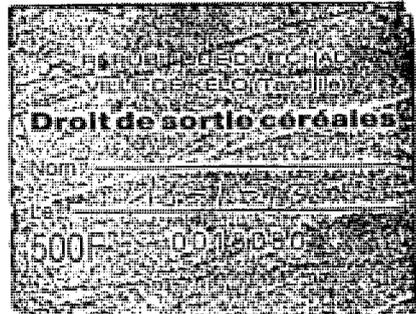


Administrative Restrictions to Cereals Circulation

(An AMTT Discussion Paper)

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Summary: Local taxes and quotas on cereals movements restrict the flow of cereals from one administrative unit to another in Chad. Although these restrictions are often taken in the name of "food security," they in fact drive down the price paid to producers, keep cereals from flowing to the areas where they are most scarce, and cause economic inefficiencies, including the discouragement of cereals production. The Government of Chad should consider measures to reduce the prevalence of these types of administrative restrictions.

This is an AMTT discussion paper, intended to contribute to the ongoing debate over ways to improve the functioning of Chad's sorghum and millet marketing systems. The views expressed are those of the author only, and do not necessarily reflect those of AMTT or its funders.

Despite Chad's reputation for liberal, free trade in cereals, significant administrative restrictions continue to hinder the circulation of millet and sorghum in the country, hurting producers and reducing food security. We learned of these restrictions in many areas of Chad during our initial research missions for the AMTT Millet and Sorghum Marketing study. For example:

- The town of Kelo in Tandjilé imposes a tax of 500 FCFA on each sack of cereal trucked out of the area.
- In the Mayo-Kebbi, several chefs de cantons are reported to forbid traders from moving cereals out of their cantons, and certain cantons and sous-prefectures impose taxes of 100-250 FCFA/sack on the transfer of cereals out of their administrative regions.
- In Moundou, the municipal government was preparing a decree at the time of our visit in January banning the commercial transfer of cereals out of the city, despite the city's customary role as a hub for the cereals trade.
- In the Moyen Chari, chefs de canton routinely tax the transfer of cereals out of their administrative regions.
- In the Logone Oriental town of Bodo, traditionally an important cereals market, the village chief banned outright the sale of millet and sorghum at the weekly market, forcing local producers to sell clandestinely, at night, at low prices.
- In the Salamat, local authorities imposed a tax of 250 FCFA on each sack trucked out of the region in 1992 and 100 FCFA per sack in 1993.
- In Abeché, the prefecture imposed a tax of 350 FCFA on each sack trucked out of the region in 1992, then adopted a system administratively limiting quantities "exported" by requiring "authorizations" for shipments of over 5 sacks.
- In Am-Zoer, local authorities banned the transfer of cereals from the region in 1992-93, searching each truck before it leaves the market to check if it contains cereals.
- In Mongo, local officials imposed a tax of 300 FCFA on each sack trucked out of the region in 1992, then adopted a system administratively limiting quantities "exported" by requiring "authorizations" for shipments of over 5 sacks.
- In Ati, traders are required to obtain an "authorization" from the sous-prefecture to transfer cereals from the area. Although "authorizations" are free, they are denied on occasions, and occasionally can be obtained only through "special" payments.
- In Biltine, the sous-prefect issued a decree in 1992, limiting all cereal "exports" from the region to 3 sacks per person "for household consumption only" unless a tax of 1000 FCFA/sack was paid.

These administrative restrictions are rarely mentioned in the literature on Chad's cereal markets. Most studies ignore these types of restrictions, preferring to focus instead on other barriers to circulation, such as poor roads, credit unavailability, and illegal road barriers. This is unfortunate, because the GOC and the donor community can more easily, and more cheaply, address the problems of local administrative restrictions than, for example, build new roads or set up new credit programs for traders. One should be able to significantly improve the flow of cereals to deficit areas for relatively low cost by promoting the removal of administrative restrictions, yet little effort has been focussed on this issue up until now.

Two explanations are available for the relative inattention afforded the problem. First, the existence of administrative restrictions is poorly documented and not well known. Second, many government and donor officials don't recognize local restrictions to cereals circulation as a problem at all -- they feel that it's good when local authorities act to "keep cereals from being exported from our region." We address these issues below.

Ignorance of Administrative Trade Restrictions

The lack of documentation on administrative trade restrictions is a function of the local and unofficial nature of these controls. One cannot learn about them from N'Djamena. It is necessary to visit the villages, cantons, sous-prefectures, and prefectures where they are being imposed to detect their existence. The AMTT Millet and Sorghum Marketing Study has learned about the restrictions by visiting scores of rural markets from Pala to Biltine. Local officials are usually reluctant to discuss these restrictions, because they don't want to account for the proceeds of trade taxes and they know that there is no national legal basis for these restrictions. One has to ask probing questions to find out the truth.

Misunderstanding the Effects of Trade Restrictions

The persistence of local trade restrictions can also be attributed to the widespread misunderstanding of their effects by government and donor agency officials. Local officials, eager to keep cereal prices down to protect local consumers, feel that restrictions on sales help to assure the availability of cereals in the soudure. Donors, particularly NGOs involved in cereal banks programs, don't object to restrictions, because they generally promote local storage, not free circulation, of cereals. These donor and government officials fail to recognize the negative economic effects trade restrictions create.

What are the effects of cereals trade restrictions? They differ slightly depending on the type of restriction -- a tax has slightly different effects than an administrative limitation or quota -- but generally these restrictions result

in lower prices to producers, lower prices to local consumers, and wasted resources in the areas where they are imposed. First we summarize the effects of local taxes on cereal movements, then we summarize the effect of quotas on cereal movements.

Effects of Local Taxes on Cereal Movements

In cases where local authorities impose taxes on the transfer of cereals out of a given region, economic analysis indicates that the effects are the following:

- Producer prices are reduced by almost the full amount of the tax, i.e., the producers wind up incurring the cost of the tax, even if it is nominally imposed on the traders. Farmer revenues are significantly reduced.
- Consumers in the local region benefit from the tax, because the tax drives down local cereal prices and reduces exports from the region.
- Cereal consumption is encouraged, and cereal production is discouraged in the taxed region.
- Incentives are distorted, leading to economic inefficiencies and wasted resources.
- Tax revenues are raised by local authorities, but the use of these revenues is unclear.

The economic analysis supporting these conclusions is attached in Annex 1. This analysis is based on the fact that a single trader cannot influence the N'Djamena grain price -- he must accept it as a given. He cannot, therefore pass the cost of a trade tax onto N'Djamena's consumers -- he can, however, lower the price that he pays the producer. This is why these types of taxes hurt producers the most (more detail is in Annex 1).

Economic Effects of Local "Export" Quotas

In many administrative zones, local authorities do not tax the movement of cereals; instead, they set administrative limits or quotas on the amounts of cereal that can be trucked out of their regions. A trader must obtain an "authorization" from the authorities before moving grain. Economic analysis indicates that the probable effects of these types of restrictions are the following:

- Producer prices are reduced, and farmers' revenues decrease.
- Consumers in the local region benefit, because the restrictions reduce exports from the region and drive down local cereal prices.

- Cereal consumption is encouraged, and cereal production is discouraged in the taxed region.
- Incentives are distorted, leading to economic inefficiencies and wasted resources.
- No tax revenues are raised by local authorities, but traders that are able to obtain "authorizations" earn windfall profits, at the producers' expense.¹

The economic analysis supporting these conclusions is attached in Annex 2.

Good Motives, but Bad Results

The objectives of those who impose (or fail to oppose) local export taxes and quotas are usually good -- they wish to retain cereals in their zones of influence so that food is not overly scarce and expensive during the soudure months. They usually impose trade restrictions when they feel that their administrative region is likely to be in a cereal "deficit situation" during the soudure months.

These decision-makers usually do not fully understand that the taxes that they impose are passed on almost completely to the producer (because large urban markets are highly price elastic in relation to any single supply region), and low producer prices are likely to discourage production in the long run.

And these decision-makers usually do not fully understand the role of prices in assuring an efficient distribution of cereals from areas of relative abundance to areas of relative scarcity. These authorities believe that they can administratively control cereal movements more efficiently than can price signals. Instead of allowing higher prices in a neighboring prefecture to signal relative scarcity and attract cereals from their administrative area, many local authorities try to block cereal flows out of their areas, claiming that their administrative zone is "in deficit."²

This attitude, of course, ignores the relative nature of the term "deficit." While many areas of Chad are likely to be "in deficit" simultaneously, some areas are likely to be more "in deficit" than others. Prices in highly-deficit areas will be higher than those in moderately deficit areas, which should evoke trade between these regions. When a local

¹These profits can lead to the development of "special" relations between local authorities and privileged traders.

² Many local authorities say things like "We allow cereals to leave the area when there is a surplus, but we restrict exports when there may be a shortage." In a liberal economy, price signals are supposed to perform this function, not sous-prefects.

authority blocks trade between a moderately-deficit area such as Am-Zoer and a highly-deficit area such as Arada, he not only harms his local producers but he harms the presumably hungry consumers of Arada. Short-term food security is damaged in Arada, and long-term food security is damaged in Am-Zoer, as farmers are discouraged from producing surplus grain for market.

In 1984, during a particularly bad drought year, prefects all over Chad are reported to have banned cereal "exports" from their respective regions. These bans undoubtedly kept cereals from flowing to the hardest-hit deficit and famine regions in Chad, and probably contributed to the severity of suffering in these areas.

What Should be Done?

Steps should be taken to permanently eliminate administrative restrictions to cereals flows all over Chad.

First, officials within the Ministry of Agriculture and agents of the ONDR must be educated and convinced of the disincentive effects that these restrictions have on cereals producers. AMTT should present its findings on this topic to officials and agents during seminars and/or workshops.

Next, officials within the Food Security Division of the Ministry of Agriculture must be convinced of the nefarious effects that these trade restrictions can have in terms of keeping cereals from flowing to the areas where they are most needed. AMTT should present its findings on this topic to officials and agents during seminars and/or workshops prepared for this purpose.

Next, representatives of the Ministry of Agriculture and AMTT should hold a series of meetings with representatives of the Ministry of the Interior to discuss the importance and modalities of eliminating administrative restrictions to cereals movements (The Ministry of the Interior is in charge of Chad's prefects, sous-prefects, and chefs de cantons). If appropriate, the Ministry of the Interior should be encouraged to draft and issue regulations forbidding local authorities from restricting cereals movements.

Once an agreement with the Ministry of the Interior is worked out, the Ministry of Agriculture and AMTT should consider holding meetings with local officials at the prefecture levels to discuss the effects of cereal trade restrictions and the purpose of any regulations forbidding restrictions.

AMTT and the Ministry of Agriculture should also organize seminars with representatives of trader and farmer groups on a regional basis to discuss the effects of cereal trade restrictions and the content of any regulations forbidding restrictions.

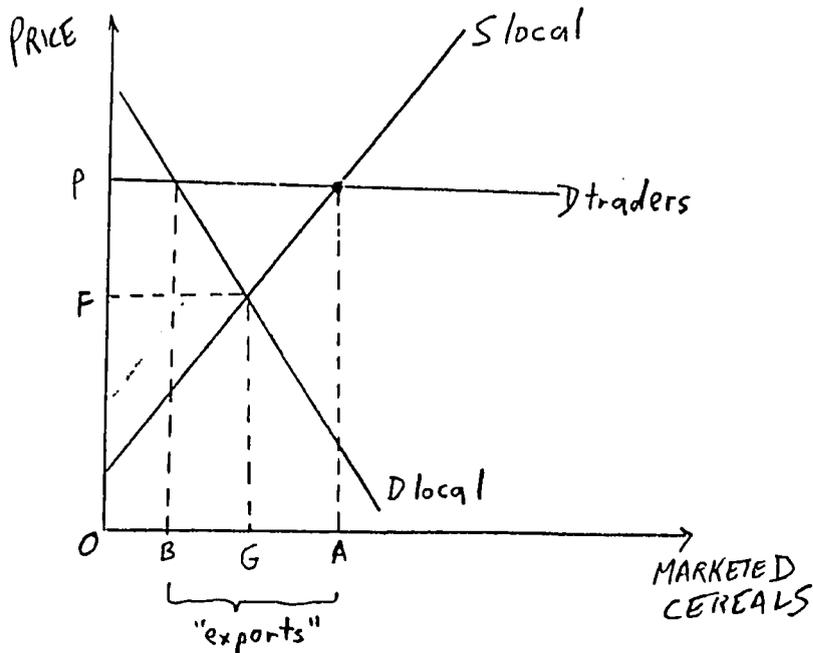
Chances for success in this endeavor are good. During our field visits we heard of several examples where influential traders and/or trader groups complained to the government about taxes on cereal movements and successfully had the taxes removed or reduced. AMTT and the Ministry of Agriculture can help empower traders and farmers to fight trade restrictions by letting them know of the relevant regulations and arguments against such restrictions.

Annex 1:

Economic Effects of Local "Export" Taxes

Figures 1.1, 1.2, and 1.3 illustrate the effects of internal "export" taxes (taxes on the transfer of cereals out of a prefecture or other administrative unit to another area of Chad). In figure 1.1, the quantity of marketed grain in a prefecture is measured by the x-axis, and the price is measured on the y-axis. Local supply is represented by the curve labeled "S local" while local demand is represented by the curve labeled "D local." In the absence of trade with N'Djamena, the local price would be OF and the quantity traded would be OG. Once one takes into account the demand for grain in N'Djamena, however, the situation is altered. Traders wishing to bring grain to N'Djamena are willing to pay up to price "P" for local grain (but no more, because higher prices would mean losses once they confronted N'Djamena sales prices). Their demand is represented by the highly elastic curve labeled "D traders." Under these conditions, the unique price for grain in the region is "P", the total quantity exchanged is OA, of which OB is purchased for local consumption and BA is "exported" to N'Djamena. In the absence of government intervention, this will be the natural outcome.

FIGURE 1.1: LOCAL SUPPLY AND DEMAND FOR MARKETED CEREALS



When local officials impose an "export" tax on traders' grain transfers, the situation changes, as illustrated in Figure 1.2. The tax increases traders' costs and thereby causes a drop in their demand for grain in the region. This is depicted by a downward shift of their demand curve by the amount of the tax -- "D traders" shift down to "D* traders." Under these conditions, the unique price falls from "P" to "P*", the total quantity exchanged falls to OC, of which OD is purchased for local consumption and DC is "exported" to N'Djamena. The tax policy succeeds in reducing the price, reducing "exports" and increasing the amount of grain retained in the local region. These changes, however, result in significant losses to local producers and to the local economy, as depicted in figure 1.3.

FIGURE 1.2: PRICE EFFECTS OF A REGIONAL "EXPORT" TAX

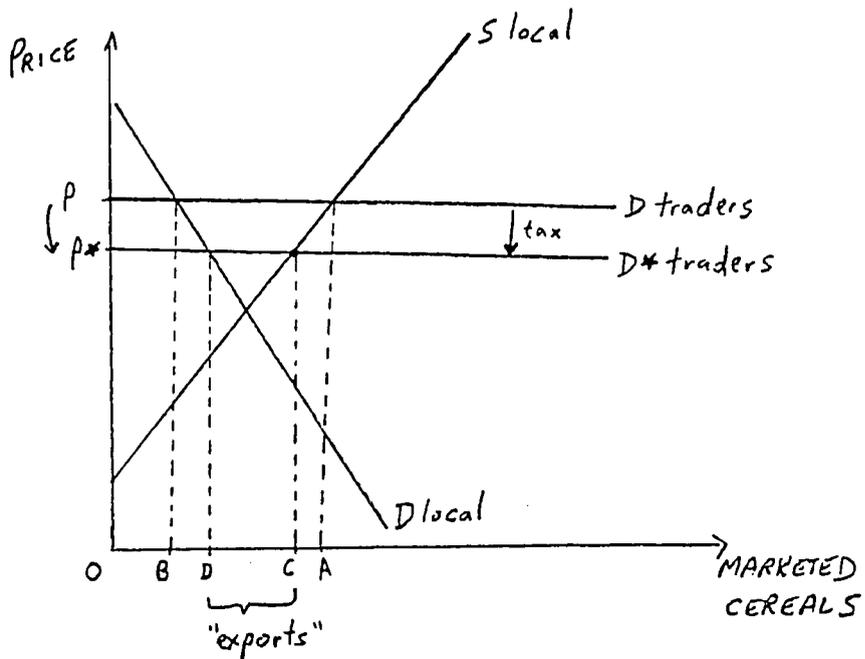
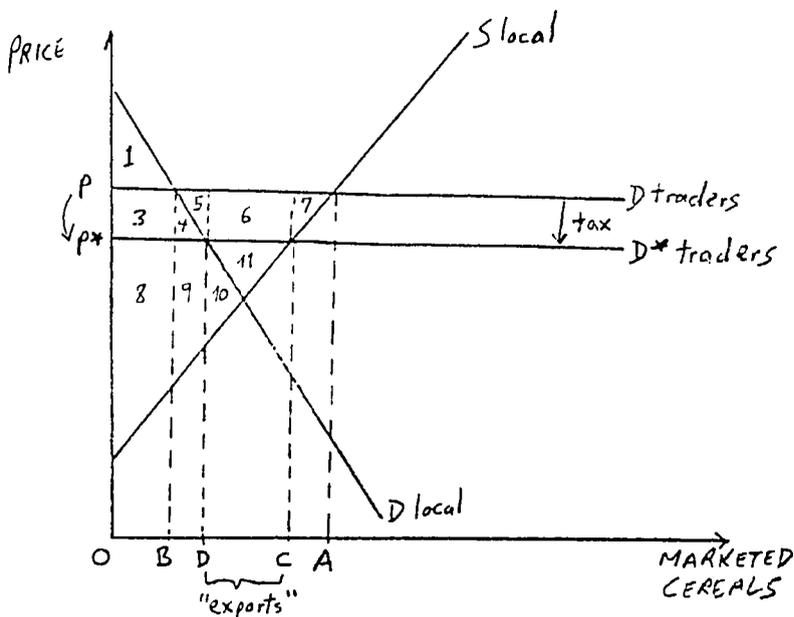


Figure 1.3 re-represents figure 1.2 with the areas between the curves labeled to facilitate welfare analysis. Before the imposition of the tax, the total area labeled 3,4,5,6,7,8,9,10,11 represents the local "producer surplus" -- the benefit accrued by farmers able to sell at "P." Before the imposition of the tax, the total area labeled 1 represents the local "consumer surplus" -- the benefit accrued to consumers able to buy at "P."

FIGURE 1.3: WELFARE EFFECTS OF A REGIONAL "EXPORT" TAX



After the tax is imposed, the price falls, and producer surplus is diminished by the area labeled 3,4,5,6,7. Local consumer surplus increases by area 3,4, and local tax revenues are raised, represented by area 6 (the amount "exported" times the tax). The welfare represented by areas 5 and 7 are lost altogether because of the distortions created by the tax. The upshot of this analysis is that the tax hits producers very hard; it benefits consumers to some degree; it benefits those who collect the tax (the destination of these revenues is unclear); and it creates certain "deadweight losses" to the local economy. In the medium to long term, these types of taxes are bound to discourage cereal production.³

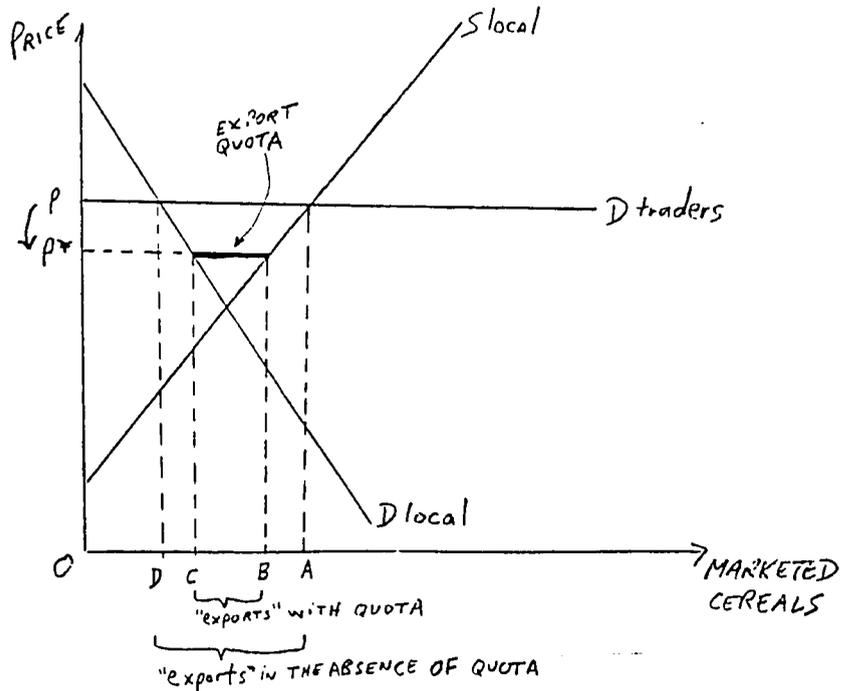
³ This point is particularly relevant in the Soudanian zone of Chad, where farmers are increasingly abandoning cotton (because of sales problems) and turning to millet and sorghum as alternate cash crops. Their production of surplus cereals will be discouraged if local authorities damage their opportunities to sell these cereals.

Annex 2:

Economic Effects of Local "Export" Quotas

Export quotas, or quantity-based limitations on cereals transfers from one region to another, are another common means to restrict cereals flows in Chad. In Ati, for example, traders need to obtain an "authorization" from the sous-prefecture to transfer grain out of the region. These authorizations limit the amount of grain "exported" to what the sous-prefecture considers a "reasonable" amount. The effects of these quotas are illustrated in Figure 2.1.

FIGURE 2.1: PRICE EFFECTS OF A REGIONAL "EXPORT" QUOTA



The quantity of marketed grain in the sous-prefecture is measured by the x-axis, and the price is measured on the y-axis. Local supply is represented by the curve labeled "S local" while local demand is represented by the curve labeled "D local." Traders demand for grain to send to N'Djamena is represented by the highly elastic curve labeled "D traders." Under these conditions, the unique price for grain in the region is "P", the total quantity exchanged is OA, of which OD is purchased for local consumption and DA is "exported" to N'Djamena. In the absence of government intervention, this will be the natural outcome.

Once the need to obtain an "authorization" becomes effective and limits the amount of exports, there is less effective demand for grain, and the price falls to P^* . The total quantity exchanged falls to OB , the quantity exported falls to CB , and the quantity purchased for local consumption increases to OC . The quota policy succeeds in reducing the price, reducing "exports" and increasing the amount of grain retained in the local region. These changes, however, result in significant losses to local producers and to the local economy, as depicted in figure 2.2.

FIGURE 2.2: WELFARE EFFECTS OF A REGIONAL "EXPORT" QUOTA

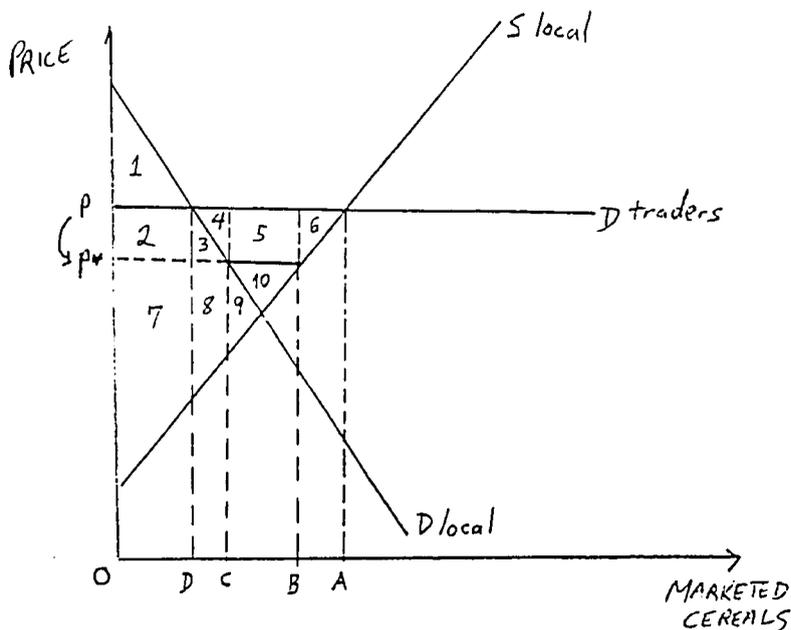


Figure 2.2 re-represents figure 2.1 with the areas between the curves labeled to facilitate welfare analysis. Before the imposition of the quota, the total area labeled 2,3,4,5,6,7,8 represents the local "producer surplus." Before the imposition of the quota, the total area labeled 1 represents the local "consumer surplus."

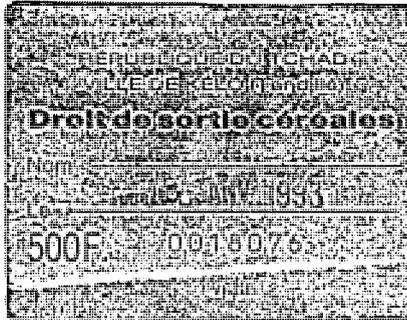
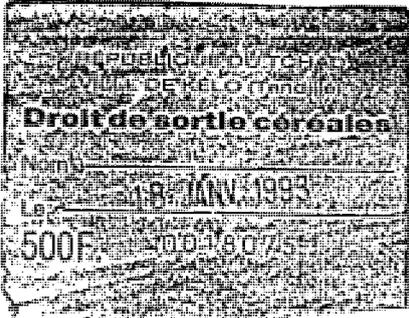
After the quota becomes effective, the price falls, and producer surplus is diminished by the area labeled 2,3,4,5,6. Local consumer surplus increases by area 2,3. Traders who obtain "authorizations" obtain windfall profits represented by area 5 (they are able to buy at the low P^* but still sell at the normal $N'D$ jamena price), although they may have to pay

bribes to obtain the authorizations⁴. The welfare represented by areas 4 and 6 are lost altogether because of the distortions created by the quotas. The upshot of this analysis is that the quota system hits producers very hard; benefits local consumers to some degree; benefits those traders who obtain authorizations; and creates certain "deadweight losses" to the local economy, including the costs of administering these restrictions. In the medium to long term, these types of "authorizations" are bound to discourage cereal production and to encourage "special" relationships between local officials and traders.

⁴ In Bodo, for example, local authorities banned all cereals sales in the marketplace. The result was that the price plummeted to the unusually low level of 50 FCFA/coro in a clandestine nighttime market. The few traders who purchased cereals secretly were able to make windfall profits once they resold the cereals in Moundou.

Annex 3:

Examples of Documents Related to Trade Restrictions



B.P.F.

Reçu de Djedoubouy Eloré
La Sommo

do 11.500 frs
23 sacs

Deli le 13/02 1993

No 19

Vu le chef de canton P. Mboumy

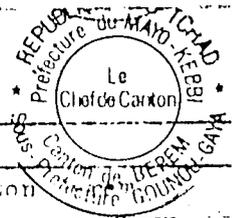
Droit au marché:

Valeur du sac

Nbre des sacs:

Date:

Le Chef de Canton



BEST AVAILABLE DOCUMENT

REPUBLIQUE DU TCHAD
PREFECTURE DE BILTINE
S/PREFECTURE DE BILTINE
N° 003/SP.B/92

UNITE - TRAVAIL - PROGRES

/1/ OTN CIRCULAIRE

A tous des Commerçants de Céréales.

En exécution des termes de la note Service n° 004/TE/92 en date du 03 Janvier 92 de Monsieur le Préfet de Biltine et compte tenu des sorties abusives des Céréales constatées au niveau du marché de Biltine, il est ainsi décidé à partir de la présente note les mesures suivantes:

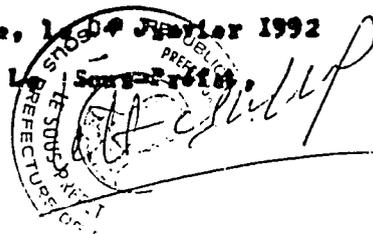
Il est autorisé à toute personne désireuse d'approvisionner sa famille en céréales d'acheter tout au plus deux ou trois sacs de mil de 100 kgs.

Tout achat excédant ce taux doit obligatoirement faire l'objet d'une autorisation de sortie de céréales délivrée par la Sous-Préfecture. La taxe sur toute sortie de céréales sera imposée à cet effet suivant le nombre de sacs à exporter.

La non observation de la présente note circulaire fera l'objet d'une sanction sévère.

Copie au Préfet
à titre de C.R.

Biltine, le 04 Janvier 1992



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