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The Structural Transformation of OPAM, Cereals Marketing Agency

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List of Commonly Cited Abbreviations

1. CFAF CFA Franc, unit of currency used by member countries of the West African Monetary Union, including Mali, convertible with the French Franc at 1 FF = 50 CFAF.
2. CNAUR *Comité National d'Aide d'Urgence et de Réhabilitation*, Malian agency concerned with emergency aid and rehabilitation activities; formerly known as *Comité National d'Aide aux Victimes de la Sécheresse* (CNAVS), national aid commission for drought victims.
3. COC *Comité d'Orientation et de Coordination*, Malian government interagency oversight committee guiding grain market liberalization.
4. DNAE *Direction Nationale des Affaires Économiques*, agency formerly charged with enforcement of grain price regulations.
5. ODR(s) *Opération(s) de Développement Rural*, geographically focused integrated rural development project(s) specializing in cereals and/or cash crops.
6. ON *Office du Niger*, large-scale ODR specializing in irrigated rice production in the Niger River delta.
7. OPAM *Office des Produits Agricoles du Mali*, cereals marketing agency of Mali.
8. OSRP *Office de Stabilisation et de Régulation des Prix*, price regulatory agency and cross-subsidy fund for key exports and consumer goods.
9. PRMC *Programme de Restructuration du Marché Céréaliier*, multi-donor program guiding grain market liberalization.
10. SIM *Système d'Information sur le Marché céréaliier*, grain market information and analysis unit operated by OPAM.
11. SNS *Stock National de Sécurité*, strategic grain reserve operated by OPAM.

The Structural Transformation of OPAM, Cereals Marketing Agency

by Philip Steffen¹

This paper traces the policies and events leading to grain market liberalization and their impact on the transformation of OPAM, Mali's official cereals marketing agency -- its role, structure and performance -- during three distinct phases: a) the monopoly period (1964/65-1981/82); b) the market liberalization period (1981/82-1987/88); and c) the contract-plan period (1988/89-1989/90).² OPAM's evolution thus closely mirrors the early growth and dominance of the public enterprise sector in the economy and its more recent retrenchment.

Table 1 summarizes the remarkable transformation of OPAM's objectives over the past three decades. OPAM's workforce and operating budget are both undergoing reorganization in line with its new functions. OPAM operates the national food security reserve and manages the distribution of food aid, both with an emphasis on the hard to reach "deficit" zones. Whereas once its actions sometimes destabilized the grain market, today OPAM provides essential market-facilitating public goods. Its fundamental character has changed from that of adversary of the grain traders to partner.

This paper looks at the prospects for improved performance under the contract-plan arrangement, including budgetary implications. Lastly, the paper will draw insights from the structural transformation of OPAM which may be broadly applicable elsewhere in Africa.

I. Introduction

A. Early Post-independence Policies regarding the Direction and Control of the Economy

Very early after acceding to independence, the leaders of the first government of Mali (1960-68) opted to reorient the economy along a "Malian socialist path" in which modernization, social equity and economic independence would be driven by centralized economic control.

An ambitious industrialization program of import substitution and transformation of primary products was launched with a proliferation of state enterprises and trading companies, financed by outside aid and net resource transfers from the countryside (Kébé, pp. 75-102). By the mid-1970s some 30 public enterprises came to dominate the modern sector of Mali, accounting for more than 60 percent of the sector's total annual gross sales and employing about half of its (non-government) employees (IMF, 1977, pp. 147, 131).

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² Unless otherwise noted, split-year dates refer to the annual cereals marketing cycle officially running from November 1 to October 31.

Table 1. Evolution of OPAM's Statutory Objectives

OCS/OCFLM (1959-65)	OPAM (1965-82)	OPAM (1982-88)	OPAM (1988-)
Constitute regional market regulatory cereal stocks, as required.	Develop and consolidate the patrimony of the people.	Supply cereals to public service institutions.	Constitute and manage the national cereals security stock.
Orient national cereals production to meet market needs.	Set an example of a model state enterprise.	Supply cereals to deficit zones of the country on the basis of an annual plan.	Supply cereals to deficit zones of the country on the basis of an annual plan.
Recommend cereals market regulations.	Accumulate capital for future national industrial development.	Constitute and manage reserve and security cereals stocks at national levels.	Manage and distribute cereals food aid.
Constitute a special security stock when necessary.	Address worker concerns and improve working conditions.	Assure adherence to official producer and consumer prices through market stabilization.	
Organize cereal imports and exports.	Satisfy the cereals needs of the entire population.	Manage and distribute cereals food aid.	
	Train and promote managerial staff.		
	Purchase, transform, and sell cereals through nationwide commercial outlets.		

Sources: 1) OCS (1959-64): Law No. 59-29/AL-RS; Articles 7, 12 and 14; December 4, 1959. Note: Objectives of the OCFLM (1964-65) are essentially identical to those of the OCS. See Law No. 64-25/A: RM; Article 23; July 15, 1964.
 2) OPAM (1965-82): Law No. 65-7/AN-RM; Articles 5 and 6; March 13, 1965.
 3) OPAM (1982-88): Law No. 82-36/AN-RM; Article 2; February 8, 1982.
 4) OPAM (1988-): Law No. 88-67/AN-RM; Article 2; December 26, 1988.

The organization of agriculture along socialist lines was also considered a task of paramount importance. A hierarchy of political-technical structures was set up, based on village level "rural mutual aid and production groups," with obligatory membership for all producers, whose activities included public works, the farming of collective fields, distribution of inputs and post-harvest storage of crops. Farmer cooperative federations were also set up at the arrondissement, cercle and regional levels,³ each guided and controlled by the Party.⁴

Tight regulation of cereals marketing reflected the dominant antimarket bias of the government. Producers were restricted from selling their crops to anyone other than producer cooperatives or Government-approved traders.

Grain wholesalers were required to keep detailed accounts of all transactions and inventories for examination on request by the authorities or the cereals marketing agency in case of requisition of stocks, and to submit a monthly declaration of all transactions to the regional governor, the commander of the cercle, and the cereals marketing agency. Retailers were limited to transactions of two tons or less of cereals, with purchases allowed only from producer cooperatives, licensed wholesalers or the cereals marketing agency. Delivery to retailers of all cereals not bought directly from the cereals marketing agency required a transfer permit from the cercle in which the crops were grown. Parallel marketeering, trading without license or selling at non-official prices were subject to strict penalties, including imprisonment.

Mali's first cereals marketing agency, the Office des Céréales de la République Soudanaise (OCS) was set up before independence in 1959 and later transformed into the Office des Céréales et des Fruits et Légumes du Mali (OCFLM). Increasing radicalization within the government led to the reorganization of OCFLM into the Office des Produits Agricoles du Mali (OPAM) in 1965, granted a statutory monopoly for the all grain marketing. Thus, the private grain trade was officially prohibited from 1965 until its legalization at the end of 1981.

B. The role of OPAM in Mali's Grain Marketing and Pricing Policies

1. The Government's Grain Marketing Objectives

The government's grain marketing policy was shaped by two broad objectives: an incomes objective and a production objective applicable to both grain producers and consumers. These objectives were to be guided by three fundamental considerations: a) self-sufficiency in production; b) security of supplies, even following exceptionally bad harvests; and c) equity, by which i) all consumers would be able to meet their cereals needs at reasonable and approximately identical prices, regardless of distance from producing regions, and ii) all producers would have stable and secure incomes, a necessary condition for expanding the market for basic consumer goods and developing the industrial sector (Direction Générale du Plan et de la Statistique 1974, pp. 43-44).

In the absence of rapid growth in agricultural productivity, however, these income and production goals were conflicting. All cereals prices, from the producer price to the retail

³ In Mali, each of the seven regions is subdivided administratively into cercles which are themselves subdivided into arrondissements.

⁴ The political party, Union Soudanaise – Rassemblement Démocratique Africain (US-RDA) was in power from 1960 until November 1968. The Constitution of 1974 called for the establishment of a new political party which came into being in 1979 as the Union Démocratique du Peuple Malien (UDPM).

consumer price, were fixed by decree from the Council of Ministers and Presidential signature after interdepartmental negotiation and political bargaining. The government tended to judge cereals prices in terms of their distributional or income effects, not in terms of their resource allocative function. In reality, concerns for remunerative producer prices were dominated by pressures to keep grain prices cheap to protect the real wages of urban consumers, civil servants and military, state enterprise employees and other workers in the industrial, commercial and service sectors.

2. OPAM's Role in Grain Marketing

The parameters of each year's cereals buying "campaign" (campagne agricole) were thus controlled by the government: opening date, producer prices, distribution of funds and sacks. On the basis of crop estimates, the government also decreed cereals procurement quotas for OPAM at the regional, sub-regional and village levels -- directly from village level producer cooperatives or indirectly through the public-sector, crop-based "rural development operations" (ODRs), in part, by extending them seasonal crop purchasing credits that it had obtained through the banking system.

Yet, OPAM's planned procurement monopoly broke down due to marketing disincentives facing farmers. Based on official producer prices for farm equipment (plow, tool bar, seeder and animal cart), producer terms of trade deteriorated steadily (Kébé, p. 59, for the period 1967-77). Producer purchasing power in terms of two basic necessities, sugar and salt, deteriorated even more sharply (Kébé, pp. 64-65, for the period 1962/63-1978). Moreover, official consumer prices in Mali fell considerably below the official producer prices for the same cereal in neighboring countries and considerably below parallel market consumer prices in Mali (Humphreys, 1986a, Tables 18 and 5). Under these unfavorable circumstances, farmers sold their grain for higher prices to traders, instead of OPAM, or engaged in clandestine exports in good production years or following large-scale imports. Farmer investment in agriculture stagnated.

II. OPAM during the Monopoly Period (1964/65-1981/82)

A. Organization

1. Objectives

OPAM's prescribed role pointed it towards a) the development and consolidation of the national patrimony; b) becoming a model state enterprise (with "exemplary sound economic management, rational use of equipment, highly disciplined, efficient and profitable"); c) accumulating capital for future industrial development"; d) addressing worker concerns and continual improvements in working conditions; e) contributing to the improved welfare of all the people; and f) training and promoting managerial staff.

OPAM's simply stated objective was to purchase, transform and sell cereals through nation-wide commercial outlets "wherever these products did not fall within the monopoly of other agencies or state enterprises".

2. Financial Autonomy

As an "industrial and commercial" state enterprise, OPAM was to be "managed on a for profit basis." A legal corporation with "financial autonomy," OPAM was permitted to borrow funds from the national banking system. OPAM alone was held responsible for payment of all operating expenses, purchases, salaries and bonuses, debts and other contractual obligations and taxes. In other words, OPAM's accounts did not appear in the national budget. Nonetheless, OPAM would be required to transfer a predetermined portion of its annual profits to the national Treasury.

B. Operating Constraints

Rather than becoming a source of investment funds for the government, OPAM rapidly became a financial drag due to its adverse operating environment.

1. Conflicting Objectives

The first operating constraint concerned the conflicting nature of OPAM's political role and its ambiguous commercial objectives. Although more explicit directives were set for OPAM in the context of annual marketing regulations, tutelage by the Party and government ensured a political emphasis on OPAM operations in practical terms. Despite the removal of certain rigidities, this basic perspective did not change after the military coup d'état of November 1968 which ousted the socialist regime and suspended the Party.⁵

2. Lack of Real Management Autonomy

The primacy of political objectives seriously compromised the autonomy of OPAM's internal management, a second constraint. Although personally responsible for overall administration, the Director-General largely acted upon instructions from the Minister. While the Director-General was charged with drafting the annual OPAM workplan, it had to conform with the "imperatives of the national plan." As for the Management Board, typically drawn from the ranks of the supervising ministry, it was "informed" of all pertinent matters, rather than be allowed to debate them. It "examined" the annual work-plan, rather than deliberating and voting on it. With OPAM effectively coopted by the state, any conflict of interest between ownership and management was resolved in advance.

⁵ Although one of the main reasons given by the new rulers for staging their takeover was the unacceptable degradation of public finances due to mounting losses in the state enterprise sector, the new government continued the past practice of seeking political control over the course of the economy (Constantin and Coulon, pp. 136-142). OPAM's grain marketing monopoly was loosened briefly when the government authorized traders to sell to OPAM at fixed prices during the 1968/69 marketing year. However, alleged misuse by traders of seasonal credit to buy cereals led to the reinstatement of OPAM's monopoly less than a year later.

3. Internal Centralization of Decision Making

The lack of external managerial autonomy translated into tight internal control by OPAM headquarters in Bamako. Very little autonomy was left to OPAM regional personnel for taking advantage of unexpected marketing opportunities, despite the fact that nearly all of OPAM's essential activities took place at the local agency level. Ironically, centralized decision-making was hampered by a seriously deficient internal information system concerning up to date stock inventories and transfers, the location of sacks, tarps and pallets, and financial accounting (Richard and van den Berg, pp. 81-93).

4. Fixed Input and Product Prices

At first glance, it might appear that OPAM's legal monopoly for the marketing of a such a basic necessity as cereals put it in an extremely enviable position to extract monopoly rents. This was not the case. In fact, OPAM found itself hostage to input (procurement and transport) and product (sales) prices which were fixed without regard to market conditions.

Table 2. Evolution of Official and Parallel Market Retail Cereals Prices in Bamako (CFAF/kg)

	Millet-Sorghum			Rice (40% Broken)		
	Official Price	Market Price	Percent Gap	Official Price	Market Price	Percent Gap
1970	13	21	40	39	49	20
1971	18	29	39	39	57	32
1972	18	35	49	40	62	35
1973	18	58	70	44	73	40
1974	18	39	55	44	79	44
1975	26	35	26	56	75	25
1976	26	36	27	56	73	23
1977	26	57	54	56	97	42
1978	29	82	65	69	145	53
1979	33	54	39	75	131	43
1980	39	95	59	90	153	41
1981	43	104	59	100	165	39

Source: Humphrys, 1986a, Table 5. Official prices were announced in October-December of the preceding year. Market prices are based on average monthly prices for the calendar year. The gap between the official and average market price is expressed as a percent of the market price.

OPAM's inability to set prices became critical during the drought of the early 1970s. Despite large food aid imports, OPAM was forced to make massive cereals purchases on world markets in 1973/74, coinciding with high prevailing prices, although official retail prices had not been changed since 1971. In 1974 the average unit cost of imported rice was 200 Malian Francs/kilogram, whereas the official sales price was set at 85 MF/kg. Similarly for millet, sorghum and maize, the average import cost was 100 MF/kg, although the selling price was fixed at only 37 MF/kg.

This policy of selling to consumers at several times below cost had to be financed, of course. OPAM found itself in the undesirable position of having to borrow funds but unable to set its own prices at a level to ensure repayment. The Central Bank of Mali extended credits of 25 billion MF to OPAM in 1973/74, of which an estimated 70 percent represented a loss (IMF 1977, p. 129).

The differentials between official and parallel market retail cereals prices are shown in Table 2 for Bamako (the only city for which a long term price series is available).⁶

C. Performance Indicators

Operating and institutional constraints resulted in dismal performance by OPAM in meeting its market and non-market objectives.

1. Model State Enterprise

By most measures, OPAM failed in meeting its social objectives. First, it became a chronic money loser, in no position to accumulate capital for national industrial development. Second, rather than developing as an asset of the people (*acquis du peuple*), OPAM became a net liability on the government budget and banking system (see 4. below). Third, OPAM defaulted on its objective to satisfy the cereals needs of the entire population due to its limited share of the market (see 2. below). Fourth, little effort was made to improve worker training and competence. Only the number of workers expanded under the influence of the government's policy of systematic recruitment of high school and university graduates.

Successive evaluations found OPAM's performance seriously wanting. Its management style was criticized as being haphazard and opportunistic rather than planned and disciplined (Richard and van den Berg, p. 86). All in all, the system of state controls on cereals marketing was not only ineffective, but alienating producers, traders and most consumers. The consequence for OPAM was a poor corporate image.

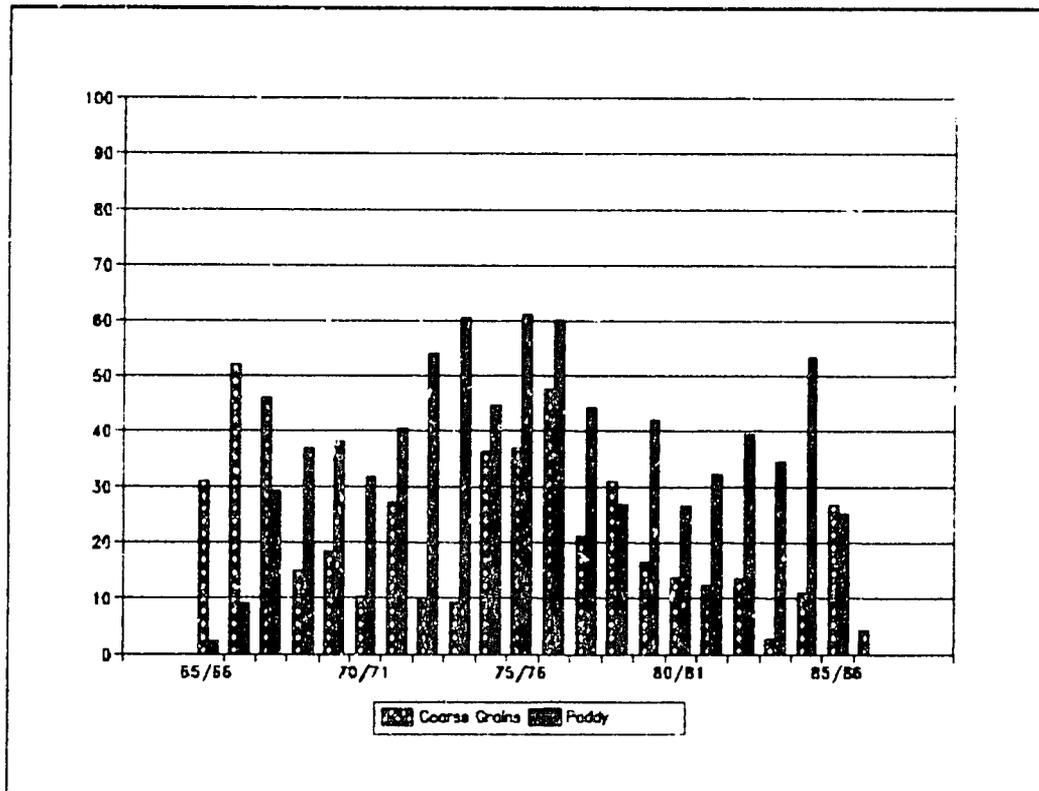
2. Low Market Shares

Forced to compete with a vibrant but illegal parallel market, OPAM was unable to meet its procurement targets. This should not have come as a great surprise, given many dispersed producers of storable commodities which are tradable even in the smallest units. Consistently low market shares demonstrated that OPAM's legal marketing monopoly was a fiction, as shown in Graph 1.

⁶ Mali's currency was the Malian Franc (MF) from 1962 until 1984. After Mali re-entered the West African Monetary Union (UMOA) in mid-1984, its currency became the CFA Franc (FCFA), converted at the rate of 1 FCFA = 2 MF. All prices in the Tables are expressed in terms of FCFA for comparison with later periods.

**Graph 1. Evolution of OPAM's Estimated Share of the Market
1965/66-1986/87**

(Percent of Estimated Marketed Production)



Source: Adapted from Humphreys, 1986a, Table 2, through 1984/85; production figures are updated for 1985-87 from OSCE, p. 17; cereals purchase data are from OPAM.

During the period 1965-68, when both collective crop cultivation and forced procurement were in effect, OPAM purchased only 49,000 tons of millet out of 1,473,000 tons produced and 31,000 tons of paddy out of 175,000 tons produced (Ministère des Finances et du Commerce 1988b, p. 2), or 22.2 percent of marketed millet and 23.6 percent of marketed paddy.⁷ Over the full monopoly period, 1965/66-1980/81, OPAM's share of the market for coarse grains (millet, sorghum and maize) averaged about 27.3 percent. OPAM captured a higher share of marketed paddy, an estimated 38.5 percent, thanks in part to payment in kind for water and other user fees by farmers and more effective control of limited access irrigated perimeters by police patrols and roadblocks.

⁷ It is estimated that about 15 percent of all coarse grains and 75 percent of paddy production entered the market following a given harvest.

Since OPAM's market share of domestic production was exogenously determined by the amount and timing of financing available for crop purchases and by the relative price ratios between market prices and OPAM prices, over which it had no control, assessment of the evolution of OPAM's market shares cannot constitute a valid measure of enterprise performance (see section 4. below). Without flexible prices to reflect quality differentials in coarse grains, OPAM ended up buying lower quality grain. Insufficient procurement by OPAM was further compounded by periodic droughts, which reduced the marketable surplus and provoked supply shortages in the cities.

Faced with limited cereals procurement by OPAM, the government was forced to limit eligibility to buy from OPAM to consumer cooperatives in the cities and federations of rural cooperatives in rural deficit zones (especially the desert regions of Timbuktu and Gao), and to employees of "public interest services" (the military and police, hospitals, school canteens and prisons). These grain sales were often made on credit due to late arriving salaries.⁸ Other sales were rationed by the issuing of cereals purchase tickets by the local administrator or commander.

The result was segmented markets due to differential access. Those with access to purchase tickets were able to buy at subsidized official prices. Limited access to subsidized cereals led to diversions, corruption and rent-seeking behavior, and profiteering by resale on parallel markets at higher prices. The cereals demand of those ineligible to buy from OPAM was met on the parallel markets, to the detriment of the government's avowed equity objectives in marketing and pricing. With segmented markets, any shock to the fixed price market, such as a sudden supply shortfall, is automatically transferred to the "residual" parallel market where prices fluctuate disproportionately due to unexpected higher demand. Observations of this parallel market "anarchy" simply fueled the arguments of those seeking more public control. The paradox is that a good part of parallel market fluctuations was caused by official market actions.

Conceding that it was unrealistic for OPAM to supply the entire country, the government scaled back OPAM's targets. OPAM was programmed to supply 50 percent of the coarse grain needs in Bamako and the regions of Timbuktu and Gao and 30 percent of the needs in the rest of the country by the end of the Plan period, 1974-78. For rice, the targets were 70 percent for Bamako and the regions of Timbuktu and Gao and 50 percent elsewhere (Direction Générale du Plan et de la Statistique 1974, p. 54).

3. Financial Dependence and Instability

OPAM's financing was limited to the sale of grain and what it could borrow in terms of short-term seasonal credit for crop purchases. Moreover, access to seasonal credit was a drawn-out process of sequential releases, subject to examination of invoices from the previous credit tranche. Lacking an adequate revolving capital fund to draw upon, OPAM frequently found itself hard pressed to meet cyclical cash-flow needs.

OPAM's financial dependence and instability had two detrimental consequences. First, it resulted in late or erratic grain purchases when bank credits were delayed. If OPAM ran out of money, all buying operations halted. When OPAM could start buying was determined in reality by receipt of funds, rather than the official opening date of the campaign. Second, interest payments became an important line item in OPAM's expenditures (several times higher than

⁸ Urban and rural cooperative members were rationed to 10 kg of sorghum and 7 kg of rice per adult and 5 kg of sorghum and 5 kg of rice per child. Eligible civil servants in Bamako could buy 100 kg of millet-sorghum and 100 kg of rice per month for their families (Richard and van den Berg, pp. 31-32).

salaries). Sales on credit represented more than one quarter of the value of OPAM's sales (Richard and van den Berg, p. 55). Payment of cumulative arrears on interest due to rollover of unpaid short-term credit into long-term credit became an increasing burden until the government assumed part of this debt in the context of the 1977 monetary agreement with France in 1977 (Humphreys, 1986b, p. 8).

4. Inefficiency and Permanent Operating Deficits

As shown in Table 3, OPAM remained a frequent and large money-loser during its monopoly period through 1980/81.

In part, blame can be put on internal factors, all of which contributed to high operating costs: the lack of analytical accounting, control and supervision measures, improperly trained and inexperienced personnel, cumbersome administrative structures, and management inefficiency, particularly in transport delays and storage losses. Political interference from regional and local officials with the authority to block grain transfers also compounded management difficulties (Ballar, et al., pp. 1-38).

Yet, foremost responsibility for OPAM's losses rests on the restrictive price policy imposed on OPAM: the inability to set its own prices to reflect changes in supply and demand conditions over time and place as well as cover internal handling charges. The sale of commercial imports at low official prices during the drought years is only one example. Poorly synchronized adjustments in producer and consumer prices is another, such as the post-drought increase in official producer prices without a commensurate increase in consumer price levels which squeezed OPAM's gross margins even further. Even free distribution of food aid became a source of loss as no provision was made for reimbursement of handling costs (Richard and van den Berg, p. 52).

In 1976 an ILO-financed audit found that OPAM was losing money at the rate of 20.5 MF per kilogram of millet and 33.5 MF per kilogram of rice marketed. For OPAM to break even, the official retail price of millet would have to be raised by 40 percent and that of rice by 32 percent.⁹ By 1976/77, OPAM found itself nearly 39 billion MF in the red (Berg, p. 6), or three times its annual grain sales (Humphreys, 1986b, p. 7).¹⁰ Irregular price supports from the OSRP did not cover these losses completely.¹¹

To have allowed OPAM to increase its sales prices in order to improve its net profit position would have reduced real incomes and purchasing power of its privileged consumers. Unfortunately for OPAM, the government opted for protecting consumers from radical price increases, thereby postponing the necessary steps to put OPAM on a sound financial footing.

⁹ Institut de Productivité et de Gestion Prévisionnelle (IPGP). "Rapport final de la Commission interministérielle sur la restructuration de l'OPAM," 1976, as cited in an internal World Bank office memorandum, September 7, 1977.

¹⁰ This amounted to about \$80 million at current exchange rates.

¹¹ The OSRP (price stabilization and regulation office), set up in 1968 primarily as a price stabilization fund for peanut and cotton exports and petroleum product imports, was also charged with subsidizing transportation costs of basic necessities to make them affordable to consumers far from the major cereals producing or manufacturing zones.

Table 3. OPAM Accounts, 1973/74-1987/88
(CFAF millions)

	<u>1973/74</u>	<u>1974/75</u>	<u>1975/76</u>	<u>1976/77</u>	<u>1977/78</u>	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>	<u>1987/88</u>
INCOME															
Grain sales	4579	3394	4772	6293	4578	4424	3595	3846	3366	5733	4320	3262	1344	4594	7130
Other income	6	848	2	65	22	0	549	328	412	367	1097	1482	978	170	978
Total Income	4585	4241	4774	6358	4600	4424	4144	4502	3778	6100	5416	4746	2322	4764	8108
OUTFLOW															
Grain Purchases	9575	4877	2347	3674	3335	4469	5564	3671	3941	4657	3784	2964	7506	2795	80
Operating Expenses (Personnel)	1800	1901	1591	1782	1397	2191	2083	1687	1964	2238	2819	2676	2829	1770	1621
Finance charges	532	960	1103	1027	235	396	477	504	489	467	450	22	211	293	24
Net change in grain stocks (- = build-up)	-1408	-2484	1681	1964	-18	-445	-254	780	-514	628	196	136	-7391	1647	6675
Total Outflow	10506	5253	6720	8446	4949	6612	7870	6439	5392	7523	6799	5775	3155	6506	8400
NET INCOME before subsidies															
	-5921	-1012	-1946	-2088	-349	-2183	-3726	-1937	-1612	-1423	-1382	-1030	-833	-1742	-292
SUBSIDIES															
OSRP	5683	0	0	0	0	942	428	1362	750	847	544	36	464	0	0
PRMC	0	0	0	0	0	0	0	0	83	122	690	664	213	1487	226
CNAVS/SNS	0	0	0	0	0	0	0	0	173	117	149	229	155	213	7
Other	283	0	0	0	0	0	564	60	17	8	0	0	0	42	59
Total Subsidies	5966	0	0	0	0	942	992	1442	1023	1094	1383	1030	833	1742	292
NET INCOME after subsidies															
	44	-1012	-1946	-2088	-349	-1241	-2734	-515	-494	-329	0	0	0	0	0
Ave. Exchange Rate CFAF/\$1.00															
	..	..	..	..	..	..	213.3	271.7	328.6	381.1	437.0	449.3	346.3	300.5	..

Source: Humphreys, 1986a, Table 14, for 1973/74-1980/81; OPAM, "Evolution du compte d'exploitation général de l'OPAM," no date [1988]; for 1981/82-1984/85; Ministère des Finances et du Commerce, "OPAM Bilan Certifié: Exercice 1986/87," no date [1988] for 1985/86 and 1986/87; and Ministère des Finances et du Commerce, "OPAM Bilan Certifié: Exercice 1987/88," no date [1988] for 1987/88.

D. Macroeconomic Consequences and Pressures for Reform

1. Consequences of State Enterprise Policies

By the end of the 1970s, the cumulative effect of Mali's ambitious state enterprise policies was plainly visible at the macroeconomic level in terms of net subsidy outflows and short-term debts from the Treasury. Instead of becoming the expected engines of growth and sources of investment capital, state enterprises generated no profits for the government to appropriate.¹² During this period, state enterprises also turned to the banking sector for financing, leading indirectly to wholesale credit expansion by the Central Bank, much of it to meet short-term consumption and cash-flow needs, rather than investment purposes.¹³

Faced with chronic deficits, state enterprises resorted to such devices as late salary payments, delayed reimbursement of suppliers and an entangling web of cross-debts with each other. Under such conditions, minimum standards of performance often gave way to wholesale mismanagement, overt rent-seeking behavior and declining morale of employees in what became called "la crise permanente."

2. Pressures for Sectoral Reform

Pressures for reform of the state enterprise sector built steadily throughout the 1970s from both internal and external sources. Internal pressures came from top levels of the government itself, concerned about taking drastic reform measures to ensure that state enterprises not only pay their own way, but contribute revenues to the national budget. However, opposing pressures from bureaucratic and union elites who defended the network of state enterprises from which they benefited reduced the government's reform efforts to a "policy of palliatives". This policy took the form of ritualistic campaigns against corruption and mismanagement by state enterprise administrators, threats of competition from the private sector through government appeals for investment from Malian and international businessmen, ending certain tax exemptions and authorizing occasional retail price increases on items sold by state enterprises (Constantin and Coulon, pp. 170-174).

External financial pressures mounted from the IMF, particularly against the use of budgetary revenues and credit expansion to fund state enterprise inefficiencies. Similar pressures came from France during the negotiation of Mali's return to the West African Monetary Union (WAMU), from which it had withdrawn in 1962.

3. Pressures for Reform of OPAM

Internal pressures for grain pricing and marketing policy reforms arose chiefly from the impact of OPAM's unsatisfactory performance on government finances and its incomes and production objectives. Whereas previously the government had been able to finance OPAM's structural operating losses through transfers from the OSRP, domestic borrowing by OPAM, foreign aid (sale of food aid, technical assistance, storage and transport equipment) and the accumulation of arrears, new monetary and budgetary restrictions left fewer public resources to do this. The government set up an Interministerial Committee for the Reorganization of OPAM

¹² The cumulative loss of all state enterprises jumped from 1.490 billion MF in 1975 to 14.094 billion MF in 1978 (Cissé, pp. 142-143).

¹³ Domestic credit expanded from 128.4 billion MF in 1974 to 300 billion MF in 1980 (Cissé, p. 149).

in early 1977 and appointed a military officer as new director-general to take charge. Yet, fundamental reforms which might have restored OPAM to financial health was not made due to continued misunderstandings of market mechanisms, distrust of traders and concern for urban consumers.

OPAM's poor performance attracted the attention of numerous, often contradictory, external evaluations and donor studies during the late 1970s. Some evaluations concentrated on improving the technical efficiency of OPAM operations (such as better inventory management and accounting systems and endowing OPAM with an adequate truck fleet) without addressing the basic problem of what OPAM's work should be. Others recommended fuller state monopolization through improvements in OPAM's financial viability (such as adjustments in its fixed margins to cover actual costs, the establishment of revolving capital fund and least-cost positioning of security stocks). Yet others called for more intelligent use of prices as allocative devices (higher producer and consumer prices in the deficit regions). Still other evaluations called for the liberalization of the cereals marketing system and the reassessment of OPAM's role, the most influential being the De Meel report of 1978, prepared under the auspices of the FAO and five bilateral food aid donors.

The De Meel report rejected the notion of an effective state monopoly in cereals marketing. The report recommended the return to a single, unified market in which prices would fluctuate within an annually adjusted price band to replace the official single price for producers and consumers. Carrying out this limited price regulating role was intended to reduce OPAM's financial and commercial exposure and the risk of huge operating losses. However, such a price-regulating strategy would also require OPAM to have sufficiently large finances and storage capacity in order to dealing effectively with highly sensitive variations in marketed surpluses.

Elements of the De Meel Report generated an intensive debate within donor circles and the government during the next two years. Donors began making overtures of a multi-year commitment of food aid and use of the sales revenues to underwrite policy reforms in exchange for a government commitment to carry out specific measures. In early 1981, a national seminar on the reorganization of OPAM and the cereals market recommended conditional acceptance of the donor proposal. A final agreement was reached between the government and donors in March 1981 on the Reorganization of Cereals Market Project (commonly known by its French acronym, the PRMC).

III. OPAM during the Market Liberalization Phase (1981/82-1987/88)

The Market Liberalization Phase of OPAM, 1981/82-1987/88, coincided with the original PRMC period, to which a sixth year was added, and the first year of PRMC II.

A. Objectives and Operational Plan of the PRMC

¹⁴ "La Politique Céréalière au Mali: Rapport préparé sur la base de la mission internationale placée sous le coordination de H. de Meel" (Rapport No. TR-MLI 8 (SWT)), Gouvernement du Mali et FAO, Rome, 1978, as summarized in Humphreys, pp. 7-8, and Berg, pp. 38-46.

The three objectives of the PRMC aimed at: a) getting the national economy back on track by improving real rural incomes through producer price increases; b) liberalizing the cereals market by legalizing the participation of grain traders; and c) reducing costly subsidies to the official cereals marketing system by progressively raising consumer sales prices to cover OPAM's actual factor costs (PRMC 1980, pp. 1-2).

The rationale of these objectives was thought to be self-evident. First, rapid increases in producer price levels to parity with neighboring countries would stem the flow of illegal exports and encourage greater production through a supply response to higher prices, both reducing the cereals deficit. Second, allowing the private sector to compete openly, in tacit recognition of its de facto existence, reflected growing acceptance of the role of market forces and limits of government intervention. It would also improve efficiency by reducing the element of risk from trader marketing margins. Third, higher official consumer prices would bring in more revenues for OPAM, thereby reducing the drain on the budget for operating subsidies. As neither the government nor the donors were willing to risk urban political unrest due to abrupt hikes in the consumer price level, these increases would be phased in. By the end of the PRMC, official consumer prices would be aligned with market prices, eliminating the dual market structure. In the meantime, OPAM's unit operating costs were to be cut as quickly as possible through tighter management, stricter controls over stocks and reductions in staff.

The mechanism to carry out this reform program was a donor commitment of up to 250,000 tons of food aid (maize equivalent) over the initial five-year period from a consortium of food aid donors.¹⁹ This food aid, additional to any emergency aid which might be required, would supplement local purchases by CPAM. Its sale would generate additional revenues to cover agreed operating losses of OPAM during the period of price restructuring, purchase domestic grain to help prop up producer prices and finance other complementary activities to facilitate reform. Indicative pricing targets and deficit reduction goals evolved into semi-official progress benchmarks.

The PRMC approach was innovative in several respects. First, the donors agreed to pool their food aid generated revenues into a common Counterpart Fund for joint programming with the government, surrendering bilateral control for unified leverage. Second, the multi-year aspect of the commitment likely increased the government's confidence to proceed, strengthening the hand of pro-reform elements. Third, the PRMC created a forum for policy dialogue between the government and the donors as well as a framework for the donors to coordinate their views and exchange information. Lastly, it also established the notion of targets against which progress could be measured.

The need for OPAM as a central grain-handling authority was never in question. Indeed, OPAM was the centerpiece of the PRMC and would become the chief beneficiary of its funds.

B. New Objectives of OPAM

When OPAM's statute was revised in early 1982 to order to conform with the PRMC initiative, all references to the vanguard role of state enterprises in the economy were dropped. OPAM was charged with a) carrying out with general cereals marketing; b) supplying cereals to

¹⁹ Participating PRMC food aid donors came to include the World Food Program (which also served as secretariat), Belgium, Canada, the European Economic Community, France, Netherlands, the United Kingdom, the United States and West Germany.

the public interest services; c) supplying cereals to the deficit production zones (based on annual assessments of need); d) constituting and managing the National Security Stock; e) supporting official producer and consumer prices through market stabilization operations; and f) managing and distributing food aid according to the agreements between the government and donors.¹⁶

In a parallel action, the government partially abolished OPAM's monopoly in late 1981, allowing registered traders to market domestic millet, sorghum and maize as well as import all cereals, including rice. The domestic paddy market was not be fully liberalized until February 1986.

C. Operating Constraints

On balance, some of OPAM's operating constraints characterizing the earlier monopoly period eased a bit during the market liberalization period, thanks to the PRMC. Other constraints simply continued in new guise, although their incidence was deflected away from OPAM.

1. Reduced Management Autonomy, Greater Accountability

During this period, fundamental decisions affecting the viability of OPAM were chiefly made by outsiders, Malians and expatriates, as OPAM's role was reduced to that of participant-observer.

The very nature of the PRMC removed much of OPAM's remaining management autonomy. At donor insistence, OPAM received full-time technical assistance to help design and implement operational and administrative reforms. West Germany financed a storage master plan to review storage policies, upgrading and expansion options; the Germans also financed management of the National Security Stock. The UK provided storage technology, the FAO training, the World Bank marketing consultations. The French helped set up an accounting system for OPAM by division, commodity and region to track internal handling costs of cereals food aid to be reimbursed from PRMC Counterpart Funds.

The price of donor financial support was heightened external review of OPAM operations. The PRMC became institutionalized with the appointment of a donor coordinator from the World Food Program to monitor food aid flows and the Counterpart Funds, dealing with OPAM almost daily. The PRMC Technical Committee (donor staff-level) and Management Committee (donor director-level) met actively on questions pertaining to OPAM management. In contrast, the government's own review board, the Orientation and Coordination Committee (COC), set up to serve as the Malian counterweight to the donors on all PRMC matters, was for all practical purposes dormant, bypassed by decisions taken directly by the key ministries involved or referred to the Council of Ministers for resolution.

2. Lack of Adequate Cash Reserves

OPAM retained its corporate status with financial autonomy to borrow funds for crop purchases on short term seasonal credit under its new statute. Its gross margin on commercial

¹⁶ OPAM was in charge of food aid sales. Free distribution of food aid, after delivery by OPAM, was the responsibility of CNAVS (National Aid Commission for Drought Victims), established in 1973.

sales increased towards the end of the PRMC. Nonetheless, OPAM continued to incur losses through 1987/88, exacerbating its cash flow difficulties (see Table 3).

Acknowledging that OPAM's losses were generated in part by the social objectives assigned to it, the government formally committed itself to subsidizing OPAM's deficits in order to protect its troubled revolving fund. Government subsidies came from two sources, initially from the OSRP (for price support and interest on past debt) and later the PRMC Counterpart Fund (for price support and overhead payments).

These subsidies provided only partial relief. OPAM continued to be saddled by accumulated unpaid bills for past cereals deliveries to its institutional customers. The PRMC was compelled to make large cash advances to OPAM for the 1985/86 and 1986/87 marketing years.¹⁷ All in all, cash flow difficulties were not resolved systematically during this period.

3. Fixed Prices and Margins

The segmented market structure caused by administratively fixed prices and margins continued to confound OPAM operations. In the period 1981/82-1984/85, it was a question of official prices below market prices. In the period 1985/86-1986/87, these relative prices unexpectedly reversed themselves for coarse grains and almost equalled each other in the case of rice (refer to Table 4).

Table 4. Evolution of Official and Market Retail Cereals Prices in Bamako (CFAF/kg)

	Millet-Sorghum			Rice (40% Broken)		
	Official Price	Market Price	Percent Gap	Official Price	Market Price	Percent Gap
1982	58	83	30	115	171	33
1983	63	105	40	125	163	23
1984	63	140	55	125	177	29
1985	63	127	50	125	173	28
1986	95	90	-6	165	173	5
1987	95	71	-34	165	174	5

Source: Humphreys, 1986a, Table 5, updated for 1985, 1986, and 1987 (source: PRMC). Official prices were announced in October-December of the preceding year. Market prices are based on average monthly prices for the calendar year. The gap between the official and average market price is expressed as a percent of the market price.

a. Period 1981/82-1984/85. Recognizing that official prices were not the only ones prevailing in the market, the government loosened its pricing policies. Starting with the 1981/82 marketing campaign, the "official" producer purchase price was changed to "minimum" producer price, a price that OPAM would guarantee and that traders were expected to respect. On the consumer side, the government decreed a modified price band for cereals, based on an official

¹⁷ The PRMC lent OPAM 2,345 million CFA Francs in 1985/86 and 539 million CFA Francs in 1986/87 (Coelo 1988b, p. 75).

minimum consumer price for OPAM sales plus a higher ceiling price for private retailers. Whenever market prices exceeded the ceiling price, OPAM was to intervene by selling off supplies in order to bring market prices back down to within the price band.¹⁸

Still not given the latitude to adjust its intervention prices as a function of market conditions and its own stock levels, OPAM could buy and sell only at its authorized fixed prices. Fixed prices beneath market prices required OPAM to continue rationing its sales to selected customers. In this way, OPAM became the buyer of last resort for producers (because its prices were typically lower) and seller of first resort for its preferred customers (also because its prices were typically lower). The resulting squeeze on OPAM volumes was eased only by the availability of donor cereals food aid.

b. **Period 1985/86–1986/87.** In 1985/86, OPAM was unexpectedly faced with the consequences of its official prices being higher than market prices. A coarse grain harvest greater than expected and large late deliveries of food aid jointly depressed market prices. OPAM suddenly became the buyer of first resort. Unusually well financed, OPAM bought cereals from all sellers until its funds were exhausted. When OPAM withdrew abruptly from the market in March 1986, free market prices plummeted. In all, OPAM purchased 59,638 tons of millet, sorghum and maize and 22,973 tons of rice for a total of 82,611 tons, widely exceeding its initially planned purchases of 42,000 tons.

The destabilizing effects of this marketing campaign rippled through the cereals sector and the economy for the next 18 months. OPAM was forced to rent an extra 31,000 tons of storage capacity for its large surpluses, which it was unable to liquidate because its fixed prices were too high (MTSEE 1987a, p. 6). Even the public interest services, longtime beneficiaries of OPAM's obligation to sell cereals at bargain prices, now abandoned OPAM for the free market. Unable to sell its stocks, OPAM was unable to reimburse its seasonal crop purchasing credits nor to repay the Office du Niger for deliveries of paddy already taken. Consequently, the Central Bank refused to approve new seasonal credits for 1986/87 crop purchases for either the Office (which still owed large sums to its producers) or OPAM (which normally prefinanced the crop purchases of several smaller ODRs).

The coincidence of a second good crop in 1986/87 simply added to the glut of cereals on the market. Almost overnight, OPAM's principal concern was transformed from deficit rationing to surplus management.

D. Performance Indicators

Some of OPAM's performance indicators improved, especially during the early years of the market liberalization period.

1. Irregular Market Shares

The notion of OPAM's market shares is no longer meaningful, except for comparison with the previous monopoly period. OPAM's share of the marketed surplus of coarse grains continued to fluctuate broadly during 1981/82–1986/87, averaging 12.7 percent, or less than half its marketed share during the previous period. OPAM's estimated market share of paddy was

¹⁸ The intervention price for millet, sorghum and maize was set at about 8 percent above the official consumer price in 1981/82 and at about 12 percent higher in 1982/83–1984/85. A similar intervention price for rice was not established. The retail price band for coarse grains was dropped after 1984/85 (Humphreys, 1986b, p. 16).

wildly erratic, dropping from 53.3 percent in 1984/85 to no purchases whatsoever in 1986/87. Its average share of 27.3 percent is roughly one-third less compared with the monopoly period (refer to Grant, 1).

2. Costs and Gross Operating Margins

a. Costs. Certain improvements were made in OPAM's operational efficiency by cutting fixed overhead costs (or transforming them into variable costs) and better management of variable costs. Measures taken to reduce overhead costs included a cut back in permanent staff from 913 in 1980/81 to 718 in 1987/88. OPAM withdrew its storage facilities maintained in 11 arrondissements to the cercle level. The truck fleet was reduced from 64 to 18 vehicles by late 1984 (FAO/World Food Programme, p. 16).

The raft of technical assistance to OPAM resulted in better management of variable costs. Distribution costs were reduced by systematic planning of least-cost cereals transfers within country to minimize interregional transport. Improved stock control and storage methods lowered physical grain losses from an estimated 12 percent in 1981/82 to 5 percent in 1984/85 (Wilcock, et al., p. 20). OPAM came to rely increasingly on trader contracts for its crop purchases, thereby helping to reduce its variable costs (Wilcock, et al., p. 17). Massive buying in 1985/86 temporarily reversed some cost-savings trends, however. Storage rental costs climbed. Transport contract costs with the private sector more than quintupled during 1985/86 over the previous year (USAID, pp. 21-22).

b. Gross Margins. Despite measures to improve overall productivity, analysis of OPAM's marketing costs of domestic coarse grains for the year 1984/85 showed that OPAM's fixed and variable costs were about four times higher than its official gross margin (Bremer and Ellsworth, Table 2.1). By ignoring OPAM's objective to receive and distribute food aid, the apparently high ratio of fixed costs to variable costs was overstated. Donor concerns about OPAM's capability to handle large food aid shipments for both commercial sale and emergency distribution compelled OPAM to maintain a larger fixed cost infrastructure than domestic marketing alone would warrant. Taking these large volumes into account (229,260 tons of PRMC food aid for sale between November 1, 1981, and October 31, 1987 [Coelo 1988a, p. 6]) would reduce the fixed costs/ton handled ratio.¹⁹

The dilemma facing OPAM was that it continued to lose money on every transaction as long as gross margins did not cover variable costs (even after ORSP or PRMC subsidies).

The PRMC prescription was to increase official consumer prices as a means of increasing OPAM's gross margins, the spread between purchase and sales prices, in order to progressively cover all costs (PRMC, 1980). Although the proposed gross margin on coarse grains widened, the proposed gross margin on rice actually dropped sharply after taking the milling ratio for paddy into account.

Table 5 shows the gross margins between official producer and consumer prices. Actual gross margins for coarse grains remained small and relatively stable initially and dipped in the case of rice. Official consumer prices were raised during the first two years of the PRMC and

¹⁹ Just the same, food aid volumes are not easily incorporated into this calculation for several reasons. First, donors often delivered food aid directly to the region of intended distribution or sale, underwriting costs to OPAM. Second, in the case of food emergencies, donors usually paid or reimbursed all distribution charges. In the case of PRMC sales, OPAM was permitted to deduct its handling costs from the gross sales proceeds. In both cases, food aid handling charges became comparable to ordinary variable costs which were paid directly or indirectly by the donors. (See section V.C.5).

then frozen for the next three years. This slow and irregular price adjustment eased budget pressures elsewhere by allowing the government to freeze wages from March 1982 until January 1985 in compliance with IMF Stand-by targets relating to spending and inflation but still meet its income objectives (Wilcock et al., p. 26). In 1985/86, consumer prices were raised again, by 52 percent for coarse grains and by 32 percent for rice, giving OPAM considerably higher margins for coarse grains (40 CFAF/kg) and for rice (52.1 CFAF/kg). These margins remained in effect during 1986/87.

Table 5. PRMC Target and Actual Gross Margins for OPAM (CFAF/kg)

	Millet/Sorghum		Paddy/Rice	
	Target	Actual	Target	Actual
1980/81	7.5	7.5	39.5	39.5
1981/82	12.5	15.5	21.3	34.4
1982/83	21.5	17.5	15.2	36.3
1983/84	28.5	12.5	6.0	28.2
1984/85	35.0	13.0	4.8	20.2
1985/86	40.0	40.0	3.7	52.1

Sources: PRMC, 1980; Humphreys, 1986a, Table 3.

3. Operating Deficits

As a result of cost-reducing measures and the adjustment in gross margins, steady progress was achieved in reducing OPAM's financial deficit and reliance on budget subsidies and bank credits from 1981/82 through 1985/86 (refer again to Table 3).

Some of this improved performance is misleading, coming at the expense of the crop-growing ODRs, the assembly agents for OPAM. By manipulating internal transfer prices, the government shifted the incidence of OPAM's financial losses to the ODRs. OPAM's purchase price of rice from the Office du Niger was reduced for two years, 1983/84 and 1984/85, sharply cutting into the Office's gross margins. As a result of this adjustment, it is estimated that OPAM's operating deficit was reduced by about 250 million CFAF in 1983/84 and another 200 million CFAF in 1984/85. In this manner, the government was able to meet a specific objective under the IMF Stand-by of reducing public transfers to OPAM without raising consumer prices (Humphreys, 1986a, p. 23).

Unfortunately, progress in reducing the operating deficit was turned around by the overpurchase of 1985/86 which made OPAM's high prices uncompetitive and left large carry-over stocks unsold.²⁰ Interest charges rose nearly tenfold in 1985/86 over 1984/85 levels and

²⁰ Not counting grain in the SNS, OPAM had 91,966 tons of cereals in its market stabilization stocks as of January 31, 1987, equivalent to more than two years' purchases. OPAM. "Evolution des stocks de céréales de l'OPAM en 1987," no date [1988].

increased again in 1986/87. OPAM's operating deficit more than doubled between 1985/86 and 1986/87. Even greater accounting losses were avoided by valuing OPAM's large inventories at unrealistically high official prices.

4. Price Stabilization

Lastly, it is doubtful whether OPAM succeeded in stabilizing producer and consumer prices. To be effective, a price-based buffer stock strategy in a highly unstable production environment, such as Mali's, would have required OPAM to have enormous budgetary resources and storage capacity to a) buy as much grain as is offered at the producer price, and b) hold that grain off the market for long periods until induced demand drives producer prices above the support level.²¹ A consumer price support strategy works in the opposite direction, requiring release of sufficient stocks to augment supplies and drive prices down to ceiling prices. At best, OPAM's efforts would have only a temporary and local impact. Even the well-financed 1985/86 marketing campaign exposed the limitations of OPAM's intervention to stabilize prices.

At the producer level, massive coarse grain purchases by OPAM between December 1985 and March 1986 briefly succeeded in supporting rural market prices near the official level of 55 CFAF/kg. These prices plunged as soon as OPAM withdrew. Maize prices in southeastern Mali which stood at 51 CFAF/kg in January 1986, for example, dropped to 28 CFAF/kg in June when prices normally rise sharply with the approach of the "hungry season". In fact, coarse grain prices continued to decline through the post-harvest period, effectively inverting the seasonal price cycle, not rising again until nearly one year later (Dioné and Dembélé, pp. 17-27; Staatz, Dioné and Dembélé, pp. 708).

Table 6. Indicators of Cereals Price Stability in Bamako

	Coefficients of Variation of Bamako Market Prices	
	Millet/Sorghum	Rice (40 % broken)
1970-81 Average CV	13.3	10.8
Std. Dev.	7.8	6.1
1976-81 Average CV	14.2	10.9
Std. Dev.	8.4	8.1
1982-87 Average CV	12.0	2.4
Std. Dev.	5.7	1.5

Source: Humphreys, 1986a, Table 11, updated for 1985, 1986 and 1987 (source: PRMC). The coefficient of variation (CV) is the standard deviation of the monthly prices divided the average for the corresponding year.

²¹ This price-based stabilization strategy revealed the confusion between stabilizing producer prices and producer incomes (based on the inverse relationship between prices and quantities). Bremer and Ellsworth argue that OPAM did not have the resources to raise the market price to support price levels in years of high production during which producer incomes fell less than prices (Bremer and Ellsworth, pp. 15-35).

Consumer price stability was tested in Bamako based on the annual coefficient of variation of monthly average market prices for three periods: 1970-81 (just before OPAM was formally charged with stabilizing the market) and 1982-87 (during which OPAM was responsible for market stabilization). A third period was also considered, 1976-81, equal in length to 1982-87 and excluding the impact of the 1972-74 drought on prices. Results in Table 6 show that millet and sorghum prices were slightly more stable during the period 1982-87 (when OPAM was supposed to stabilize the market) than during either of the other periods. Rice prices were decidedly more stable during the last period.

These results are far from conclusive, however. Based on one city only, they say nothing about the rest of the country. Moreover, consumer price analysis does not necessarily give insights about prices at the producer level. It would be erroneous to attribute signs of greater price stability to OPAM alone. The period 1982-87 also coincided with the legalization of the private grain trade and a liberalized cereals import policy. Food aid imports during the same period likewise helped to smooth out fluctuations in production. More likely, all of these changes in the grain market contributed to market price stability in Bamako.

E. Post-PRMC I Assessment and Transition to the Contract-Plan Period

The destabilizing effects of the 1985/86 marketing campaign turned out to be a watershed for the PRMC. It finally prompted a hard look at the costs of the government's fixed price policies, continued market segmentation and the consequences for OPAM -- issues largely sidestepped during consensus-building among the donors and between the donors and the government. The first results of empirical research and analysis helped to guide this rethinking (see section V. A. 5).

After more than a year in drafting, the donors presented a proposal to the government in June 1987 to extend the PRMC for three more years, a second phase to be known as PRMC II. This proposal was built around a document entitled, "Common Platform of Objectives for PRMC II" (PRMC, 1987). The overall objectives aimed at: a) a better balance of public and private sector roles at all levels of the cereals market; b) a flexible policy of adjustment and promotion of the grain market compatible with government resources; and c) a process of reform of public grain marketing agencies, such as OPAM and the ODRs.

In November 1987, following a National Seminar on Cereals Marketing Policy, the government responded to the donor proposals by reducing OPAM's functions to: a) management of the National Security Stock; and b) market intervention in deficit zones. Two immediate and major implications were to be the elimination of OPAM's costly market regulatory stock and the freeing of producer and consumer prices for millet, sorghum and maize (the official producer price for paddy would remain in force).

OPAM was ordered to come up with an internal reorganization plan based on sharp reductions in personnel -- forcing about half of its employees into early retirement, new operating procedures and repayment of long standing debts as a prelude to negotiations of a contract-plan specifying the reciprocal obligations of the state and OPAM.

Shortly afterward in March 1988, the government and the PRMC donors agreed to a three year extension of the PRMC from 1987/88 through 1989/90, including a commitment to deliver up to 150,000 tons of food aid cereals.

IV. OPAM during the Contract Plan Period (1988-)

OPAM currently operates on the basis of a two-year interim contract plan (or performance agreement), scheduled to run from 1988/89 through 1989/90, to be followed by a "permanent" contract plan of unspecified duration.

A. Transition to the Contract Plan Period

OPAM's internal reorganization plan was presented to the government and donors in April 1988 (Ministère de Tutelle, 1988). Taking the elimination of OPAM's price stabilization objective as its starting premise, the plan called for a drastic reduction in both OPAM field offices and numbers of personnel.

The reorganization plan first divided the country into 28 "producing" cercles and 18 chronically "deficit" cercles.²¹ Four OPAM personnel would staff OPAM operations in the deficit cercles while just two agents would be kept in producing cercles to maintain OPAM-owned warehouses and recover overdue debts. Counting staff cutbacks at regional and national headquarters, nearly half of OPAM's personnel, 350 of 718, would be forced into early retirement by the end of 1988 at a cost of 408 million CFAF in benefits to be financed by the PRMC (Scott, p. III-9). OPAM's eight technical divisions were recombined into five.

Annual cost-savings, as a result of lower salary payments due to staff reductions, the lapsing of surplus storage rental contracts, lower fuel consumption and vehicle maintenance costs and reduced costs for office equipment and supplies, were expected to reach 312 million CFAF (Ministère des Finances, 1988a, p. 6). Furthermore, OPAM expected to recover grain handling costs from the liquidation sale of its remaining market regulatory stocks.

B. The Contract Plan

1. OPAM's Missions

According to the preamble, the government and OPAM entered into the contract plan in order to "limit" OPAM's activities while making it more efficient.

OPAM's "three principal missions", a reiteration of its legal objectives, turn on safeguarding minimum food security levels in hard to reach, high risk zones of the country. These missions are: a) constituting and managing the strategic grain reserve, or National Security Stock (SNS); b) assuring that the deficit zones are supplied with cereals supplies, as based on an annual plan; and c) managing and distributing food aid according to agreement.

Six "specific secondary missions" concern a) serving as institutional guarantor for repayment of seasonal marketing credit by grain traders; b) setting up a market information service; c) renting surplus warehouse capacity to traders or the Chamber of Commerce; d) third-party management of grain warehouses on a reimbursable basis; e) supplying grain stock fumigation and other services on a reimbursable basis; and f) managing the sales of PRMC food

²¹ Cercles which are deficit in grain production are considered at risk of food-insecurity due to their great distance from producing regions, difficulty of access or seasonal enclavement, or vulnerability to extremes in rainfall fluctuations (Ministère des Finances, 1989, Annex III).

aid rice. In addition, two "contingency secondary missions" are listed in the event that the private sector is unable to carry them out: a) exporting of grain surpluses; and b) importing sacks on a for-profit basis on behalf of individual traders.

Several technical annexes detail instructions for carrying out OPAM's primary and secondary missions and reorganizing internal management. The final annex provides a precise checklist of monitoring and performance indicators covering fulfillment of contract plan commitments, OPAM efficiency, and internal and financial management. A mid-course evaluation was scheduled to modify the contract plan, if necessary, including quantification of performance indicators, in time for the second year.

2. OPAM's Obligations under the Contract Plan

The emphasis on limiting the scope of OPAM's activities is reiterated several times in the contract plan, presumably to guard against a surreptitious resurrection of the market regulatory stock. Thus, the first objective for OPAM is a) to carry out only those activities identified by the contract plan under the conditions stipulated. Other objectives concern: b) internal reorganization in light of OPAM operations retained; c) improvement in management; d) restructuring of finances; and e) setting monitoring and performance targets for approved activities. A recurrent theme, the contract plan warns OPAM against taking precipitous actions which unnecessarily disrupt or destabilize normal market functions.

Putting OPAM's finances in order, to take a closer look at just one of OPAM's obligations, essentially meant disentangling its old cross-debts. OPAM agreed to a) audit its bad debts; b) draw up a list of its debtors (public interest services, Treasury, consumer cooperatives and public enterprises) making provision for reimbursement or replacement of grain drawdowns from the SNS; c) establish its short term debt situation against principal creditors, including the PRMC; d) propose a plan for rescheduling its own debts; e) plan the sale or rental of OPAM's capital assets in the grain producing cercles from which it was withdrawing; f) submit a cash-flow analysis and bi-annual earnings statement to the government; and g) present a detailed annual budget to the COC at the beginning of each fiscal year, plus quarterly updates.

3. Government Obligations under the Contract Plan

Most importantly, the government pledged up front not to jeopardize OPAM's efforts to carry out its terms of the contract plan by assigning it additional functions or by challenging its new auction system of grain purchases and sales.

Specific government obligations chiefly concern helping to clean up OPAM's cluttered finances -- implicit acknowledgement that OPAM's cumulative arrears and near dependence on external financing and liquidity were aggravated by pricing restrictions imposed by the government. The government agreed to: a) sort out and consolidate OPAM's cross-debts with other agencies for repayment; b) invoke the full weight of the government to back up OPAM's attempts to recover its debts from all political and administrative authorities; c) propose a repayment plan for short term debt owed by the Treasury and the public interest services; d) audit OPAM's outstanding obligations to the CNAUR;²¹ e) assume the costs of managing the SNS, a "public service" (including foreign financing, if necessary); f) ensure that the public interest services have the means to pay OPAM cash for all future cereals deliveries; and g) set

²¹ The CNAVS (National Aid Commission for Drought Victims) was renamed CNAUR (National Commission for Emergency Aid and Rehabilitation) in 1988.

up an oversight committee within the reactivated COC to help OPAM's financial reorganization.

The government also agreed to intervene on OPAM's behalf with the donors to: a) obtain replacement food aid for the SNS and financing to cover SNS management costs; b) seek financing to reimburse OPAM for handling costs of distributing free cereals aid on behalf of CNAUR; c) seek financing for annual audits of OPAM's books; d) obtain training for OPAM personnel as needed; and e) obtain technical assistance for studies and long range planning in areas having to do with OPAM's objectives or internal management.

Taking an unusual pro-market stance, lastly, the government pledged to both a) organize producer groups as a means to strengthen their bargaining power; and b) expand seasonal credit programs, particularly in outlying regions, to facilitate the emergence of small trader associations and wholesalers. The successful switchover to OPAM's new policy of buying and selling by auction, it was recognized, depended crucially on expanding market competition to protect it from possible trader collusion or other abuses.

C. Operating Environment

The contract plan alters OPAM's operating environment in several significant ways.

1. Management Autonomy

Within tightly defined standard operating procedures and performance targets, on balance, the contract plan probably improves OPAM's autonomy in managing its day to day affairs. OPAM's autonomy is most strengthened in the key areas of National Security Stock management and use of food aid. First, the contract plan calls for the closer integration of the German-financed SNS-support project within the overall OPAM management structure. Second, the contract plan reaffirms strict adherence to the SNS management code by which the SNS would be drawn down only in the event of well documented emergencies or within the context of normal out-rotations of old stock.

The contract plan also insulates OPAM from costly and occasionally unnecessary requests for distribution of free food aid by transferring sole approval authority from the Interior Ministry to the broader-based COC under the Ministry of Finance and Commerce. The government agrees to limit food aid requests to an absolute minimum after consideration of food need evaluations from the Early Warning System (SAP), price trends from the Market Information System (SIM), annual agricultural production estimates (Ministry of Agriculture and National Statistics Office) and available SNS inventories. For its part, OPAM agrees to issue an annual national grain supply plan in December of each year, to be updated periodically, to coordinate the interdependent management of the SNS and food aid.

The contract plan adds another layer of review by setting up a Contract Plan Monitoring Committee within the COC which meets quarterly to review progress on OPAM's reorganization and financial recovery, its grain purchases, and its auction sales of SNS and food aid grain. Oversight by the PRMC continues as before.

2. Financing and Cash Reserves

Annual financial and technical audits are stipulated within six months after the close of each fiscal year to give a clearer picture of OPAM's financial health to OPAM and its benefactors. OPAM retains the right to deduct internal handling costs from the sale of food aid

and obtained the right for reimbursement from CNAUR for distribution costs of free food aid, thereby making all food aid operations cost neutral, in principle. Additionally, the government's new pledge to fund operating costs of the SNS provides OPAM with some measure of financial relief.

Nevertheless, financial autonomy for OPAM remains elusive. The contract plan hints at last at a revolving capital fund for OPAM. Rather optimistically, however, the source for this fund will be any year-end cash surpluses which simply reduce OPAM's appeals for funding the following year.

3. Fixed Prices and Margins

The contract plan frees OPAM of all externally fixed prices and margins, including the obligation to sell at fixed prices to individuals with purchase tickets. And, in a move that promises to improve OPAM's cash flow, the contract plan authorizes OPAM to sell cereals to the public interest services only on cash payment contracts based on prevailing market prices.

Pricing changes with the greatest impact on OPAM concern SNS and food aid operations. From now on, OPAM will only buy coarse grains to bring the SNS up to its authorized ceiling of 58,500 tons. All purchases will be carried out by competitive tender in the surplus producing regions where market prices are usually lower. At least sixty percent of all sales by volume, limited to out-rotations from the SNS or food aid, must be made by competitive bids in the deficit zones, also at prevailing prices. Finally, for the first time in OPAM's history, the Director-General is delegated the authority to set the sales price on the remaining 40 percent of SNS or food aid sales in the deficit zones. These OPAM prices have generally reflected market retail prices reported by the SIM.

D. Performance Indicators

The contract plan was launched under inauspicious conditions. First, approval of the contract plan by the government came late, five months into the two year period. Second, the record cereals harvest in 1988/89 depressed market prices, limiting financial resources available for OPAM through the PRMC. Last, OPAM's cash flow weakened as a result of the need to settle its past arrears.

Despite these difficulties, a number of previous trouble areas can be expected to disappear under the contract plan. Indeed, the midterm review (October-November 1989) found that measured progress was made both by OPAM and the government in carrying out the contract plan.

1. Market Shares

Freed of its former objective to stabilize the cereals market through buying and selling operations, OPAM no longer needs to worry about capturing certain shares of the coarse grain or rice markets. In any event, OPAM's purchases are restricted to replacement of coarse grains withdrawn from the SNS (although replacement is equally possible from commercial imports and food aid). Assuming no emergency drawdowns from the SNS, on average, one-third of old stocks (about 20,000 tons) need to be replaced each year, representing about 10 percent (often less) of estimated annual marketable surpluses.

2. Costs and Gross Margins

The one-time savings of both fixed costs and variable costs due to OPAM's reorganization just prior to the contract plan translate into a reduction of OPAM's gross operating costs during the contract plan period, all things equal. A 50 percent reduction in OPAM's operating expenses was expected during the first year alone (Annex IV).

With fewer grain purchases to spread the remaining fixed costs over, however, OPAM's unit cost on domestic purchases would be expected to jump sharply. But buying cereals is only one of OPAM's tasks. The pertinent question is how to apportion OPAM's unit costs among its multiple functions.²⁴ The government's pledge to fund SNS operations and reimburse OPAM's handling costs for food aid sales and distributions raises the need to agree on an accounting rule.

3. Operating Deficits

Realignment of prices and margins alone have not resulted in OPAM breaking even. Its projected deficit for 1989/90 amounts to 788 million CFAF (Waddell and Thenevin, p. v). Yet, the midterm evaluation of the contract plan found a "marked improvement" in internal OPAM management: operating costs in 1988/89 were reduced from their 1987/88 levels; stock management was more rigorous, partly as a result of better information on inventories; internal standard operating procedures were used more frequently; and OPAM's accounting system was computerized (Thenevin and Waddell, p. 5).

The switch to the new auction-based system of grain purchases and sales suffered from lack of experience. Although OPAM's purchases gave "encouraging results" price-wise, performance on sales was "disappointing." The midterm evaluation recommended that OPAM rely more closely on the SIM for determining optimal timing of auctions and minimum acceptable bids to obtain better margins. Complementary efforts to expand the number of bidders through training and credits were deemed necessary to avoid collusion (Thenevin and Waddell, pp. 5-6).²⁵

Overall, the mid-term evaluation of the contract plan insisted that making a dent in OPAM's operating deficits would require more vigorous improvements in three key areas: auction procedures, internal management controls, and physical stock management controls. These last two areas were particularly important in view of curtailing commonly known theft and pilferage, confirmed by a June 1989 audit (Thenevin and Waddell, p. 5). Tougher enforcement of new internal stock management procedures by OPAM inspectors was needed to insure that the books for physical transactions of cereals (additions to stocks, drawdowns and transfers) exactly matched the financial accounts (Waddell, p. 7).

²⁴ Midway through the contract plan, the COC recommended that two of OPAM's secondary missions be dropped: third-party warehouse manager for traders and guarantor of seasonal marketing credits (no longer meaningful in view of the elimination by the BCEAO of preferential interest rates for seasonal credit). In exchange, it was recommended that OPAM expand two other secondary missions: its warehouse rental and grain stock protection services, both minor sources of income during the previous year (COC, 1989b, p. 7).

²⁵ A review of the Malian experience with food aid auctions identifies four main problems: poor transparency, poor timing of sales, limited participation, and lack of bidder qualification safeguards. Possible solutions to improve auctions are to: reduce minimum lot sizes to attract more smaller bidders, hold smaller but more frequent auctions, establish clear procedures for all stages of the auction process, clarify the pricing procedure, minimize negotiation after award of the bid, screen out non-serious bidders, and pay greater attention to grain quality. (Bremer-Fox et al., pp. D16-D18).

Lastly, the contract plan obliged OPAM to draw up a second management reorganization plan before the end of 1989 for COC approval and implementation within 1990, reducing the number of employees to under 300. Measures were proposed to motivate remaining personnel. It is too early to assess whether this new reorganization will result in substantial cost savings due to improvements in operating efficiency.

4. Financial Solvency and Cash-Flow

The government appears to have made good on its pledge to help OPAM recover its past due payments which amounted to 1.8 billion CFAF as of January 1988, more than half of which was owed by the military. A reimbursement schedule was set up during 1988/89. OPAM's own debts to the PRMC, however, were even greater, amounting to 4.9 billion CFAF as of July 1988 (Coelo, 1988a, p. 4). As of November 1, 1989, OPAM still owed the PRMC 3.7 billion CFAF and the German SNS-support project 450 million CFAF (Waddell, p. 4).

Despite an operating deficit in 1988/89, OPAM ended the year with a cash balance of 308 million CFAF. At 175 million CFAF, the projection for 1989/90 was less rosy, counting the 308 million CFAF from the year before and recovery of certain debts (Waddell and Thenevin, p. vi). This sum, plus partial reimbursement from the CNAUR for OPAM's food distribution costs, would permit OPAM to cover its expected operating and marketing costs deficit for 1989/90 (Waddell).

A permanent revolving fund mechanism may come about at last as the midterm evaluation acknowledged the need to equip OPAM with the means to deal independently with anticipated funding needs (Thenevin and Waddell, p. 3). The COC recommended that this revolving fund be set up within the context of PRMC III due to begin in November 1990 (COC, 1989b, p. 7). Other proposals to strengthen OPAM's finances included the study of a fixed sales commission on all OPAM sales and a guarantee by the PRMC of a minimum of 150 million CFAF on sales of food aid by OPAM (Waddell and Thenevin, pp. vii-viii).

E. Prognosis for OPAM's Contract Plan

A "permanent" contract plan between OPAM and the government is scheduled for design and implementation starting in 1990/91. One question is whether the contract plan approach is a viable one in OPAM's case. Another related question concerns OPAM's continued lack of financial autonomy.

1. Viability of the Contract Plan Mechanism

A recent World Bank review of contract plans finds them to be useful devices but that their benefits may have been oversold (Nellis, p. 82). Contract plans cannot by themselves overcome problems, such as weak and uncertain budgeting systems, ineffective technical and financial supervision and a lax attitude toward financial discipline. The process of opening formal and periodic channels of review and evaluation between state enterprises and the government may be more important than quantified performance targets.²⁶ Fortunately,

²⁶ Contract plans, according to Nellis (pp. xv, 76-82), should keep ambitions modest, not complex. Time frames should be kept relatively short. Contract plans should be introduced initially only in several test cases, choosing carefully those with the best likelihood of success. Contract plans are not appropriate mechanisms for dealing with "risky" enterprises or underlying sectoral distortions. The budgetary relationship between government and enterprise needs to be clarified. Contract plans need to emphasize clarifying goals, increasing managerial autonomy and opening regular channels of dialogue between the enterprise and government.

continuing oversight by the PRMC and COC stands a chance of reducing the occurrence of these problems in the case of OPAM.

Contract plans do not solve the problems inherent in the asymmetrical relationship between state enterprises and government. The contract plan is not a legally binding contract between equal parties because the government cannot be taken to court by the enterprise in the event of breach of contract. Overriding national imperatives may require the central government to take actions at cross purposes with a contract plan. Use of the looser term, "performance agreement," seems to describe the obligations between the government and one of its agencies more accurately.

A recent example illustrates the potential conflicts of interest that arise. Faced with large unsold stocks of Malian rice and in order to support the contract plan of the Office du Niger (1988-90), the inter-agency meeting to organize the 1989/90 marketing campaign proposed in September 1989, among other measures, that all rice imports and food aid in cereals be suspended during the entire year (OSRP, 1989b, p. 23).

At one stroke, these measures would have put the PRMC and OPAM at serious risk by cutting off their normal cash flow from the sale of food aid. Further confusing the matter, the PRMC was counting on revenues from OPAM's sale of rice food aid to finance the PRMC's final quarterly installment on a 1988 pledge of 2 billion CFAF to help the government cover its 1989 budget deficit in fulfillment of an IMF program condition (PRMC, 1989). The COC recommended a few weeks later that OPAM be quickly authorized to renew its rice sales so that the necessary bookkeeping transfers could be made all around (COC, 1989a, p. 8).

Given information asymmetries and divergent incentives between OPAM and the government, other conflicts of interest are likely to surface during the contract plan period, notwithstanding the government's good intentioned pledge not to jeopardize the implementation of OPAM's contract plan. As in the example above, OPAM's only recourse is to mobilize the support of internal and external allies with sufficient interests in the successful completion of the contract plan to challenge detrimental decisions by the government as they arise.

2. The Myth of Financial Autonomy for OPAM

OPAM's most recent statute pares its objectives back to providing a few core public services. Grain buying and selling operations are carried out only in the context of supporting these interdependent public services, not for commercial gain. According to the contract plan, OPAM's secondary activities are temporary, subject to momentary renewal or phase-out by written agreement. The point is that no activities which are predominantly "commercial" in nature remain absolutely central to OPAM's permanent objectives.

This raises the question of appropriate performance indicators. It also raises the problem of how to apportion OPAM's fixed costs among its mix of public service and remaining commercial objectives as a means of aiding the financial planning of each objective according to its respective source of financing. In many ways, the success of the OPAM reforms turn on this point.

Short of dismantling OPAM, OPAM's former roles had to give way to the momentum of a liberalized grain market. For all practical purposes, OPAM has become a bona fide public sector regulatory agency with incidental commercial activities on the side. The contradiction is that OPAM remains classified as an "industrial and commercial public enterprise," supposedly a

self-financing commercial operation at no cost to Malian taxpayers. Yet OPAM continues to be charged with non-commercial objectives on which it cannot not break even.

OPAM's public service functions simply mean the provision of public goods which the private sector is either unwilling or unable to provide. The financial implication of providing public services (or public goods) is evident. Full cost recovery is rarely, if ever, possible, even if user fees could be applied.²⁷ This requires public financing of public services from the national budget or, failing that, from interested donors (Steffen, Dembélé and Staatz). In Mali's case, recognition of the government's obligation to compensate public enterprises for financial losses resulting from socially imposed objectives was one of the original functions of the OSRP.²⁸ This obligation was reiterated more recently in the interim contract plan when the government agreed to pick up the costs of managing the National Security Stock.

The contract plan implies that OPAM, effectively a government agency, can be independent. But to be effective and responsible, it must have a budget to support its functions. It is time to drop the myth that OPAM can carry out its crucial public service missions as a self-financing public enterprise. The evidence of government and donor subsidies effectively puts this point to rest. OPAM's statute needs to be revised again to reflect this reality.

OPAM's operational costs should be incorporated directly into the national budget for better long term planning resulting from greater financial security and reduced uncertainty. In this scenario, OPAM would no longer pay taxes, but receive tax revenues. The tradeoff for OPAM, ironically, would be the surrender of its long sought-after revolving fund as any positive end-of-year balances, including net profits from its minor commercial operations, would revert to the Treasury.

V. Summary Assessment

A. Critical Factors Driving OPAM Reforms

The following factors have proved critical in sustaining the momentum and direction of OPAM's transformation over the past ten years. Their presence will influence the replicability of similar reforms in Africa.

1. Collaborative Policy Making by Government and Donors

The PRMC initiative to reform OPAM was donor-driven, but it was tempered from the beginning by government sensitivities. By paying attention to domestic political and social concerns, reforming OPAM has been perceived as a collaborative undertaking.

The symmetrical PRMC (donor)/COC (government) oversight arrangement encourages parallel consultations at both staff and ministerial levels. Government and donor representatives

²⁷ A clear illustration of the unlikelihood of cost recovery is provided by the National Security Stock (SNS). Grain stored up to three years in the SNS drops in value over time although storage costs mount. The sale of old grain is thus unlikely to cover the costs of initial acquisition, transport and warehouse management.

²⁸ Decree No. 306/PR-RM-DD, implementation of Law No 68-42/DL of June 20, 1968, creating the OSRP, December 11, 1968; Article 7 reads, "The OSRP shall intervene exclusively in favor of state enterprises...whose profitability...is compromised by political, economic and social services that the state imposes on them."

participate in joint working groups and field missions as well as mingle frequently at official social functions. Countless donor evaluations provide another context for review and dialogue. Dynamic personalities on both sides have helped maintain progress. The pivotal role of the long-serving PRMC/COC interlocutor, a ministerial counselor enjoying the confidence and respect of both sides, has probably been understated.

2. Multi-Donor Cohesion

Donor participation in transforming OPAM is reknowned for its tight cohesion, as explained by several reasons. First, the precedent for close collaboration was established early on when the PRMC donors hammered out their joint policy reform proposals. Next, PRMC donors, particularly at the staff level, conduct their business in an open, collegial and informal way, reinforcing an atmosphere of close-knit camaraderie. Third, most donor representatives have the authority to negotiate directly among themselves, bypassing their overseas headquarters. This decentralized approach facilitates the development of common donor proposals. Fourth, reaching agreement by internal consensus, which made it possible to paper over differences among donors as to the ultimate role of OPAM, permitted the donors to close ranks externally and present a unified front to the government. Lastly, the hard-working PRMC secretariat has provided effective coordination.

3. Increasing Assertiveness of the Malians

Malians play an increasingly assertive and influential part in grain market liberalization and OPAM reforms. Those with interests in maintaining the reforms have expanded from a few key individuals to a broader constituency inside and outside of government.

This home-based support constituency did not develop overnight. It grew, first, out of a gradualist, consensus-building approach by the Malians beginning with OPAM's supervisory ministries to overcome resistance from those who stood to lose. Small steps, which did not provoke an alarming backlash of social discontent, lent credibility to the reforms. New proposals no longer prompt emergency sessions of the Central Executive Bureau of the Party. Second, the grain trade itself gained greater respectability and interest. Even former OPAM agents, forced into early retirement during the contract plan period, have turned to the grain trade as the occupation they know best. The development of OPAM's market information system, especially its price bulletins on the radio, has been enthusiastically received. The outcome is that further initiatives can be expected from this pro-reform Malian constituency.

4. Flexible Objectives at the Outset

Early progress was facilitated by moderation and flexibility and avoidance of rigid, dogmatic positions. The broadly worded objectives of PRMC I allowed the government and donors to agree on the strategic direction of reforms while working out tactical differences and avoiding abrupt and confusing policy reversals. Ironically, this flexibility would have been lost had there been greater analytical rigor in designing the reform program and setting precise targets that might not have been met (Humphreys, 1986a, p. 35).

Slower progress has required donor accommodation to a longer term horizon. The payoff is that growing confidence by the government in the procedures of reform has permitted more recent agreements to set increasingly specific objectives for OPAM and accelerated timetables for achieving them.

5. Contribution of Empirical Policy Analysis

Empirical analysis of alternative marketing policies has become an indispensable and valued input into the reform debate by supplying information to test the assumptions underlying PRMC objectives (Weber, et al.). Policy-relevant cereals market research in Mali had been largely ignored on ideological grounds during the OPAM monopoly period because the parallel market, in theory, did not exist.

Following market liberalization, donor agencies and universities teamed up with Malian counterparts to conduct research into such topics as farmer marketing behavior, the structure, conduct and performance of Malian grain markets as well as credit constraints and information needs of traders. Systematic collection of price data at rural market, wholesaler and consumer levels allows analysis of marketing margins and market integration. Research results are published in Mali for rapid circulation, even in preliminary form, and disseminated through conferences and seminars.²⁹ As a result of this collaboration, not only is there a growing local demand for timely empirical information, the supply of trained Malian policy analysts is expanding to meet that demand.

6. Experienced Traders Waiting in the Wings

OPAM reforms have been facilitated by the presence of a large and dynamic grain trading sector. Alternatively suppressed or merely tolerated during the monopoly period, both as a consequence of OPAM's low market shares, grain traders have since gained considerable experience in conducting their business openly. A new class of better educated, professional traders is emerging, more willing to practice "modern" grain management techniques and self-confident in dealing with the banks and the government.

Given that public sector intervention in the grain market was largely ineffective, OPAM's transfer of marketing functions to the traders did not provoke the economic dislocations as some had feared. Thanks to an active trader class, most grain markets are highly competitive.³⁰ Despite oligopolistic concentration in some wholesale markets, these markets are contestable in that relative grain price increases will attract new entrants fairly quickly. It is clear that the formal devolution of day to day responsibility for the critical functions of grain market spatial and temporal arbitrage from OPAM to the private sector could not have occurred in the absence of a well developed trader network.

7. Willingness to Keep OPAM

The 1982 statute redefining OPAM's objectives makes a cryptic reference to dividing OPAM's assets in the event of its dissolution (Article 16). But for the most part, neither the donors nor the government seriously considered abolishing OPAM outright. Complete privatization was not viewed as a viable alternative either. OPAM's existence is no longer challenged because its functions are accepted as manageable and legitimate: provision of market

²⁹ Some of the key results which challenged preconceived notions showed that: a) the policy of raising official producer prices had a detrimental impact on the real incomes of deficit producing households having to rely on the market later in the year; b) the complementarity of cash crops/cereals crops in the cotton zone actually improved household food security as a result of higher cereals yields and more flexibility in the seasonal timing of cereals sales; c) grain traders profits are competitive and normally low; and d) the degree of grain market integration is very high between rural producing and urban wholesale markets and, for the most part, between surplus producing and deficit zones.

³⁰ The newly liberalized cereals import regime (see section C. 2. below) is likely to reduce concentration among rice importers.

facilitating public services, reduction of riskiness in grain trade, compensation for imperfect markets, and safeguarding food security.

Transforming OPAM, rather than building a new agency from the ground up, has been more palatable politically to Malian reformers, a point accepted by the donors. Working within OPAM, moreover, has also avoided the disruptive effects of institutional instability which has plagued other marketing agencies in Africa (Lele and Christiansen, pp. 41-44).

8. Donor Funds to Underwrite the Cost of Reforms

The promise of large scale financial transfers to underwrite the costs of OPAM's transformation within a liberalized market convinced the Malians of the depth of donor commitment to see the reform effort through. In fact, the psychological value of tangible food aid as a fallback supply source may have been far more decisive in assuaging initial doubts than the prospect of food aid generated finances.

Net revenues from the sale of PRMC cereals food aid and contributions in cash averaged more than \$9.5 million annually during the first six years of the PRMC (1981/82-1986/87), roughly equivalent to 5-6 percent of government tax receipts and nearly one-fifth of extra-budgetary income. By partially substituting for commercial imports, food aid shipments in particular have saved valuable foreign exchange. The magnitude of these transfers, now into their ninth year, have provided a powerful incentive for the government to stay the course. Complementary bilateral aid transfers in direct support of OPAM outside of the PRMC have also been appreciable.

9. Crucial Support from the World Bank and IMF

Locally based World Bank and IMF representatives have not participated in the daily give-and-take of the PRMC. Furthermore, the immediate interests of PRMC donors and the Bank/Fund have diverged on occasion.²¹ Yet, skillful sequencing of pressure and incentives by the World Bank and the IMF has proved crucial in consolidating agreed upon reforms and in removing any lingering resistance to market liberalization and the reorganization of OPAM. PRMC reform measures have been reinforced by cross-reference as performance targets in IMF programs and Bank (IDA) funded agricultural projects (Humphreys, 1986b, p. 32-33). Revision of OPAM's interim contract plan based on the midterm evaluation was likewise an IMF program condition (Thenevin and Waddell, p. 1). Conditionality of IMF agreements, in particular, seem to have been a powerful lever for keeping PRMC and OPAM reforms on track.

10. The Early Success of the Market Information System

Although the the Market Information System (SIM) only got off ground in mid-1988, its early success has given renewed visibility to the OPAM reforms. Producers, traders and consumers increasingly depend on SIM bulletins and radio broadcasts for better informed marketing decisions. The SIM has already proved its value to policy makers in several instances (Dembélé and Staatz, pp. 16-17).

²¹ For example, in light of OPAM's large unsold grain inventories following the 1985/86 buying campaign, the IMF began pressuring the government to authorize OPAM to sell off its stocks at sale prices in order to avoid defaulting on its seasonal credit due by September 30, 1986. The PRMC resisted, noting that dumping more coarse grains onto an already glutted market would depress prices further and not guarantee sufficient income for OPAM to reimburse its outstanding credit, and that OPAM's grain in storage might be needed if 1986/87 were to be a bad harvest year. As a compromise, the IMF and PRMC agreed to sell off surplus OPAM and ODR rice stocks by competitive bids (Simmons, pp. 19-20).

By statute, the SIM is only a "secondary" objective of OPAM. In practice, it may end up being one of the most important functions of OPAM in explaining how markets work under uncertainty. Access to accurate, up to date information is a necessary component of an efficient marketing system. By improving market transparency through the dissemination of a wide range of information, information facilitates competition (Sall, 1989). The SIM deserves to become one of OPAM's permanent missions.

B. Winners and Losers in OPAM's Structural Transformation

Although it is perhaps impossible to isolate OPAM, the organization, from the cereals marketing policies which it served, OPAM's transformation over the past 30 years has noticeably shifted the incidence of the government's policies among three broad population classes. This summary looks at the winners and losers.

1. Grain Producers

OPAM's transformation has had a differential impact on Malian grain farmers depending on their status as surplus or deficit producers. Under the earlier forced procurement system, the questionable accuracy of grain production estimates introduced a random element into the setting of local quotas. Mandatory requisition of grain at below market prices caused hardships on farm households having to buy for their own consumption later in the year. In some cases, deficit villages were pressed to buy cereals on rural markets in order to fill their sales quotas to OPAM (Center for Research on Economic Development, p. 46).

These inequitable features eased after forced procurement quotas were dropped. Whether a producer sold to OPAM depended largely on personal circumstances and the relative opportunity cost of selling right after harvest to meet compelling cash needs, selling later in the year when prices mounted on rural markets or storing for household consumption.

Nevertheless, both procurement systems represented an implicit tax on producers before 1987 equivalent to the difference between the market producer price and the lower official producer price. The incidence of this tax fell more heavily on rice farmers due to the relatively higher market share of paddy captured by the public marketing sector. The producer tax declined from an estimated 8.9 billion CFAF in 1976/77-1979/80 to 5.1 billion CFAF in 1981/82-1984/85, but only as a result of lower government purchases during the second period, not a decrease in unit tax (Humphreys, 1986b, p. 29). This net transfer from the countryside reversed directions briefly in 1985/86 for those producers who reaped one-shot windfall gains by selling directly to OPAM at official prices which were higher than market prices.

Producers emerge winners from the transformation of OPAM since producer taxation no longer exists. Coarse grain producers have not faced price discrimination from OPAM since a unified market was achieved in 1987/88 when official producer prices were eliminated. The case of rice producers is less categorical. Although OPAM no longer buys domestic rice, paddy marketing is liberalized. Domestic paddy producers continue to face "minimum guaranteed" producer prices in the ODR zones, which traders occasionally exceed.

2. Grain Traders

Grain traders have also benefitted from OPAM's transformation. Once outlawed and harassed by the public sector in effort to protect OPAM's market, traders have been progressively enabled to trade openly and deliver grain to OPAM under contract.

A business-like relationship is cautiously evolving between grain traders and OPAM as old attitudes soften and suspicions about the other's motives are allayed. OPAM increasingly relies on grain traders for carrying out its objectives. Traders fill all of OPAM's buying orders through competitive bids. OPAM sells food aid cereals or old SNS stocks to traders in auction. The relatively small volumes sold by OPAM in the deficit zones at fixed prices are based on market prices and do not undercut competitive trader prices. Traders even stand to pick up some of OPAM's former institutional clients if they are willing to sell on credit, terms proscribed for OPAM by the contract plan.

While the range of market facilitating services and institutions remains fundamentally weak in Mali, market transparency has been uncontestedly enhanced for traders by two OPAM programs: the Market Information System (SIM) and the Information and Documentation Center (CEFODOC). Given the increasing complexity and sophistication of market information required for the grain trade, traders will depend more and more on institutional sources, chiefly OPAM. In turn, OPAM market price quotations will become the primary reference prices (Steffen, 1990, p. 32).

3. Grain Consumers

Consumers fall into two distinct categories: those who used to have access to OPAM's subsidized cereals and the larger group of those who did not. Within the first group, the loss of the privilege to buy subsidized cereals from OPAM, a long standing property right, translates into a drop in real incomes, all factors equal.

Overall, the impact of OPAM's transformation may be felt most by Bamako consumers. Considered a "deficit zone at high food risk" as late as 1987/88, Bamako used to receive a disproportionate share of OPAM's subsidized sales, averaging 43.7 percent of all OPAM sales during 1975/76-1983/84 and about two-thirds of OPAM rice sales during 1981/82-1983/84 (Humphreys, Tables 14 and 19). No longer subsidized, these shares fell sharply by the end of the decade.¹²

As for the second group, cereals consumers outside of Bamako who paid market prices all along are generally unaffected by OPAM's transformation. Any localized increase in prices (due to increased market demand from displaced OPAM consumers) is probably offset by the drop in consumer prices (due to reduced trader transaction costs and margins, thanks to market liberalization, and the influx of PRMC food aid for sale), although this is an empirical question.

Consumers and deficit households report that the availability of cereals all year round without long waits in line is one of the primary benefits of the OPAM reforms (D'Agostino, p. 24). For nearly all consumers, markets have become more reliable as a stable supply source because the troubled coexistence of OPAM and the private sector has been all but eliminated. During the monopoly period, forced cereals procurement at low official producer prices, requisition of trucks, threats of confiscation of trader stocks and secrecy of operations by

¹² For 1988/89, Bamako's planned share was 20.7 percent of all coarse grain sales and 12.3 percent of all rice sales (OPAM, 1988, Annexes 1 and 2).

producers and traders are thought to have increased marketing margins at all levels of the parallel market to compensate for risk. Liberalization reduced these risks and increased trader incentives to invest in large-scale grain storage and transport operations, thereby driving down unit costs.

C. Potential Obstacles Ahead

Despite forward momentum, several potential obstacles ahead could derail OPAM reforms from their present course, possibly reversing the recent contraction of OPAM's structure and objectives.

1. Underdeveloped Market Facilitating Services and Institutions

The ability of the private sector to function effectively in grain marketing depends critically on the environment in which traders operate (Lele and Christiansen; Hopcraft). Simply removing legal restrictions on the private grain trade will not enable the traders to undertake the risks of long term grain storage or interregional grain transfers. Strengthening the professional trader class requires the development of services and institutions conducive to competitiveness, transparency and market performance. OPAM's Market Information System (SIM) and Training and Documentation Center (CEFODOC) represent an excellent start, but other complementary services are needed.

A modern and efficient banking system needs to be extended to all of Mali's regions to support grain marketing and investments. The regulatory environment needs to be strengthened and streamlined, particularly in the area of commercial contract law. Punitive enforcement of obsolete regulations must stop. Liberalization of trucking services must stay on track. Creating an adequate transportation and communications infrastructure will improve efficiency by reducing marketing margins.

The consequence of weak market support institutions could give the wrong impression that private traders are unable to meet their new challenges, leading the government to reinstate direct marketing by the public sector and repressive regulation of the private traders.

2. The Question of Rice

Rice is the preferred staple cereal of urban and upper income households. However, considerable investments in the large scale irrigated rice perimeters and rice mills of the rice ODRs have not succeeded in eliminating Mali's deficit in rice production, which is made up by commercial and food aid imports. OPAM keeps a permanent stock of up to 16,000 tons of food aid rice, the equivalent of one month's consumption, to cover the import pipeline. Such is the sensitive importance of rice that liberalization of the rice market has lagged several years behind that of the coarse grain market. Moreover, regulation of the rice market has followed a quite distinct set of precepts (Coelo, 1989, p. 13).

In recent years these regulations have included the temporary suspension of commercial imports in order to clear out public sector rice inventories, quotas on the volume of rice imports, an ad valorem tariff of 32 percent on rice imports, and the stipulation that rice importers buy an equal volume of domestic ODR rice. Attempts are made to schedule the arrival of food aid rice on the market more tightly. Since mid-1989, the system of import licensing to enforce quotas has been abolished in favor of registering a simple declaration of intent to import. In the

meantime, the flagship rice-producing ODR, the Office du Niger, has embarked on a cost-cutting reorganization program to improve the competitiveness of its rice.

No immediate dangers to OPAM lurk on the horizon, although the search for internally consistent policy measures to protect the domestic rice market could embroil OPAM in unforeseen ways that destabilize its finances. The rice question could impede OPAM operations or divert its attention from its main objectives.

3. Supplying the Deficit Zones

OPAM's objective to "supply cereals to the deficit zones" is disturbingly imprecise.³³ As worded, it appears to ignore such economic concepts as domestic regional comparative advantage in cereals production and the potential gains from trade. Furthermore, it implies that the private sector is inactive or non-existent in the deficit zones and that OPAM is saddled with this daunting responsibility all alone.

Certain markets in the deficit zones are indeed structurally weak. Some markets are cut off from supply sources for several weeks due to difficult access or seasonal isolation, giving small numbers of traders the potential to manipulate the market. Local poverty erodes effective demand. Variations in supply or demand cause disproportionately greater fluctuations in price in areas with thin markets resulting from isolation and low levels of trading (Gagnon; Steffen and Koné).

The development of market-facilitating services and physical infrastructure will provide part of the long term solution to marketing problems in the deficit zones. But some kind of market-facilitating role for the public sector is also appropriate in the short term. Use of the two main instruments at OPAM's disposal, carefully programmed sales of out-rotating SNS cereals and food aid in the regional capitals, may be sufficient in most circumstances to augment supplies in deficit zone markets. As for meeting the cereals needs of consumers at nutritional risk due to lack of effective demand, the CNAUR is responsible for sponsoring targeted feeding or income-generating programs using OPAM food aid in conjunction with private voluntary organizations (Steffen, Dembélé and Staatz).

For the time being, OPAM will maintain a small staff in each of the 18 chronically deficit cercles for food aid distribution and limited cereals sales at fixed prices. The fear is that direct competition by OPAM will dampen the economic incentives of the private sector to supply these often sparsely populated zones by further cutting into possible economies of scale in transport and storage. This results in a self-fulfilling policy that OPAM needs to maintain a presence in the deficit zones because the private sector is poorly equipped or unwilling to handle the job.

To avoid permanent commercial operations by OPAM at the cercle level in the deficit zones which forestall rather than promote the emergence of well performing markets, the nature of OPAM interventions there needs to be explicitly delimited in precise operational terms. Unless a given deficit zone market is particularly vulnerable to sharp, non-seasonal variations in supply or demand due to difficult access or local monopoly/oligopoly conditions, it is desirable that a timeframe for phasing out sales by OPAM be set and publicized (Gagnon, p. 22; Steffen and Koné, p. 29).

³³ The list of deficit zones is established annually by the COC on the basis of per capita consumption norms and the estimated size of the harvest at the cercle level. Deficit production zones typically comprise the low-rainfall cercles along the northwestern border with Mauritania and the entire northeastern regions of Timbuktu and Gao. Difficult access to outside supplies is also a consideration for putting marginal cercles on the list.

4. Coordination of Pricing and Marketing Policies with Neighboring Countries

The Malian grain market does not lie isolated from the influence of regional West African trade patterns. In many respects, Mali has a much more open cereals market than its neighbors which still fix producer and consumer prices and restrict imports and exports resulting in a dual market structure such as Mali had until recently.

The structural transformation of OPAM depends on a certain market stability to work, especially at this early stage, even in the larger regional context. Progress achieved to date could be undermined by neighboring country marketing policies are inconsistent or unsynchronized with those of Mali, particularly those which stimulate trade flows through distorted price signals. A real concern is that the fixed price and free price markets in neighboring countries will be brought into price equilibrium at the expense of the Malian grain market, possibly overtaking Mali's newly liberalized (but largely untried) import-export regime as Malian markets bear the economic, social and financial consequences of helping external markets achieve equilibrium.

Exploratory efforts to coordinate West African marketing policies through the creation of a West African "regional cereals space" need to be encouraged so as not to put the OPAM reforms at risk. However, it is essential, from a long term growth point of view, that the quest for coherent policies across countries seek to improve markets, rather than seek equality through the uniform reimposition of restrictive policies.

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