

TAB L

9. "Privatization in the Agricultural and Agribusiness  
Sectors" by Ian Marceau

PRIVATIZATION IN THE AGRICULTURAL  
AND  
AGRIBUSINESS SECTORS

by

Dr. Ian W. Marceau  
Senior Economist  
Hassall and Associates, Pty. Ltd.  
Canberra, Australia

Presented at the U.S. AID International  
Conference on Privatization,  
Washington, D.C.  
February 17-19, 1986

Canberra, A.C.T. 2601  
Australia

January 1986

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## Introduction

The most frequently recognized interventions by government in the agricultural economies of developing countries are the operations of marketing boards through which States attempt to exert monopoly control over production, pricing and marketing of agricultural products, especially food staples. These organizations have been dealt with in a companion paper by this author. There are many other, less well-known interventions which occur, carried out by statal or parastatal organizations implementing governmental policies through legal coercion.

In most developing countries, the heavy hand of government is found in the markets for agricultural production inputs such as seed, fertilizer, chemicals, farm equipment, fuel, irrigation water and land. Services such as extension and research and development (to the limited extent that they exist) are much more often than not the province of governmental ministries or parastatals. Provision and operation of infrastructure, the transportation, water supply, product storage and communications systems critical to effective agricultural economies are almost exclusively by governments, and in most LDCs, are heavily tilted toward urban interests at the expense of the rural sector. The importation of production inputs from more developed nations is often hampered by shortages of foreign exchange, resulting from external factors in export markets for agricultural and mineral products and worsened by the general incompetence of those who "manage" the

parastatals controlling export enterprises in many countries. Government-dictated currency exchange policies result in over-valued currencies which discriminate against export products in international markets while multiple exchange rates and tariffs, applied selectively by governments seeking to protect infant industries and to foster import substitution discriminate against rural interests in favor of urban areas where there is the need to create employment and to bestow favors to buy-off potential political opposition.

The parastatal organizations have, in most developing nations, access to financial resources at very low (or no) cost. They borrow with government guarantees, which lower their risk to investors and give them an advantage over the private sector in gaining access to domestic credit. They are usually free from public or private scrutiny in their operations, rarely being required to account for the expenditure of funds or to disclose losses. Profits are usually required to be returned to the Treasury, but this is a rare event. Being, as are the marketing boards, labour sinks, providers of sinecures to relatives, friends and political cronies of ruling elites and sources of enrichment for corrupt politicians and bureaucrats, the parastatals are not designed to operate as efficient economic entities with a motivation to make profits. Rather, they are political entities used by governments, through their regulatory powers, to reward political support and to punish opposition. Their regulatory powers provide opportunities for the seeking of

special benefits and favours by the politically influential. The small farmers, the key to effective economic development in many countries where agriculture is the engine that, properly fueled, would drive that development, are not among the politically potent.

The outcome of the selective use of the privilege and regulatory powers of the parastatals is that special interests important to the government benefit. Agro-industrial interests, urban-oriented and protected by tariffs and exchange-rate inflation, get low-cost agricultural products as raw materials as a result of low prices paid to farmers by marketing boards. Employers in industry and government get low-cost urban labour paid in large part by cheap food procured from the farmers. Governments get tax receipts extracted from farmers in the form of the low prices, to transfer to development projects benefitting urban interests. Bureaucrats and politicians get wealth and power by dispensing privilege. The small farmers, the drivers of the development engine, get very little incentive to produce marketable surpluses and, practising normal risk-aversion, retreat into subsistence and barter. Where the withdrawal is not complete, the small farmer enters the informal (illegal) economy, relying for inputs and sale of products on the private traders that operate, usually with impunity, parallel to and in competition with the parastatals.

The involvement of these inefficient enterprises in the agricultural and agribusiness sector markets for inputs, capital

and products of course results in price distortions and misallocation of resources and contributes to economic inefficiency. Therefore, from an economic viewpoint, the parastatals are harmful and should, in the opinion of some, be abolished forthwith, to be replaced by private sector activities.

However, because they contribute to maintaining governments in power, the parastatals often contribute to stability in inherently unstable areas. They are therefore politically effective and have been and are likely to be retained by governments acting in their own self-interest, regardless of their economic inefficiency.

International donor organizations therefore are faced with the problem of how to improve the effectiveness of development assistance in the face of the parastatals' continued existence, at least in the short term. The problem becomes one of improving the economic efficiency of the recipient governments' policies while recognizing that these policies will continue to be implemented through parastatal organizations.

#### The Dimensions of the Problem

In many developing nations, the parastatals number in the hundreds. In those countries in which agriculture and agribusiness are significant contributors to G.N.P, many of the parastatals are concentrated in those sectors. Although the data on parastatal involvement by sectors in developing countries are poor and there are no reliable quantitative data

on the amounts of investment by public and private enterprises in agriculture or agribusiness, the scope of parastatal involvement is illustrated by the following.

o In a 1983 World Bank report on state-owned enterprises (SOEs), Mary Shirley reported that in the early 1980's, the non-financial SOE share of total domestic credit in developing countries ranged from a low of 7.2 percent in Jamaica to 91.5 percent in Indonesia. These statal and parastatal organizations (including agricultural and agribusiness enterprises) were responsible for more than 25 percent of domestic credit in (then) Upper Volta, Ivory Coast, Niger, Somalia, Mali, Senegal, Bangladesh, Bolivia, Gambia, Benin, Burma, Guinea and Indonesia. Fifty percent of 1980 government tax revenues in Brazil were transferred to state-owned enterprises, while between 1976 and 1980 the government of Peru assumed foreign debts incurred by SOEs in an amount totalling 31 percent of the total foreign public debt of that nation in 1980.

o In a 1981 World Bank report on Sub-Saharan Africa, Elliot Berg and others examined the procurement and distribution of agricultural production inputs in 39 countries of the Sub-Saharan region. They reported that:

-- With respect to fertilizer supply, in only four countries, Kenya, Zimbabwe, Swaziland and Mauritius was there private-sector supply. In nine countries, there existed mixed private-public supply. In the remaining 26 countries, fertilizers were procured and distributed by the public sector.

-- The same pattern applied to seed supply, chemical supply and farm equipment supply.

Since in almost all countries of the region these agricultural inputs are imported, it is obvious that the roles of the state enterprises in most nations are pervasive throughout the factor markets from the national arena down to the individual farmer. When combined with the marketing parastatals, it becomes evident that the involvement of government is pervasive throughout the agricultural and agribusiness sectors.

It is noteworthy that while most nations of the Sub-Saharan region experienced decreases in per capita agricultural production during the period 1969-71 to 1977-79, increases were achieved in Kenya, Swaziland and Mauritius, three of the countries where the private sector dominates the procurement and distribution of agricultural inputs.

#### Issues in Privatizing the Agricultural and Agribusiness Sectors

In addition to the involvement in these sectors by the marketing boards, discussed in a companion paper by this author, governments intervene using statal and parastatal enterprises in all facets of the agricultural industries of developing countries. The issues for consideration in privatization of the agricultural and agribusiness sectors are as follows.

Production Inputs. Involvement in the procurement and distribution of physical inputs, seeds, fertilizer, chemicals and equipment by state enterprises is pervasive. The argument made by the proponents of this situation are that in developing countries with poor infrastructure and means of delivery, limited resources and scarce foreign exchange, it is necessary for effective delivery of inputs to those producers most

important to the economy that centralized coordination be undertaken.

The question that arises concerns the relative efficacy of private or centralized governmental procurement and distribution in stimulating agricultural output in developing nations. The fact that the Sub-Saharan nations in which the private sector is ascendent increased their per capita agricultural output while those with extensive governmental involvement experienced per capita decreases strongly suggests that the proponents of centralism are incorrect. Experience in recent years in fertilizer distribution by private traders in Bangladesh provides further evidence that private-sector handling of production inputs can be undertaken successfully in developing countries.

The issues to be dealt with in privatizing procurement and distribution of production inputs are:

- o methods of devolving to private traders the monopoly powers of the parastatals;

- o mechanisms for facilitating access of traders to the capital needed to finance procurement and marketing of inputs. Of particular importance is access to foreign exchange at real exchange rates;

- o the role of government in providing the transportation and communications infrastructure necessary to facilitate access of traders to rural market centres.

- o the proper role of government in facilitating availability of credit enabling farmers to buy production inputs at non-subsidized market prices.

### Capital Resources

The available data show that in many developing countries the statal and parastatal enterprises, having access to cheap (or free) capital and enhanced borrowing power due to governmental loan guarantees, consume a large proportion of the domestic and foreign credit available.

Since access to capital by private businesses and their farmer customers is crucial to privatization of the agribusiness and agricultural sectors, the key issues to be addressed are:

- o ways of decreasing the unfair advantage of the parastatals over private interests in credit markets;
- o removal of barriers, including artificial exchange rates, to the availability of the foreign exchange required by the private sector to purchase production inputs from abroad.

### Land and Capital Investments.

Given the availability through the private sector of the necessary inputs and financing, the remaining key to privatization of the agricultural and agribusiness sectors is the sanctity of property rights. Without the guarantee of long-term interest in the land required to farm and the capital goods needed by entrepreneurs to engage in business, privatization will fail.

Therefore, the issue here is the development of ways to guarantee the rights in property or in the use of property by the individual in the private sector. Thus the issue is that of guaranteeing either the right to ownership and reasonably unfettered use or the right of access to resources over the long term for reasonable purposes.

Options for Privatizing the Agricultural and Agribusiness Sectors

The options available for privatizing these sectors are as follows.

o With respect to production inputs:

-- devolution to the private sector of the present monopoly powers of the parastatals can be accomplished only by governments making policy decisions to do so. The case of Mali and the removal of the monopoly powers of the grain parastatal OPAM provides a model. The key to the donors group's success in inducing the government of Mali to change its policy to a free market stance was the provision of guaranteed financial assistance in buffering the privatization process. A similar approach of conditional inducement could be used for other parastatals.

-- facilitation of access by the private sector to the financial capital required to fund procurement and distribution of agricultural inputs by agribusiness can be achieved by removing restrictions on the ownership of or access to the foreign currencies needed to purchase these inputs abroad, where necessary. Of importance here is the requirement that artificial exchange rates maintained by many countries be abolished.

-- concerning the provision of infrastructure, especially transportation and communications, a recent survey of the situation in Sub-Saharan Africa by this author has shown that the likelihood of privatization of these services is extremely remote. Therefore, to facilitate privatization of other components of the agribusiness sector, the most feasible

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option is to use conditional aid to change the urban-tilted policies of most governments to ones which more equally share resources with rural regions.

-- to provide farmers with access to credit adequate to enable them to purchase production inputs at market prices, the most attractive option is the establishment of rural credit programs, charging market interest rates and backed by governmental loan guarantees. To assist in the early stages, donors could consider concessional assistance to induce this policy change.

o With respect to capital resources:

-- to decrease the competitive advantage of the remaining parastatals in credit markets, they should be required to borrow at market interest rates and should not be protected from their own poor management by government loan guarantees.

-- the removal of barriers to private acquisition of foreign exchange has been discussed above.

o With respect to land and capital investments:

-- constitutional or at least statutory protections against expropriation of private property should be put in place and protected by appropriate judicial procedures;

-- where private ownership is not appropriate, statutory rights of usage of resources under leasehold or other legally enforceable forms should be established. This is common practice in the U.S. where forest lands are often publicly owned but guaranteed private use has allowed a long-term forest products industry to develop.

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