressures that result from large-scale mechanization.

Price stabilization. There was a consensus that it is desirable for the government to establish a system of floor prices for producers and ceiling prices for consumers for a limited range of basic food crops. For this to operate effectively, the stabilization agency would have to have storage facilities; transport facilities; a network of buying and selling agents distributed through producing and consuming areas; information on production costs, projected supplies, and demand over multiyear periods; control over exports and imports of the controlled products, if world prices fall outside the established range; and lots of money. It was felt by most that the stabilization agency should not have monopoly power (i.e., private buying and selling would also be permitted without price restrictions), although it was recognized that removing the monopoly from the stabilization agency would make its task more difficult by increasing the level of uncertainty with regard to supply and demand.

Demand for agricultural products. While much of the discussion was focused on supply-side and marketing issues, the committee recognized that some demand issues are also important. In addition to export markets, whose disadvantages have been noted, the committee recognized a variety of factors affecting the domestic demand for agricultural products. One important dimension is the focusing of agricultural production to give priority to domestic food needs. Beyond this, though, the government needs to be aware of its taxing and pricing policies, particularly toward farmers, and the effect of these on the demand of rural consumers for agricultural as well as nonagricultural products.

Supply of consumer goods. It was recognized that an incentive to increase production by the individual farmer is the desire to improve his/her life by acquiring more goods and services. Therefore, it is necessary that these be available. In cases where there is scarce supply, the government may be required to adopt a system of allocation that ensures equity in the availability of basic consumer goods for incentive purposes. The government should also adopt policies that will encourage local production and marketing of nonagricultural goods. This was seen as being particularly important in the promotion of rural small- and medium-scale enterprises that can produce the desired consumer goods, thereby enhancing local multiplier effects. Recognizing that some consumer goods cannot be produced locally, however, the committee also concluded that the government should seek to assure, where possible, that a minimal supply of imported consumer goods be available in rural markets.



While discussing the issues related to agricultural growth and market town development, discussion committee members develop recommendations to present at the conference's conclusion.

Report of Discussion Committee 7

Chairperson: Betty Flora Mtero, Director, Association of Women's Clubs, Zimbabwe

Market Towns

- Develop nonfarm activities (such as small-scale industries, trading, and services) in rural areas as well as in areas of population centers.
- Recognize that the development of market centers requires more than infrastructure alone. It is also necessary to capitalize local governments, provide credit to men and women entrepreneurs and agricultural producers, organize marketing services, improve transportation, and train participants.
- Develop new sets of tools and concepts to measure, monitor, and evaluate the development of market towns and agricultural productivity. New types of surveys and accounts of the actors and institutions involved will help to evaluate employment and income generation, intensification of rural-urban exchanges, and resource mobilization programs.
- Recognize the continuing need for marketplaces in central city locations, and do not allow their destruction in favor of large-scale commercial development.
- Explore the provision of child care centers, clinics, and schools in the market.
- Provide storage facilities and ensure access by women and men, traders and retailers.

Infrastructure

- Improve marketplace infrastructure, particularly the provision of basic services such as sheds, water, and sanitation, especially in rural and intermediate city markets.
- Improve transport needs, especially those involved in the movement of produce from rural to urban markets. Transport needs to be affordable, readily available, and safe.

Participation

- Be cognizant of policies that result in an underclass of smallholders (resource-poor households, female-headed households, refugees) who are unable to participate in structural transformation, commercialization, and urbanization.
- Ensure that decisions about investment in the development of market towns have the widest participatory involvement, including input from business, the informal sector, local governments, etc.
- Monitor the impact of policies. They may seen reasonable and equitable in terms of input distribution, crop/livestock financing, location of markets, and distribution of credit, but the actual strategies for reaching clients (including women and informal sector members) may be deficient.
- Target specific groups (e.g., women who are small-scale commercial agricultural producers, intermediary traders based in smaller cities, street food vendors) for credit and other microenterprise programs.
- Devise strategies to enhance and ensure women's involvement in urbanization projects, and make certain that formal sector and rural commercialization interventions do not have differential and negative impacts on men and women.
- Make repayment schedules flexible to accommodate traders and vendors whose incomes have seasonal fluctuations.
- Change policies that inhibit women's access to land tenure and ownership of market stalls, shops, and other commercial establishments.
- Expand the programs provided for women to include projects that focus on their role in the intensification of rural-urban exchanges.

Local Government

- Provide local governments with adequate resources from the central government, donors, and local revenues so they can be financially viable.
- Manage towns as enterprises themselves, rather than only as producers of services.
- Make governments accountable in the ways they use their taxes and other revenues to enhance informal and formal sector enterprises. Ensure that they have adequate staff to accomplish this and that they monitor who the recipients of their services/resource allocations are.
- Train those in local government in the management of cities, market areas, housing developments, credit programs, and so on.
- Ensure that a certain percentage of funds is allocated for infrastructure, market maintenance, social services, and formal sector and informal sector enhancement of secondary cities, although there will always be funding constraints.
- Make market administrators accountable for maintenance services.

Informal Sector

- Change regulatory policies aimed at banning or removing informal sector vendors from central city locations, and find acceptable locales for street trading, especially in central city locations.
- Provide services that can enable street vendors to provide better quality and more sanitary produce, e.g., access to water supply or training courses in hygiene.
- Reexamine regulatory policies directed toward traders (e.g., taxation efforts, relocation of marketplaces) in light of the recognition of the importance of informal sector occupations.
- Provide locations for income-earning activities for women and men (e.g., trade, food processing, room rental, small industries, and crafts), and/or improve their access to existing locales during the construction of urban housing.
- Provide sites for street food vending in central city and high-density urban locations; do not allow removal of vendors to sites far away from population concentrations.

Multisectoral Relationships

- Allow public and private sectors to function alongside each other, especially in the internal marketing of agricultural commodities. However, governments should establish mechanisms for organizing and maintaining national buffer stocks.
- Coordinate the interests of donors, governments, and NGOs in the development of market towns and secondary cities in terms of program and project design, implementation, and evaluation.
- Ensure that governments use an integrated approach to market town development. Government units such as ministries and parastatals are organized by sectors (e.g., agriculture, health, local governments), but market town development is multisectoral.
- Include the development of market towns in national development plans and programs, five-year plans, and budget allocations. Assign appropriate ministries or government units interested in the development of market towns to work with donors.
- Choose carefully in identifying secondary cities and towns to be selected for development. Governments and donors should work together to develop the political and economic criteria to be used.

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