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Export crop liberalization in Africa

A review

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Cover photograph:
Farmer in Malawi spraying coffee bushes with pesticide
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Foreword

The African export crop sector has witnessed significant changes in recent years. In the mid 1980s purchasing, processing and exporting of commodities was almost entirely in the hands of marketing boards. Many of these boards also played a significant role in the supply of inputs to farmers, often on credit. Now, as we approach the new Millenium, monopoly boards are the exception rather than the rule. Some of the boards have been wound up, others continue to trade, but are generally losing out in competition with the private sector, and yet others have been converted into non-trading industry boards for the purpose of promotion and regulation.

This transfer of export crop marketing responsibilities from the state to the private sector can, in general, be considered to have been reasonably successful, although it is perhaps still too early to draw definite conclusions. Producer returns have generally been higher than under the former marketing arrangements and payments more prompt. In many countries, however, the changes have led to problems, particularly with regard to the supply of production inputs. The quality of the crops and of their processing has also been a major cause for concern.

This Bulletin reviews approaches to and experiences with export crop liberalization in a number of African countries. The problems encountered are identified in detail and ways of overcoming them are considered. The Bulletin should be of particular interest to policy-makers in Africa, to agencies which have promoted the policy changes of the last two decades, and to the private sector, which will have to play the lead role in overcoming the problems if market liberalization is ultimately to be regarded as a complete success.

Contents

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Acronyms

ADB	Agricultural Development Bank, Ghana
APSEC	Agricultural Policy Secretariat, Bank of Uganda
Caistab	Caisse de Stabilisation
CDO	Cotton Development Organisation, Uganda
CFA	Communauté financière africaine
CICC	Conseil Interprofessionnel Café-Cacao, Cameroon
CMB	Coffee Marketing Board of Uganda
CMC	Cocoa Marketing Company, Ghana
CMDT	Compagnie Malienne pour le Développement Textile
Cocobod	Ghana Cocoa Board
CTA	Ethiopian Coffee and Tea Authority
ECEE	Ethiopian Coffee Export Enterprise
ECMC	Ethiopian Coffee Marketing Corporation
ECPE	Ethiopian Coffee Purchasing Enterprise
EU	European Union
FOB	Free on Board
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
ICCO	International Cocoa Organization
ICO	International Coffee Organization
IMF	International Monetary Fund
Lintco	Lint Company of Zambia
NAMBOARD	National Agricultural Marketing Board, Zambia
NGO	Non-Governmental Organization

NPMB	National Produce Marketing Board, Cameroon
NWCA	North West Cooperative Association, Cameroon
ONCC	Office National du Cacao et du Café, Cameroon
ONCPB	Office National de Commercialisation des Produits de Base, Cameroon
PBC	Produce Buying Company, Ghana
SAL	Structural Adjustment Loan
SAP	Structural Adjustment Programme
SIC-CACAO	Société Industrielle et Commerciale du Cacao, Cameroon
SODECAO	Société de Développement du Cacao, Cameroon
SSA	Sub-Saharan Africa
TCLSB	Tanzania Cotton Lint and Seed Board
UCCAO	Union Centrale des Coopératives Agricoles de l'Ouest, Cameroon
UCDA	Uganda Coffee Development Authority
USDA	United States Department of Agriculture

Chapter 1

Introduction[1]

The liberalization of the export crop sector[2] has been an important component of most Structural Adjustment Programmes in sub-Saharan Africa. The implementation and the speed with which liberalization has taken place have varied significantly from country to country, but few, if any, state-controlled export marketing systems have escaped unscathed. It is therefore surprising that literature on this transformation is rather limited. While the parallel liberalization of foodgrain marketing in Africa has been widely studied, until recently there had been few attempts to analyse the export sector. This paper attempts to redress, in part, this imbalance. While the broad conclusion must be that the liberalization experience has been positive in Africa as a whole, inevitably this has not been achieved without significant problems. Approaches to solving those problems will be discussed.

Chapter 2 reviews the philosophy underlying structural adjustment and marketing liberalization as well as the progress made to date in liberalizing export marketing systems. It suggests that in response to structural adjustment cash-crop marketing has followed one of four pat-

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1 The description of export market liberalization is based on national case studies carried out in 1997/98 on behalf of FAO's Marketing and Rural Finance Service. The following country and commodity studies were used: Cameroon (coffee and cocoa), Mali (cotton), Nigeria (cocoa), Ethiopia (coffee), Tanzania (coffee and cotton), Uganda (coffee and cotton), and Zambia (cotton). Further data and information (e.g. on the Ghana cocoa sector) have been taken from recent reports and studies cited under References and Further Reading.

2 Export crops are defined here as those cash crops which are often traded on international commodity markets and/or are grown primarily for export markets. In this paper we consider cotton production in Ghana, for example, even though the bulk of that production is sold to domestic textile mills.

terns: rapid disengagement of the state with little planning; progressive disengagement of the state from crop purchasing, exporting and processing; liberalization of crop purchasing but exporting remaining under parastatal control; and, relatively little change, where cash crops continue to operate under a single-channel marketing system. The second pattern, progressive disengagement, has been the model followed by most countries, with varying degrees of success.

Chapter 3 examines the implication of marketing liberalization on the purchasing of crops from farmers. In most cases policy changes have led fairly rapidly to considerable competition at the farmgate level. However, it is not surprising that farmers in remote areas or in areas where only small quantities are produced have been poorly served by liberalization and have experienced difficulties in selling their crops. In general, traders have been allowed to function with relatively few restrictions, although some countries have imposed controls on their activities with less than positive results. Lack of finance for crop purchase has not emerged as a major issue and crop buyers in most countries seem able to obtain finance from exporters or processors. However, a notable exception is the case of cocoa in Ghana where private buyers have had difficulty in obtaining finance, owing to the continued export monopoly of the cocoa board.

Chapter 4 reviews the situation with regard to input supply which has perhaps been the major casualty of liberalization. Under marketing boards, inputs were often supplied free of charge as the boards were secure in the knowledge that they would be able to obtain repayment for this credit when they marketed the crop. Private traders who now supply inputs have no such guarantees with regard to credit repayment and, consequently, input use for cash crops has reportedly dropped significantly; this is said to be one reason for declines in quality. Ways of overcoming these problems are explored, both in this chapter and in Chapter 9.

Changes which have occurred with regard to export crop processing are examined in Chapter 5. Countries which fully liberalized the processing sector at the time crop purchasing was liberalized have tended to experience fewer problems than those countries which kept processing facilities in the hands of marketing boards or cooperatives. In Tanzania, for example, considerable short-term problems were experienced by private-sector buyers of coffee and cotton when they found that cooperatives denied them access to their processing facilities. Companies in Africa who process products beyond the usual export stage (textile mills, cocoa butter and chocolate factories, instant coffee factories) have also experienced difficulties. Under past arrangements they were guaranteed a raw material supply (which was often subsidized) by the state. They now have to compete with export buyers for their supplies.

Chapter 6 reviews the liberalization of the export trade. Most countries have permitted full involvement by the private sector in exporting and have closed down export operations of marketing boards. Some countries continue to operate export auctions, although their utility is open to some doubt. In most countries the main problem associated with liberalization of the export sector has been poor quality control at the time of export and this is cited by Ghana as one reason for the continuing involvement of the marketing board. In Nigeria the rapid privatization of cash-crop marketing was carried out without the introduction of any suitable quality-control arrangements, but most other countries have managed to provide reasonable services. Cameroon has privatized the export inspection service, but it is too early to assess the results of this measure.

Chapter 7 briefly examines the impact of liberalization on prices to farmers and on production levels. It has been particularly difficult to obtain reliable information on prices at farmgate since the liberalization process began. Nevertheless, available information suggests that farmers have benefited from the policy changes, although it is difficult to say whether this results from marketing liberalization *per se* or from macroeconomic changes which were introduced at the same time. The impact on production levels appears to have been generally positive.

Chapter 8 briefly examines some other consequences of marketing liberalization. These include a significant loss of jobs in marketing boards and cooperatives and increased difficulties in collecting tax revenue, particularly at local level. Monitoring of cash-crop production and marketing and preparation of statistics are also more difficult when there is no central body buying the crop.

The Conclusions and Recommendations summarize the main points to come out of the research. As only a few countries have not embarked on a process of liberalization, the recommendations are addressed primarily to those countries that have either partially liberalized or have completely liberalized but suffered significant problems as a result. Input supply and quality control are seen as the two main issues, but much work is required in many areas if the expected benefits of liberalization are to be realized.

This review represents a first attempt to compile information regarding the export crop liberalization process. Because of resource constraints it was not possible for the authors themselves to conduct field work for the purposes of the study. From a methodological perspective, it is appreciated that the main issues tend to cut across the different stages of the marketing chain. For example, export quality is affected by input supply, by primary purchasing practices, and by processing and export arrangements. Perhaps, future work in this area should focus on an in-depth study of the more important cross-cutting issues identified here, rather than replicate our marketing-channel approach. Nevertheless, despite the limitations of the research it is felt that the paper raises issues of considerable importance which need to be addressed urgently, both by policy-makers in commodity exporting countries in Africa and by those who have promoted marketing liberalization over the past decade.

Chapter 2

Structural adjustment and export crop marketing

Structural adjustment measures have been introduced in many developing countries and, in particular, in most sub-Saharan African (SSA) countries, with the purpose of stimulating economic recovery. The basic assumption has been that recovery will be achieved through macroeconomic stability, brought on by reduced internal budget deficits and reduced inflation.

At the beginning of the 1960s most SSA countries were following an interventionist approach to development. Prices, as well as the rate of exchange and the interest rate, were regulated, quantitative restrictions were imposed on trade, and private-sector activity was controlled. Governments were directly involved in the provision of services such as marketing and in some cases were also producers. By the late 1970s, many SSA economies had become highly distorted as a consequence of the control by the public sector of numerous economic activities. The adverse impact of these distortions was compounded by inefficiencies resulting from poorly managed state and cooperative sectors, frequent changes to marketing systems, and inability to adjust adequately to external shocks[3]. Consequently, at the beginning of the 1980s, the International Monetary Fund (IMF) and the World Bank, together with some bilateral donors, started a widespread lending programme known as Structural Adjustment Loans (SAL). This programme, together with policy reform, aimed at achieving both the development of

3 Westlake, M., 1994.

macroeconomic stability and the correction of what were seen as structural imbalances[4].

Almost all African countries had adopted a development strategy in which agricultural marketing was carried out by parastatals and, in most cases, cooperatives. Marketing boards in Africa often pre-dated national independence, having been created to overcome market disruption and price instability during and after the Second World War. The newly independent states retained their single-channel marketing systems as they conveniently fitted into the broadly socialist approach which was followed, to a greater or lesser extent, by most countries. State involvement in cash-crop marketing could be viewed as being egalitarian. Farmers were guaranteed outlets for their crops and given the opportunity to participate in the cash economy. A marketing-board system meant that everyone could be paid the same price for the same product irrespective of their location[5]. Furthermore, the new governments were somewhat hostile to the private sector and believed that those most likely to carry out crop marketing in the private sector would not be African. Single-channel marketing also made it easy for governments to collect export taxes in a simple and low-cost manner.

In addition to providing a guaranteed market outlet and a pan-territorial price, the control of crop marketing by the state had a number of other advantages. As there was only one crop buyer it was possible to provide inputs free of charge to farmers, funding the cost of the inputs from the resulting production. In theory another advantage was that

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4 The economic recovery policies in African countries can be represented as being composed of two components: structural adjustment and stabilization policies. The structural adjustment measures (public sector management and resource allocation, market liberalization and reform of supporting institutions) have direct impact on the supply sector, whilst the stabilization measures (monetary policy, fiscal policy and devaluation) have a direct impact on the demand side (FAO, 1990).

5 An exception was Kenya where coffee and tea prices for farmers were related to the average export price of the factories they delivered to.

quality could be efficiently controlled with only one buyer.

Offsetting such theoretical advantages were the practical problems that developed with state-controlled crop marketing and eventually led to calls for reform. Such problems included the following:

- Heavy government taxation meant that farmers were often paid prices that provided little incentive to increase production. The pan-territorial price meant that producers in areas with a comparative advantage were in effect subsidizing producers in higher cost, remote areas.
- Marketing boards and cooperatives took advantage of government cost-plus price fixing to inflate their costs and disguise their inefficiency. Excessive staffing was not uncommon and sometimes involved fictitious employees or employees who never turned up for work.
- Inputs were often not available to the farmer on time; products of dubious quality (e.g. agrochemicals) were sometimes imported by the boards.
- Poor stock control, theft from parastatal premises, and corruption at all levels increased costs and reduced export returns.

Although the conceptual weaknesses of administered marketing and exchange rate systems had begun to be recognized in developing countries in the 1980s, government decisions to liberalize were still mostly taken under the pressure of events and of the IMF/World Bank rather than as elements of an evolutionary programme[6]. Indeed, while export crop liberalization was under discussion in many countries during the 1980s, it is really only in the early

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6 The following influenced the decision to liberalize: incapacity to prolong price support subsidies; incapacity to cope with inefficiency and corruption; drastic decline of export industries; insurmountable budgetary and balance-of-payment problems; empirical and ideological factors; and external persuasion (Reusse, 1987).

1990s that significant steps have been taken toward reform.

In a strong defence of the use of public institutions for export marketing, Van Der Laan has argued that a developing country may benefit more when it is served by a competent export marketing board than when it leaves its exports to private exporters. He points out that the private sector has more difficulty in obtaining finance than do marketing boards. Van Der Laan also concludes that with exporting left to the private sector there is always the danger of cartels. A further concern is that small-scale exporters would be unable to take advantage of economies of scale, particularly in relation to international shipping[7].

Structural adjustment stresses the advantages of relying on markets rather than on government intervention. Creating a positive environment for private investment and risk taking is perceived as having more beneficial effects than direct government involvement in markets. Nevertheless, even though most countries are now rapidly liberalizing agricultural markets, the belief that state involvement in crop processing and marketing can play an important role in social engineering is far from dead, particularly in countries such as Tanzania which had a strong commitment to "socialism". This is perhaps manifested in the continued restrictions which hinder private-sector marketing activities in Tanzania, despite formal moves to liberalize.

Besides the increase in farmgate prices, which is assumed to result from the return to a competitive market structure and removal of marketing board inefficiencies, a further argument in favour of export market liberalization has been the possible diversification of production which can be expected. To date, however, liberalization of export marketing has not led to significant diversification. Brownbridge and Harrigan (1996) write that the SSA countries appear to have achieved very little export diversification since adopting SAPs and, as a consequence,

7 Van Der Laan, H. 1992.

remain heavily dependent on a few primary commodities for the bulk of their export earnings. This is perhaps not too surprising. The scope for diversification into so-called "non-traditional" export products such as fruits and vegetables and flowers can be limited by logistical constraints, the size of the market, and the fact that many developing countries are presently investing in such production. Furthermore, rapidly improving cultivation techniques in the main markets increasingly make possible the sale of off-season products. Also, there would appear to be no logical reason why liberalization of markets should lead to an increase in secondary or tertiary processing activities in the country producing the primary commodities. An instant coffee factory does not suddenly become viable just because private buyers replace the marketing board[8]. It has been argued that before promoting diversification, SSA countries should concentrate on maximizing returns from areas in which they have comparative advantage. In agriculture, this is most commonly the production of primary commodities (Duncan, 1993).

While not strictly a measure of structural adjustment but rather one of stabilization, currency devaluation has an immediate effect on international trade. Proponents expect devaluation to stimulate exports by raising their prices in terms of domestic currency and to expand their market share in the international market by lowering their prices. On the import side, devaluation raises prices of imports in terms of the domestic currency, thus acting as a disincentive for unproductive consumption. In the long run, the export-led higher income is expected to drive imports upwards to a new level of equilibrium at a higher standard of living[9] [10].

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8 See discussion in Chapter 5.

9 Mengisteab, K. 1991.

10 It is perhaps important to distinguish between "devaluation" in the CFA countries and "devaluation" in other countries. The CFA franc remains a currency whose value is determined by governments, not by the market. Left to float freely, its value would probably decline further than the formal 1994 devaluation. In many of the other countries "devaluation" has effectively meant allowing the currency to find its own level according to market conditions. In some cases this has led to a loss of value of the currency of over 90 percent.

Some authors have maintained that if devaluation fails to increase export earnings, it leads to new economic and social problems such as the creation of inflationary conditions through a wage-price spiral, and to the contraction of economic activity owing to the reduction of intermediate goods imports. Mengeisteab considers that too much importance has been given to devaluation in adjustment programmes. He argues that the evidence does not support the view that the past appreciation of real exchange rates is at the root of Africa's economic problems. Devaluation is unlikely to lead to significant improvement in the balance of payments as long as African economies remain undiversified[11].

Kirkpatrick and Weiss (1995) argue that the analysis of real exchange rates does not confirm the conventional expectation that depreciation will contribute to export growth and product diversification. They conclude that if there have been some modest benefits from adopting trade liberalization measures, these must have come from aspects of the policy-reform package other than devaluation[12].

Those considering devaluation in a positive light always underline the need to accompany this with a wide range of other interventions. Diakosavvas and Kirkpatrick (1990), the latter seeming to be more optimistic than he was five years later, concluded that where an improvement in export performance had occurred it had been associated with a depreciation of the exchange rate. They added, however, that it would be wrong to interpret these findings as evidence in support of the argument that "getting the foreign exchange price right" is the key to unlocking the constraint on agricultural export production in Africa. While exchange-rate policy has a significant role to play in the recovery of the agricultural sector's export performance, other supportive measures are equally

11 Mengisteab, *op. cit.*

12 Kirkpatrick, C. and J. Weiss, (1995).

important[13]. Lall (1993), having noted that a depreciation of the exchange rate sustained in real terms (i.e. not wiped out by subsequent internal inflation) can provide a strong incentive to exporters, argues that exchange-rate policy is most effective in a context where stabilization measures and other trade policy reforms are being implemented.

While the package of SAP measures has been fairly uniform throughout SSA[14], there have been major differences in the speed with which reforms have been introduced and the pace of private-sector reaction[15]. A review of the basic steps taken by some of the most important crop exporting countries in sub-Saharan Africa with regard to marketing may help us to better understand recent developments. We have divided the countries into four groups, although most fall into the second:

- countries where export crop marketing has been more or less fully liberalized in a rapid period of transition, with little planning;
- countries with a progressive disengagement of the state from crop purchasing, export marketing and processing;
- countries where crop purchasing has been progressively liberalized but export marketing remains under parastatal control;
- countries where the export crop sector is still a single-channel marketing system.

13 Following the same track, Sahn, Dorosh and Younger (1996) point out that while adjustment policies (devaluation among them) are not a threat to the welfare to most of Africa's poor, it is also true that these policies have not generated rapid economic growth and as a result they have not contributed substantially to poverty alleviation. They conclude, unsurprisingly, that macroeconomic and sectoral reforms are at best only part of the solution to the problem of poverty in Africa.

14 Less importance has been attached to stabilization measures in the West Africa Currency Union (CFA) countries because of their better control of inflation and balance of payments owing to the tighter monetary policies stemming from membership of the union.

15 Since in many SSA countries structural adjustment reforms have run counter to the socialist development paths followed in the post-independence period, the reforms

Countries where export crop marketing has been more or less fully liberalized in a rapid period of transition, with little planning

This case is mainly represented by Nigeria where liberalization and privatization were introduced at a time of a seriously deteriorating macroeconomic environment characterized by rising inflation, an increasingly overvalued naira and deteriorating internal terms of trade for the agricultural sector. In December 1986, the government abolished the six commodity boards that had held a monopoly on the pricing, subsidization, purchase, and marketing of oil palm, cocoa and coffee, rubber, cotton, groundnuts, and grains. Among other problems, in order to make crop purchases the boards had been borrowing from the Central Bank of Nigeria in excess of their earnings from export sales. However, the changes made were inadequate and the roles to be played by the private sector were not clearly defined. In the case of cocoa, steps should have been taken to ensure that all the major functions being carried out by the cocoa board were adequately transferred to certain private-sector groups. This was not the case, especially with respect to quality control and management of adequate warehousing.

The problems associated with the liberalization of cocoa in Nigeria stemmed from two major causes. Firstly, as indicated, the speed with which changes were introduced allowed no time for necessary systems to be put in place. Secondly, the inconsistencies between various micro and macro policies provided strong incentives for those with little long-term commitment to the industry to become involved. Liberalization presented an excellent opportunity for people who wanted to convert naira into hard currency to do so by exporting cocoa. Admittedly, a

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proposed by the international financial institutions and donors have been more easily accepted where there has been a change of government. For example, while IMF proposals, particularly devaluation, were initially resisted by the long-established Tanzanian Government, the new National Resistance Movement Government in Uganda rapidly adopted the standard IMF/World Bank stabilization and adjustment package (Westlake, 1994).

short-term consequence of this was high prices for farmers, but in the long run the rush to export regardless of quality is likely to have seriously damaged cocoa farmers' incomes. In the 1989/90 cocoa season Nigerian exporters made forward contracts equivalent to 400 percent of the country's annual production, leading to inevitable and damaging defaults[16]. A comparison can be made with Uganda, where liberalization was introduced in the context of a floating shilling and where there is little or no evidence of cash-crop exporting being used for capital flight.

Liberalization of export crop marketing also implies a willingness to accept that, within reason, the market must be left to function unhindered. For a time this was not the case in Nigeria where cocoa bean exports were banned in order to guarantee raw material supplies to processing companies, not to control the flight of capital. This, in turn, led to increased investment in processing facilities, investment which was subsequently rendered largely unproductive when the government reversed the export ban.

Countries with a progressive disengagement of the state from crop purchasing, export marketing and processing

This is the most common case. In some examples (cotton and coffee in Uganda; coffee in Ethiopia) the marketing boards continue to compete on export markets with private traders, albeit in a limited way, whereas in other examples (cotton and coffee in Tanzania) the boards have been replaced by industry boards, with control and regulation functions only.

In analysing the impact of liberalization we do need to distinguish between changes that could have been brought about without privatization and changes resulting from that privatization. For example, in Cameroon farmers are now receiving a much higher share of the FOB price for coffee than they did before, but this stems primarily from a reduction in the high levels of taxation on exported coffee. Such changes could have been brought about while

16 Olagbaju, J.O., 1995.

still retaining the state marketing system. Under the previous system, Cameroon set pan-territorial farm prices for export crops, as well as marketing margins up to the FOB level. For arabica and robusta coffee the buying was handled by licensed buyers who had fixed areas of operation where competition was not allowed. Arabica coffee was the monopoly of the Union Centrale des Coopératives Agricoles de l'Ouest (UCCAO) in the West Province and the North West Cooperative Association (NWCA) in the Northwest Province. The system as then operated had to support heavy National Produce Marketing Board (NPMB) administrative costs, largely as a result of a bloated payroll, artificially inflated trading margins for the authorized buyers, and the costs of badly managed coffee cooperatives and uncompetitive cocoa processing ventures. Despite these drawbacks and the fact that producers were heavily taxed, coffee and cocoa quality was considered to be good. Since the liberalization process began there has been some decline in quality.

The marketing systems in Cameroon were a mixture of the Caisse de Stabilisation (Caistab) system of francophone Africa and the marketing board system of anglophone Africa. Three different reforms (1989/90, 1991, 1994/95) brought Cameroon to a complete withdrawal of the state from the cash crop sector, through the abolition of the system of state licensing, the abolition of the annual stabilization mechanism and the transfer of quality control prior to export to the private sector. The Office National du Cacao et du Café (ONCC) and the Conseil Interprofessionnel Café-Cacao (CICC) were created in 1991 and 1992 to replace the boards. ONCC was charged with promoting Cameroonian produce on world markets, representing the country in commodity negotiations, carrying out quality control and registering exports and collecting statistics. The creation of the CICC provided a private-sector institutional framework for liberalization as it represented exporters, buyers, processors, cooperatives, producers and even the ONCC.

The government of Côte d'Ivoire had for a long time opted for a policy of stabilization with the principle of *barême* as its key element[17]. In 1995 an agreement was reached on a World Bank Structural Adjustment Loan. Reforms for cocoa and coffee were in effect from the 1995/96 crop season and included a complete overhaul of the method by which producer prices for the two commodities were fixed. While prices were still set at the start of the season they served as no more than guidelines, upper and lower price limits being negotiable according to market conditions. Exporters were to purchase directly from farmers and their organizations. Caistab thereby lost its monopoly and was expected to close down some of its purchasing offices. In line with its policy of increasing the proportion of the cocoa and coffee crops processed domestically, the government also decided on a range of tax concessions to companies planning to invest in these industries. Direct export sales by Caistab were limited to 15 percent of total production, with the balance to be sold indirectly for the account of Caistab by 32 approved exporters. However, this complex system proved impossible to implement in 1995/96, as approximately two-thirds of that season's cocoa crop had already been sold forward by Caistab.

In Zambia cotton marketing was the responsibility of the National Agricultural Marketing Board (NAMBOARD) until 1978 when another parastatal, the Lint Company (Lintco), was established to provide inputs and to gin and market the crop. At the same time, Lintco also became responsible for cotton extension, with the secondment of relevant extension staff from the Ministry of Agriculture. Under Lintco seed cotton production peaked

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17 *Barême* was a detailed system of fixing a guaranteed producer price and a guaranteed export reference price for each step in the cocoa and coffee chain from farm to export. When cocoa was sold, if the exporter's price was higher than the export reference price set by the Caisse de Stabilisation, the exporter had to compensate the Caisse with the difference, called the *reversement*. If the world market price was less than the reference price, the Caisse made up the difference with a payment (the *soutien*) to the exporter from its financial reserves.

in 1988 at 58 000 tons. In 1986 Lonrho, a large private company, opened a new ginnery, in addition to the four already operated by Lintco. However, the agreement that Lintco would provide the raw material for this ginnery was never satisfactorily honoured and Lonrho was subsequently permitted to organize an outgrower scheme to ensure an adequate seed cotton supply. From 1991 the cotton sector was progressively liberalized as the government ceased fixing producer prices. In 1995 Lintco was privatized and its assets were sold to Lonrho and one other company. Subsequently, other companies entered the market as buyers of seed cotton and one has installed a new ginnery. Processing capacity currently far exceeds seed cotton production.

In Tanzania measures to liberalize export crop marketing were slow to get under way. In 1984 the marketing boards were initially replaced by cooperative unions as monopoly buyers and processors. Since the cooperatives were themselves semi-public bodies, this simply created an extra layer of bureaucracy with no improvement in efficiency. The boards continued to be responsible for exports. Up to 1994 the state-monopolized cotton marketing chain in Tanzania was composed of primary cooperative societies and regional cooperative unions, with the Tanzania Cotton Marketing Board acting as a general supervisor and production services provider. Since the 1994/95 season private traders have been allowed to purchase, process and export both cotton and coffee, although coffee is still sold through auction. Nevertheless, activities by the private sector continue to be constrained in several ways.

In the case of cotton the marketing board has now been replaced by the Tanzania Cotton Lint and Seed Board (TCLSB) which has overall responsibility for controlling the industry. The Cotton Marketing Company, a subsidiary of TCLSB, continues state involvement in cotton marketing. The transition process was generally poorly handled and it is felt that this is one reason for declines in cotton quality in recent years. Rules and regulations regarding the operations of the private sector took a long time to prepare, partly as a result of prevarication by the then monopoly cotton marketing board. The industry therefore functioned for around two years without approved regulations, which led to some confusion. Similarly, the rapid changes in marketing arrangements left the Tanzania Coffee Board with a set of regulatory and information functions, but without any statutory powers. The cashew industry in Tanzania has also been progressively liberalized with involvement of private traders in crop purchases from 1991 and in export from 1992. In recent years up to 18 companies have exported nuts. Exporters tend to buy from farmers using either their own employees or agents.

Until 1992 the Ethiopian Coffee Marketing Corporation (ECMC) had a virtual monopoly on purchase and sale of coffee. Farmers were forced to deliver annual quotas to the ECMC and the small private sector was able to buy only coffee left over after the quotas were fulfilled. In 1990/91 the corporation purchased 86 percent of all coffee. After the demise of the military government, the ECMC was divided into two organizations, both of which now compete with the private sector, the Ethiopian Coffee Export Enterprise (ECEE) which exports coffee, and the Ethiopian Coffee Purchasing Enterprise (ECPE) which purchases coffee on the domestic market. Liberalization has led to a rapid increase in the number of coffee buyers, wholesalers and exporters and an expansion of the business of many of the traders who had been permitted to function under the former military government. Service cooperatives continue to buy coffee, although many have suffered from mismanagement and corruption. Despite liberalization, the industry continues to be fairly strictly controlled and minimum prices are established, both at the buying stage and the export stage, where auctions continue to be used.

In Uganda the coffee export sector was completely under marketing board control until 1992. Before liberalization, the state-run Coffee Marketing Board (CMB) and the official cooperative societies had fixed farmgate prices which often had little relation to the world market price.

The Ugandan Government adopted a sequential approach to liberalization. Initially, the export monopoly of the CMB was removed, allowing cooperatives and the private sector access to the export market. The regulatory and developmental functions of the CMB were transferred to a new organization, the Uganda Coffee Development Authority (UCDA). From July 1991 controls on prices and margins were removed; however, the administered prices were replaced by indicative prices announced by UCDA and a floor price was announced daily for exports. Competition in the industry was further enhanced in November 1991 when government guarantees for crop financing were withdrawn, effectively making life more difficult for the cooperatives who had been the beneficiaries of the guarantees. From March 1992 exporters were permitted to exchange coffee proceeds at the open-market rate and in July 1992 the export tax on coffee was removed. The minimum export price was replaced by an indicative export price following a policy review.

A sequential approach was also adopted in Uganda for cotton. From 1993 private buyers were permitted to buy cotton, but the cooperative unions continued to monopolize the ginning sector until mid 1995 when a transfer of gins to the private sector commenced. Cooperative unions continue to play an important role in processing and marketing, but many now source their cotton through private buyers as well as through cooperative societies. The progressive liberalization of the coffee and cotton industries was supported by ongoing research carried out mainly by the Agricultural Policy Secretariat of the Bank of Uganda. The relative success of liberalization in Uganda owes much to that research and, perhaps more importantly, to the fact that policy decisions were taken with reference to the research. In several of the other countries reviewed in this paper similar research was conducted by various agencies but it did not necessarily result in appropriate policy decisions.

Cotton in Ghana was initially liberalized with privatization of the former parastatal Cotton Development Board, which became the Ghana Cotton Company.

Subsequently, new firms entered the market. There are now three firms operating ginneries and nine engaged in marketing only. As in Tanzania, those without ginneries are at a disadvantage since the firms with ginneries first gin their own seed cotton and thus have first opportunity to make sales to the local textile firms. The former parastatal still accounts for around 60 percent of the market. This can be seen as an example of successful privatization. An alternative interpretation, however, is that the process of privatization has simply replaced a state monopoly by a private one. Reasons for this continued domination of the market include the company's close links with input suppliers and textile firms, its ownership of three ginneries, and its retention of a cadre of trained staff and experienced farmers. Under such circumstances the fact that other companies have succeeded in taking 40 percent of the market may perhaps be considered an achievement. To some extent this has happened because of finance made available through the Agricultural Development Bank (ADB) to provide private companies with start-up capital for cotton purchases.

Countries where crop purchasing has been liberalized, but export marketing remains under parastatal control

This scenario applies particularly to cocoa in Ghana where only limited steps have been taken towards marketing liberalization. Although purchasing of cocoa from farmers has been liberalized, the Produce Buying Company (PBC), a subsidiary of the Ghana Cocoa Board (Cocobod), purchased 70 percent of all cocoa in 1997/98. Such continued heavy state involvement seems to stem from continued intervention in price setting by the Producer Price Review Committee, which allegedly allocates inadequate margins to traders, and from the fact that the private sector lacks access to trade finance because another subsidiary of Cocobod still carries out all export marketing. Consequently, private-sector traders are unable to establish the linkages with exporters, including financial linkages, that we see developing in many other countries. Offsetting this drawback is the high regard in which

Ghanaian cocoa is held on world markets and the price premiums which the exporter, the Cocoa Marketing Company (CMC), regularly obtains.

Countries where the export crop sector is still a single-channel marketing system

The cotton sector in Mali is managed by the Compagnie Malienne pour le Développement Textile (CMDT). Structural adjustment in Mali has not yet affected the production-marketing chain for cotton, except in a few marginal aspects. This situation is a consequence of the general consensus developed between the Government of Mali and the donors on the good performance and relative efficiency of CMDT.

In 1992 agricultural prices and marketing were liberalized, but in the cotton sector state organizations continued to follow a policy of maintaining stable producer prices. This has meant that any gains from an increase in cotton's world market price went to CMDT but it also meant that CMDT absorbed the losses when prices fell, thus protecting farmers from a sudden drop in income. Structural adjustment did have an affect on input supply and on arrangements for purchasing from farmers, where the farm associations increased their participation. However, with ginning and export marketing, the CMDT monopoly is still total.

Chapter 3

Purchasing crops from farmers

Liberalization has resulted in the emergence of an adequate number of primary buyers in almost all countries. The buyers in contact with farmers are of two types: individual buyers working for their own account and individuals acting as agents for large companies. The large companies, especially in the export trade, are increasingly foreign-owned or financed by foreign companies. For instance, 75 percent of cocoa exported in 1995/96 by Cameroon was handled by national traders, but in 1996/97 national exporters handled only 25 percent of exported cocoa.

In Tanzania prior to the liberalization of cotton marketing, there were 14 regional cooperative unions which were legally mandated to trade in cotton. Following liberalization in the 1994/95 marketing season, some 22 private companies entered the trade although they were only buying in five regions. Farmers in three regions where production is relatively low found themselves with no buyers. As a result the TCLSB started to buy in these regions. In 1994/95 and 1995/96 farmers generally received cash at time of sale. However, the TCLSB has reported delays in payment by private traders in 1996/97. In July 1997 the Minister of Agriculture directed that licences of traders buying on credit should be revoked.

Although coffee buying in Tanzania has been liberalized, the buying procedures are still very much circumscribed by the authorities. For purposes of quality control, the coffee board announces every year the date on which buying of coffee can commence (in order to ensure that beans are mature prior to harvest). Although the date varies throughout the country according to growing conditions, it provokes disagreements between the board and traders every year. Given the fact that coffee quality in Tanzania has declined in recent years, it may be questioned whether the announcement of a buying date now serves any useful purpose. The announcement of a buying date can also be seen as a reason contributing to the operations of unlicensed traders who buy from farmers at low prices before the official buying date, and sell the coffee to licensed traders after that date. Such a practice is not new but seems to have expanded since liberalization. The rogue traders can now be assured of receiving cash payment, which was not the case when they were selling to cooperatives. The practice is said to be one of the reasons for quality declines.

Licensed buyers in Tanzania are obliged to announce their buying prices for different localities through newspapers or on the radio. These same prices must be clearly displayed on a notice board at the official buying centres, which are the only places where coffee can be purchased from farmers. While this system was possibly introduced with the best of intentions, i.e. to promote transparency in the system, it is debatable whether the benefits now outweigh the disadvantages. While traders can amend their prices they must again go through the procedure of announcing the new prices; thus, they apparently have little flexibility to respond rapidly to market conditions. There is evidence that traders are reacting to this constraint by agreeing in advance on the buying price for a particular area. Price announcing often leads to attempts, particularly by local politicians, to force traders to raise their prices. There is no scope for buyers to offer incentives for higher quality as only one price for coffee is announced[18]. The use of buying centres forces the farmer to take his coffee for sale rather than wait for a trader to visit him and, as reported by Poulton *et al*. in the case of cashew, this practice and that of requiring licences do open the way for rent seeking by local officials[19].

18 The lack of price incentives for quality is not, however, unique to Tanzania.

19 Poulton, C., A. Dorward and J. Kydd, 1997.

Buyers in Tanzania have to pay levies in each district in which they operate. Levies represent an important source of income for local authorities, but the fact that they must be paid in advance represents a significant barrier to entry of smaller traders. The rate applied varies across the country, being left to district councils to determine. Since the liberalization process began there has reportedly been a general upward trend in these rates. Other taxes on coffee include a 1.6 percent coffee board administrative levy on the auction price, a 0.125 percent research levy, a 2.0 percent export tax and a 1.5 percent stamp duty. Local education boards also attempt to levy a fee per kilogram. These proliferating taxes are set largely without coordination. Evasion is common, particularly at the local level. In the case of cashew, the government continues to announce an official buying price, although its legal status is unclear. In May 1998 the Minister of Agriculture was quoted as warning buyers to make sure government prices were respected.

Liberalization has led to a great number of coffee buyers in Tanzania. Nevertheless, coffee producers in the regions of Kigoma and Iringa faced problems because their cooperatives had been liquidated and because the quantity of production provided no incentive for private traders to visit them. Reportedly, only a few traders are using their own funds and most are instead functioning as agents for larger buyers who, in turn, are often buying on behalf of processors and exporters. The speed with which this vertical integration of the export sector has occurred in many SSA countries can be viewed in different ways. On the one hand, there is the view that governments, who in the past provided or at least guaranteed finance to the state marketing system, have "driven" traders into establishing linkages with larger companies and overseas buyers by withdrawing such financial guarantees. On the other hand, there is the view, to which the authors of this paper are inclined, that the trend towards finance for crop purchase being provided by the marketing system itself is an entirely positive development, although perhaps one which had not been really foreseen at the time liberalization began. It is difficult to see how any system of crop finance guarantees for the private sector could have worked, given the traditional reluctance of banks to lend to small traders lacking collateral, particularly those involved with agriculture, and given the many failures of rural credit provision in Africa in past decades.

In the Tanzanian cotton sector a few large cotton buyers and ginning companies have adequate working capital for cotton procurement. Most of the smaller cotton buyers depend on pre-financing arrangements from overseas lint importers to buy and process cotton and transport it to Dar es Salaam for onward shipment. A similar situation applies in Cameroon, where easier access to financing, especially from abroad, has apparently permitted international traders to more or less monopolize the Cameroon cocoa market. Such a trend seems to have been resisted in Côte d'Ivoire where a quota system reserves 85 percent of cocoa exports for local exporters[20].

Coffee buying in Ethiopia is hedged with restrictions somewhat similar to those practised in Tanzania. Buying of sun-dried coffee is permitted only at specified markets on specified days and the government announces floor prices. Under the military government there was a fixed-price differential between the price paid by primary buyers (*sebsabies*) and wholesalers (*akrabies*). Although this rule no longer applies, it has never been officially repealed. At present, only primary buyers, service cooperatives or the ECPE can buy sun-dried coffee from farmers, although there are plans to permit wholesalers and exporters direct access to farmers, partly on the grounds that this could result in higher quality coffee. Partly because of the auction system there is little vertical integration between the exporter and the primary buyer, although wholesalers and buyers are frequently linked, with the wholesalers financing purchases made by the buyers. Reportedly, the private sector has been successful

20 Shepherd, A. and G. Onumah, 1997.

in obtaining bank credit for trading operations, with banks apparently being keener to lend to private entrepreneurs than to the cooperative sector. Since the liberalization process began there have been suggestions that coffee quality in Ethiopia has declined, although this is not confirmed by statistics from the auctions. Part of the reason for any decline could be that there are no premiums for quality at the primary buying level. Ways of introducing quality-based pricing are under discussion although the continued use of auctions may be one reason why this will be difficult to achieve. While auctions, in theory, should relay price signals regarding quality back to the processors, they do not provide the opportunity for exporters to establish links with processors and work with those processors to obtain the quality they require.

In the arabica producing areas of West and Northwest Provinces of Cameroon the private sector now controls around 70 percent of the market while the former monopolists, UCCAO and NWCA, account for just 30 percent. Private buyers also include some of the richer producers. There are many buyers and there is considerable competition at farmer level for the coffee. Payment is normally in cash, an improvement on the past situation when cooperatives were often in arrears with payments to farmers.

In Ghana cocoa purchasing is controlled in a way similar to that practised in Tanzania. There are 2 700 buying centres where farmers can meet with buyers and where preliminary quality control is carried out by Cocobod's Quality Control Division. This is seen to offer considerable advantages over the situation in Côte d'Ivoire, for example, where farmers sell to traders at farmgate and may be tempted to carry out a transaction before the cocoa has been properly fermented and dried, for fear that the trader may not reappear for some time[21]. As a result of the impossibility of the private sector to enter into the marketing system in Ghana, owing to the continued export monopoly of Cocobod, some rather complex buying

21 *Ibid.*

arrangements have been introduced which serve mainly to perpetuate board involvement in the market (70 percent of purchases in 1997). Licensed buyers obtain initial funds from Cocobod, but time lags between the delivery to Cocobod of cocoa purchased using those funds and the release of further monies means that these buyers also have to seek bridging loans from banks. Furthermore, to avoid issuing large quantities of cash, a system of Cocobod cheques (*Akafua Cheques*) was devised. These proved unsuccessful as on occasions there were inadequate funds with the banks to back them up. Several areas of Ghana are presently poorly served by private-sector buyers, partly because of the relatively small quantities produced in those areas. It is, however, not clear whether the continued operation of Cocobod's Produce Buying Company in these areas is a consequence of the reluctance of the private sector to become involved, or a cause.

The relatively limited changes in Ghana have meant that price competition at the farmer level has yet to emerge. Cocobod's PBC effectively sets the price as the monopoly buyer. The tight margins allowed private-sector buyers offer little scope for price competition. In addition, PBC has access to cheaper credit than do the private traders, and has yet to operate on a full-cost basis[22].

In Uganda sun-dried robusta or arabica parchment is purchased by mobile traders, often operating on bicycles. These small traders sell the coffee to larger buyers who either own their own processing facilities or have the beans processed for a fee at a nearby factory. Farmers living close to coffee factories may bypass the intermediaries and sell their beans direct to the factory. Some farmers with larger farms hull their robusta cherries on a contract basis and sell ready-processed coffee to exporters. Considerable competition is reported at the primary marketing level and, as a result, farmers have few problems selling their coffee at competitive prices. A negative consequence of this, however, is that many buyers are inex-

22 *Ibid.*

perienced. This had an adverse impact on quality, at least in the initial stages of liberalization, although recent reports indicate that this trend has been reversed as the inexperienced operators have dropped out of the business. Prices to coffee farmers not only went up following liberalization but farmers were also paid promptly, reportedly leading to a rapid reversal of the previous neglect of trees.

During the days of single-channel marketing, farmers in many countries were organized into cooperative societies, which were often affiliated to cooperative unions. Farmers were obliged to sell all their production to the cooperative unions through their primary cooperative society. This top-bottom cooperative system disintegrated following liberalization, and in many cases was substituted with cooperatives initiated by groups of farmers themselves. This has been the case in Tanzania, where these new groups, usually small in membership, have not necessarily been required to affiliate to any union. With greater independence some groups have not only played the role of bulking the crop for sale through a union, but have gone further by processing it and presenting it at the auction floor for sale. Besides assuming these marketing functions, the new farmer groups have also initiated input credit schemes.

In some other cases farmer groups have been apparently successful. In Cameroon, for example, the creation of such groups has been encouraged by the Société de Développement du Cacao (SODECAO) which has carried out training in marketing. Around 1 500 groups were created in the SODECAO zone during the 1992/93 season. The principle of group marketing was adopted by 322 of these groups, many of which are said to have succeeded.

In Tanzania the quality of cotton lint has deteriorated significantly since the cotton trade was liberalized. The decline in quality has been caused by the following: the fact that the majority of private traders who have entered the cotton trade do not have sufficient experience; the mixing of seed cotton from different origins; the type of new gin being introduced; and input supply problems. In Uganda significant improvements have been recorded in lint quality and over 80 percent of lint produced during the 1996/97 season was in the top three grades of the country's classification system. Uganda has been less affected by input-supply, cotton-origin or processing problems.

Throughout Africa farmers are now confronted directly with the market and therefore are responsible for the marketing of their crops and for the prices obtained. In most cases this has meant greater uncertainty, but the compensation to farmers is that the liberalization process has also tended to result in a higher share of the FOB prices for them. The elimination of marketing board and cooperative union inefficiencies and the reduction of taxation of farmers through marketing board retentions, combined with active competition among buyers in most countries, appear to have been beneficial to farmer income even if the rising cost of inputs has eroded some of the gains. Inevitably, however, there have been losers. As with grain marketing liberalization, farmers in remote areas no longer benefit from pan-territorial prices and assured access to markets. Particularly in the case of cotton, which incurs high transport costs in relation to its value, such farmers, out of necessity, have had to accept lower returns than they did in the past.

Chapter 4

Input supply

Under past arrangements input supply to farmers for export crops was mainly controlled by state bodies. Fertilizers, pesticides, and seeds were imported or produced locally by the state and supplied to farmers, frequently free of charge. The farmer paid for the inputs through deductions made by the board or cooperatives from the price paid for the crop. Parallel with the liberalization of cash-crop marketing, the marketing of all agricultural inputs has been liberalized and the private sector is now an active participant in their procurement and sale.

The ending of the previous input-supply system, combined with significantly higher prices resulting from devaluation and the ending of input subsidies, has led to a reduction in input use in most countries, at least temporarily. Some private companies are attempting to overcome the problem by supplying inputs on credit, but this system, while worthy of encouragement, does have a particular risk attached to it. While marketing boards could have been reasonably sure of buying the crops of farmers who were supplied with free or cheap inputs (although smuggling to neighbouring countries was not unknown), private traders have no such guarantee.

In contrast with Uganda, where yields have increased, coffee yields in Tanzania have fallen from around 250 kg/ha to around 200 kg/ha since liberalization. This is attributed to the reduced use of inputs. Where there have been production increases these have tended to come from relatively recent plantings rather than from more intensive cultivation. Few traders are offering inputs on credit because of the difficulties of obtaining repayment when there are many buyers. Input suppliers tend to make products available during the coffee harvesting season, which is when farmers have money. However, farmers appear reluctant to buy inputs ahead of the time they are needed, but when they do require the inputs they may have run out of cash.

To avoid or mitigate the effects of powdery mildew disease, the use of sulphur dust is almost essential in cashew cultivation. Finance is required for sulphur and for blower hire. In Tanzania difficulties have been experienced with sulphur supply because of the problem of retrieving loans from farmers. Some private input traders distribute the sulphur to village-level intermediaries such as shopkeepers, progressive farmers or village leaders who, in turn, lend it to the farmers they select. In practice, however, it is the trader who has to push the farmers for repayment because farmers perceive that they are taking a loan from the trader rather than the village intermediary[23].

Cocobod in Ghana was until recently responsible for input supply on credit to farmers. The system worked well, although it proved expensive to supply inputs to remote areas. With the liberalization of input arrangements the private sector was reluctant to take over for several reasons. Traders did not have adequate financial resources to take on such business overnight and were reluctant to stock products when they were unsure of the market. Moreover, farmers lacked the funds to make cash purchases and had no alternative credit sources. As noted earlier, the retention of an export monopoly by the board meant that the financing of traders through the marketing system was impossible for other than short-term crop buying purposes.

In 1988 Barclays Bank in Ghana started lending to groups of cocoa farmers through a network of Cocobod's PBC societies. Such loans have been primarily for the cost of labour for weeding and harvesting. The committees of the societies were responsible for vetting all loan applicants and for screening out poor risks. Subsequent to this initiative by Barclays the Agricultural Development Bank

23 Poulton, C., A Dorward and J.Kydd, 1997.

(ADB) introduced a similar scheme. Both schemes were initially successful, with repayment rates close to one hundred percent. However, the ADB, in particular, encountered difficulties, as liberalization of the purchasing of cocoa meant that farmers preferred to sell their cocoa for cash to private traders rather than repay the bank[24].

Perhaps the most regrettable aspect of the changes in input-supply arrangements relates to the use of pesticides. For example, the past practice of the Ghana Cocoa Board supplying farmers with inputs meant, in theory at least, that all farmers were using necessary pesticides. Of course, the distribution arrangements sometimes broke down and some farmers failed to apply the inputs supplied but, in general, it proved possible to control pests and diseases. Now, agrochemical application is very limited and even the efficient farmers who continue with agrochemical use find the impact minimized by the failure of their neighbours to do the same. "Black Pod" disease can have very damaging effects on the cocoa crops of West Africa if preventative measures are not taken.

The impact of liberalization on input use for cash crops does need to be seen in the context of parallel changes in overall input marketing arrangements. In Cameroon fertilizer marketing was liberalized in the early 1990s and this was accompanied by an end to the considerable subsidies provided to fertilizer users. Thus, it is perhaps a futile exercise to assess the impact of changes in input supply arrangements for coffee farmers in terms of quantities of fertilizer used, particularly as much of the subsidized fertilizer formerly supplied to coffee producers was actually used for food crop production. However, following a significant drop in fertilizer consumption in the early 1990s, an increase was seen towards the middle of the decade. In the West and Littoral Provinces, coffee farmers reportedly are now realizing the advantages of reliable input supply and are beginning once again to obtain inputs from cooperatives, to be paid for at the time of crop sale.

24 Coulter, J., R. Stringfellow and E.O. Asante, 1995.

Cooperatives naturally give priority to those farmers who, despite the involvement of the private sector, have continued to market their crops through the cooperative system and who, it is assumed, can be relied upon to repay their loans.

The input credit system for cotton in Tanzania has generally collapsed. Some buyers who had supplied inputs on credit and encountered repayment difficulties endeavored to create monopolistic buying areas in order to increase their chances of repayment. Regulations require cotton buyers to contribute toward the cost of seed preparation. However, the TCLSB is facing problems in obtaining necessary seed and there is the view that traders are avoiding their obligations. A further problem with cotton in Tanzania is that farmers are accustomed to branded insecticides. A similar product with a different brand name to that previously imported by the board is not easily accepted, causing difficulties for input traders.

In Uganda it is generally agreed that the availability of inputs for cotton, including agrochemicals, farm tools and implements, is now much better than it was before liberalization. The entry of major companies into the business has created competition and stabilized prices in recent years. Liberalization was followed by the government's removal of all taxes on agricultural input imports in Uganda. As a result, the supplies of basic tools and equipment have not only increased but their prices have also remained relatively stable and within the reach of most farmers.

A Ugandan programme to provide cotton inputs on credit has not been particularly successful, at least not when measured in terms of funds disbursed. Response to this programme has been slow owing to perceived high interest rates, lack of collateral, non-creditworthiness of borrowers and delays in implementing a capacity-building programme for rural financial intermediaries. Uganda's ginneries are now responsible for distributing seed to farmers on either a cash or credit basis. The Cotton Development Organisation (CDO), which was established in 1994 to carry out regulatory and development activities, levies 35 percent of the value of seeds produced by a ginnery to cover the costs of a seed distribution fund. Ginneries which are approved sources of seeds can offset the cost of the levy by supplying farmers with seeds or by selling seeds to those ginneries which are not approved seed sources.

In the case of Cameroon the availability of pesticides decreased after liberalization and prices increased by 200 percent after 1994 primarily, but not exclusively, because of devaluation of the Comunauté financière africaine (CFA) franc. In Nigeria distribution and use of inputs for production of cocoa has become totally decentralized and disorganized. This situation was worsened by the rapidity of the liberalization process.

In Mali where cotton marketing has not been liberalized, the supply of agricultural inputs is still largely controlled by the parastatal, Compagnie Malienne pour le Développement Textile (CMDT). After the devaluation of the CFA franc, new private traders and NGOs started to distribute inputs, but under the control of CMDT. An agreement between state, producers, and CMDT does, however, foresee a progressive liberalization of input marketing.

In Ghana cotton companies provide "free" inputs to farmers with cost recovery at the time of harvest. This was initially done by offering a relatively low price for seed cotton to all farmers in order to cover the cost of the inputs provided[25], but in recent years firms have changed towards making an explicit charge for inputs. This system rewards the more efficient farmers as they only pay back what they were advanced, whereas in the previous system, in effect, the more cotton farmers produced the more they paid back.

As noted, attempts by traders to ensure adequate input supply for the farmers with whom they deal have been rel-

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25 Although some companies did offer incentive prices to more productive farmers (Coulter, J., R. Stringfellow and E. Asante, 1995).

atively scarce. Nevertheless, in the long run it is likely that such arrangements will have to be developed. A recent publication[26] refers to arrangements of this type as *Interlocking Transactions* and defines them as follows:

> *Provision of seasonal inputs on credit using the borrower's expected harvest of the crop in question as a collateral substitute to guarantee loan repayment.*

Interlocking could provide a way for capital provided by exporters with sources of finance outside a producing country to be channelled into smallholder agriculture by way of intermediaries in the crop marketing chain. However, such arrangements can really only work if the parties to the agreement recognize that it is in both their interests for it to work. If traders who supply the inputs and buy the outputs wish to develop a sustainable long-term business they cannot afford to exploit their contractual agreement with farmers by paying low prices for the outputs. Similarly, for a year or two farmers may be able to break agreements by selling their crops to other traders, but over time they will run out of people willing to provide them with inputs on credit. This aspect of reciprocal interests is likely to be more successful as a foundation for input supply on credit than legislation would be.

The possibility of default by farmers borrowing money for export crop production stems more from what Poulton *et al.*[27] describe as *strategic default* than from crop failure or price collapse. Where there was no interlocking transaction for inputs organized by the marketing board, farmers in sub-Saharan Africa often saw state loans as free gifts. Many felt no obligation to repay and almost all felt no urgency to do so. Despite liberalization there remains a suspicion of the private trader, particularly among some politicians and, as a consequence, the liberalization process has at times been halfhearted. Attitudes towards

26 Poulton, C., A. Dorward and J. Kydd, 1997.

27 *Ibid.*

credit repayment are changing only slowly and the situation is not being helped by those politicians who continue to voice hostility towards the private sector.

A more developed type of interlocking transaction is the outgrower scheme. In this case, those supplying inputs and, perhaps, mechanization services to farmers usually operate central processing facilities such as cotton gins, tobacco-processing or cigarette factories, or horticultural pack houses for export. The concept thus implies something slightly more involved than that of more simple "interlocking transactions". In Zambia, for example, the cotton companies operate in a way similar to that of the cotton parastatal in Mali. The Lonrho company provides growers with cotton seed and its extension service monitors their performance in the early stage of cultivation. If the farmers perform well they will then be provided with pest-control chemicals. Another company in Zambia uses elected group leaders to identify and recommend farmers to be included in the outgrower programme. Outgrower schemes have a long history in Zambia and an estimated 190 000 farmers are now participating in these, with the great majority of them growing cotton. While crop buyers have been concerned to guarantee an adequate supply in the face of considerable competition among traders, the main impetus for the growth of such schemes has been the collapse of the government credit system, together with the poorly functioning state extension service. Recently, however, diversion of sales by outgrowers to alternative buyers has started to undermine many schemes[28].

A market-driven economy needs an effective regulatory framework in order to create full and fair competition, to protect the environment, to guarantee the quality of the products and to avoid the spread of pests and diseases, among other things. In most countries the changes made regarding the involvement of the private sector in input supply are not backed by any legal framework (e.g. with regard to contract law). Most of the existing legislation

28 Stringfellow, R., 1996.

still relates to past marketing methods and as yet is unadapted to the new conditions. In order to fully engage the private sector in input supply, it is necessary that governments develop appropriate legislation[29]. Experience suggests, however, that the difficulties associated with pursuing cases through the courts in many SSA countries will hinder the impact of any legislation, either civil or criminal, and that interlocking transactions are best developed on the basis of reciprocal interests rather than the law. For example, in Zambia the problem of default persists in the cotton industry despite the 1995 Agricultural Credit Act which makes it illegal for farmers who are financed by an outgrower to sell the produce to another buyer. This act has reportedly led to improved recovery rates for some outgrower schemes although other outgrowing companies tend to believe that it is unenforceable and of limited value. Recent indications are that outgrowing companies are reducing the amount of assistance provided to farmers on a credit basis in order to minimize their exposure.

29 The Marketing and Rural Finance Service of FAO is presently preparing a publication on the legal aspects of agricultural marketing. Publication is expected in late 1999.

Chapter 5

Processing

Robusta and arabica coffee are usually processed in different ways. Robusta, which generally commands a lower price on world markets, is hulled by processors after the cherries have been sun dried by farmers. Hulling removes both the dry pulp and the parchment in one process. Arabica requires farmers, either individually or in groups, to pulp the cherries and ferment, wash and dry the beans before sale to a processor as *parchment*. The processing or curing factory removes this outer parchment from the bean which is then sold or exported as *green bean*. Roasting is usually carried out much later in the importing country.

In several countries, for different reasons, private traders have started to construct their own coffee processing factories. For example, in Tanzania the cooperatives used their ownership of arabica processing factories to obstruct entry of private traders into the coffee trade by denying them access to processing on the pretext that they had outstanding stocks yet to be processed. Barrier to entry to processing is inevitably a barrier to entry into the overall coffee trade. Private traders thus started to build their own factories, a move that has resulted in considerable excess processing capacity. To date there are five new coffee curing plants built and run by private traders, in competition with the four old cooperative-owned plants. Under the cooperative system there was a theoretical surplus capacity but poor plant maintenance meant that there was often a carryover of unprocessed coffee into the next harvest year. The present surplus capacity means that traders lacking their own facilities are able to process their coffee with little difficulty. There is a likelihood that some of the older cooperative plants will have to close down in the near future.

In Uganda delays in facilitating private-sector access to factories forced many exporters to acquire their own small hulleries. The number of facilities currently operating in the coffee industry is estimated at 23, which means that nearly all active exporters during the 1996/97 coffee season were hulling their own coffee.

In Ethiopia coffee processing is slightly different to the system practised in most other countries. Arabica cherries are either sold fresh to pulperies operated by service cooperatives or the private sector or are first sun-dried and then sold through coffee buyers to wholesalers who run hulleries. Since 1991 there has been a rapid increase in the number of hulleries and pulperies. The private sector now owns over half of all pulperies, while the others are still in the hands of service cooperatives. This expansion has not been without problems. The Coffee and Tea Authority (CTA), which monitors the pulperies on an annual basis, reports that many of the managers or owners are new to the coffee business and lack processing skills. Considerable competition between pulperies has meant that they have tended to buy anything offered to them, paying little attention to quality. Cherries should be ideally pulped as soon as possible after harvest and purchase of old cherries has had a negative impact on quality. Sun-dried coffee is also causing problems, resulting from the failure of buyers to reject poor quality and the lack of a quality-based pricing system. Identified problems include harvesting of unripe or overripe cherries, poor drying and drying on the ground. Exporters carry out cleaning and blending to bring the coffee up to the necessary average standards, but there is negligible quality control closer to the farmer.

Seed cotton ginning is the process of separating the lint from the seeds. At a ginnery the seed cotton is cleaned and lint is then separated before it is baled ready for sale. The seed can either be crushed to make cotton seed oil and cake, or returned to farmers for subsequent plantings. In Tanzania there were 34 ginneries involved in primary processing when the cotton trade was liberalized in 1994/95.

All but three of these, which had been set up by the state marketing agencies, were roller gins. These ginneries are still owned by the cooperatives. Between the beginning of the liberalization process and December 1996, 15 new private ginneries were built, partly in response to the refusal of the cooperatives to permit private traders to gin their cotton on a contract basis. These new ginneries are mainly of the saw type which are considered to produce a lower quality of processed cotton than the roller gins.

Uganda's ginnery restructuring programme was carried out under the auspices of a Cotton Sub-Sector Development Project. With World Bank support and FAO technical assistance, the Agricultural Policy Secretariat of the Bank of Uganda carried out detailed reviews of the cooperative ginneries. As a result of these reviews, by October 1997 27 ginneries had been sold to the private sector, four were subject to joint-venture arrangements, one was leased and four were retained by cooperative unions after restructuring. The sale of union-owned ginneries was greatly facilitated by a government debt-relief programme. A few new ginneries have also been constructed by the private sector. Although total throughput has increased, capacity utilization, which now averages about 40 percent, has not because restructuring and new construction has increased the number of operational ginneries.

As noted earlier, many cotton traders in Ghana are disadvantaged by not owning ginneries. Companies with ginneries gin their own seed cotton first and thus enjoy a preferential access to sales to local textile firms. In the long run, traders without guaranteed access to ginneries may well find it difficult to stay in business. Companies wishing to promote outgrower schemes, for example, may decide to refuse processing facilities to other traders in order to minimize the risk of farmer default (see Chapter 4). This already appears to be happening in Zambia, despite the fact that ginning capacity far exceeds present production levels.

Cocoa is processed at the farm level by removing the beans from the pods, fermenting them and then drying them. This is almost always done by the farmer and thus liberalization has not significantly affected cocoa primary processing. During dry weather, it is enough to expose the fermented cocoa to the air and sun, but if it rains it is necessary to dry the cocoa in dryers. The investment necessary for the dryer is affordable only by the biggest planters, traders or producers' cooperatives. The defective state of dryers is sometimes the reason for low-quality cocoa. Another cause is that the smallest producers are sometimes obliged to sell the product when it has not been sufficiently dried.

In some areas of the southwest of Cameroon, where artificial drying of cocoa is necessary because of the humid weather, dryers for cocoa are available, but there is reportedly a lack of finance to permit their repair. The present bad condition of the dryers is one of the main reasons for the drop in the cocoa quality level in Cameroon. A European Union (EU) programme plans to finance the restoration of most of the dryers in the near future.

Linked to export crop marketing liberalization is also the problem of raw material supply to secondary or tertiary processors. In the past they received preferential access to raw materials, but they are now required to compete for produce against export buyers. In Tanzania when cotton was liberalized in 1994/95 the few local textile mills which were still operating found themselves in a very precarious situation as they were unable to buy raw materials on credit. Under the new marketing system, the local mills are allowed to buy seed cotton from farmers and gin it for both export and local requirements. The mills can also buy lint from other cotton traders. However, almost all the existing local mills are short of working capital to procure lint on a cash basis. At the same time, few cotton traders are willing to supply such mills on credit. In an attempt to save the textile mills from collapse, the government embarked on a programme of selling the enterprises to the private sector outright or entering into joint ventures whereby the private sector has a majority share in each enterprise. This has been the case with the largest textile mill in the country, the Friendship Textile Mill, in which a private Chinese company now holds 51 percent of the shares.

Most African cash-crop production finds its way on to export markets as raw material. In Tanzania only two to three percent of annual coffee production is acquired by domestic roasters for the production of final consumer products, mainly *Africafe* instant coffee. Under the old marketing system the domestic roasters bought their annual requirements from the coffee board at average auction prices for each grade realized by the board in the previous season. Liberalization has, however, left the coffee board with no coffee to supply the domestic roasters and the local roasters must now take part in the coffee auctions. Most cashew processing plants in Tanzania have been closed because of their inefficiency, the higher prices which can be paid by exporters of unprocessed nuts and the preference of importers, mainly in India, for unprocessed nuts.

In Cameroon industrial cocoa processing is carried out by the Société Industrielle et Commercielle du Cacao (SIC-CACAO), a former state processing plant presently owned by a French company, which processes cocoa beans into cocoa butter, the fat contained in the cocoa bean. SIC-CACAO has experienced problems since liberalization because it now has to compete with private traders in procuring raw material. This plant has a total capacity of 25 000 tonnes per year, but at present uses only two-thirds of this. Nigeria has 17 cocoa processing plants but only five were in operation in 1997, all at low capacity utilization. Prior to liberalization there were only four plants but subsequent to policy changes investment in such facilities took off, mainly as a result of a government ban on the export of raw beans at the beginning of 1991. Eventually, however, this ban was lifted, with disastrous consequences for the processors.

There is a very natural desire throughout Africa to promote industries which add value to agricultural production. The track record of such industries is poor, and farmers have often suffered, primarily because the decision to invest in them was made on the basis of raw material supply rather than demand for the processed product. In the situation when foreign buyers are unwilling to buy processed products, a producing country cannot normally force the hand of those buyers by banning exports of the raw materials, as other primary producing countries will, in time, step in to fill the supply gap. As noted, both Cameroon and Nigeria have made mistakes with regard to secondary processing of cocoa. Cocoa buyers in major markets generally wish to blend beans from a variety of sources giving them control over the final flavour of their products. Such blending is not possible once those beans have been transformed into cocoa butter. Thus, processing beyond the fermented and dried bean stage, although in theory adding value within the country, may not result in returns sufficient to justify the high processing costs. Private-sector investment in such facilities is thus unlikely without incentives such as investment and export subsidies.

In the case of coffee, different consuming countries prefer different types of roasting. For this reason, and because green beans have a longer "shelf life" than roast beans roasting is usually carried out in the country consuming the coffee rather than the producing country. For similar reasons, most instant coffee is also produced in consuming countries. The same kind of arguments apply to other secondary processing for export such as cigarette manufacture, where major manufacturers in importing countries may blend tobacco from several producing countries. In the case of cotton the argument is different because textile mills are mainly producing for domestic markets not for export. Even here, however, many have found it difficult to compete with cheaper imported textiles and garments.

Chapter 6

Exporting and export quality

Several approaches to the liberalization of the export function have been observed in Africa as briefly described in Chapter 2. On the one hand, there are those countries where exporting is seen as just another area where the marketing board has performed badly and where state activities should be handed over to the private sector. On the other, there are examples where the export performance of the parastatal is considered to be good and where governments are reluctant to go along with World Bank proposals for full liberalization. Then there are countries where the private sector has been permitted to export commodities, but where marketing boards or their successors have also continued in the trade.

Figure 1 illustrates an approach similar to that adopted in Ghana. Although competition in internal cocoa marketing was introduced in 1992, the marketing board (Cocobod) still maintains control of exports. The eight licensed private buyers compete on the internal market with the Produce Buying Company, a subsidiary of Cocobod, but are obliged to sell their cocoa to the Cocoa Marketing Company (CMC), which is a wholly-owned subsidiary of Cocobod and is the only authorized exporter of cocoa beans. The World Bank has been promoting full liberalization of cocoa marketing and, in particular, of the CMC's export monopoly. The board, however, defends the monopoly on the basis that Ghana's cocoa quality is recognized worldwide. Export marketing liberalization could reduce the quality control capacity that is efficiently carried out by Cocobod and its subsidiaries and, consequently, it is feared that the quality of Ghana cocoa would decline, as seen in Nigeria and Cameroon.

Figure 1
Partially liberalized export crop market channel

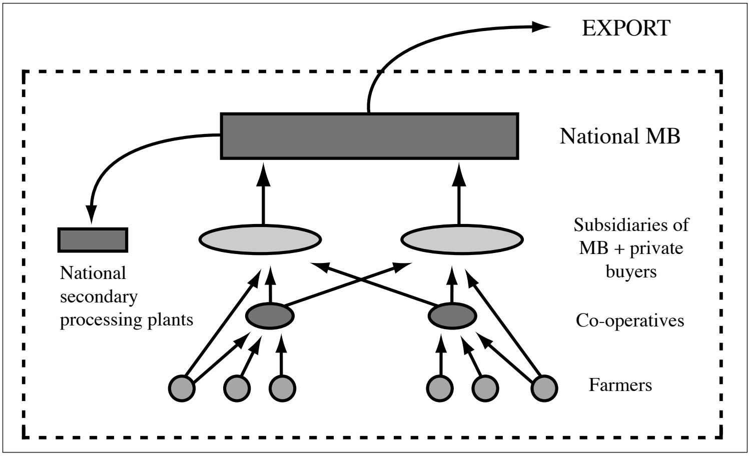
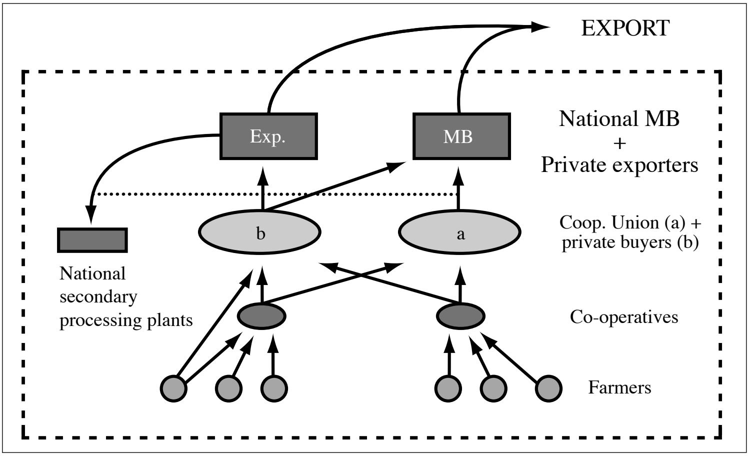


Figure 2 illustrates the case presently experienced in many countries, where private traders are competing at all stages of the marketing chain. A good example of this model is coffee in Uganda. As a result of liberalization the monopoly of the Coffee Marketing Board (CMB) in export marketing was abolished and the number of exporters registered with UCDA gradually increased to 117 in the 1994/95 coffee season. Subsequently, the number fell back to 72 during the 1995/96 season, owing to the fact that stiff competition forced inefficient exporters, including cooperatives, to abandon the business. The number of exporters is likely to drop much further as a limited number have expanded their businesses and now dominate the trade.

The private sector has rapidly come to dominate Uganda's coffee exports and now accounts for over 90 percent; cooperatives and the coffee board, which continued to trade after liberalization, account for the remainder. Most leading exporters have links with international coffee companies, several of which have established offices in Uganda. There are several joint-venture arrangements.

Figure 2
Liberalized
export crop market channel



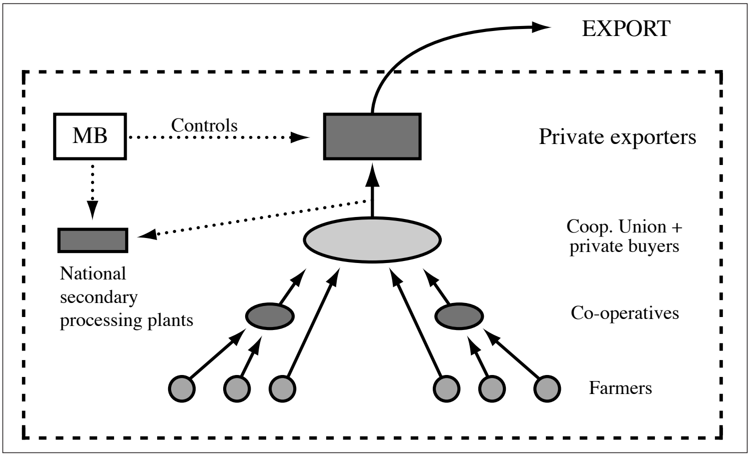
A particular feature of the success of the private sector has been that it has been able to mobilize finance from overseas and has also been able to rapidly turn over these funds. The coffee board usually operated through long-term contracts but private-sector operators are now selling "free on rail or truck, Kampala," thus ensuring rapid payment. A trend towards vertical integration of processing and exporting is also given as a reason for the more efficient use of crop finance.

Van der Laan[30] has argued that the capacity of export marketing boards to make forward sales could generally be expected to result in higher returns than would be possible from spot sales. However, private exporters cannot usually trade forward because of financing considerations and because, unlike monopoly boards, they cannot be sure of being able to obtain adequate coffee to fulfil their contracts.

The Ethiopian Coffee Export Enterprise handled around 30 percent of coffee exports in Ethiopia in 1996/97. Wholesalers sell either sun-dried or washed coffee to exporters at auctions supervised by the Coffee and

30 Van der Laan, H., 1992.

Figure 3
Fully privatized
export crop market channel



Tea Authority. The utility of continuing to use auctions is perhaps open to some doubt. In particular, the fact that exporters can have no impact on the quality of the coffee they purchase (other than by not bidding for poor quality coffee) means that quality requirements may not be passed down through the marketing system. The use of auctions may also be one reason why there has been little consolidation of exporters in Ethiopia: in 1997 coffee was exported by 66 concerns while 424 had actually been granted export licences. The present Ethiopian coffee marketing system also makes it difficult for vertical integration to develop. In fact most exporters at present have little capital and are financing their activities through bank overdrafts. A more immediate problem with the Ethiopian auction system is its slowness and the lack of storage space at auction centres. Trucks can reportedly be held up for up to ten days waiting for their load of coffee to be tested, graded and auctioned.

Ethiopian exporters face a number of restrictions which are designed mainly to ensure remittance of foreign exchange proceeds. Exports are controlled by the Differential Price Committee which meets weekly and basically establishes minimum export prices in order to avoid transfer pricing[31]. Exporters also have to comply with central bank rules which oblige them to exchange 50 percent of foreign exchange earned at official, not market, exchange rates.

Figure 3 illustrates complete state withdrawal from internal and external trade while retaining an agency responsible for quality control, market information collection and dissemination and general overseeing of policy. This case is based on Cameroon but also applies to Tanzania. Nigeria follows the same model, except that the abolition of the marketing board was not accompanied by the introduction of any arrangements for industry control. In Cameroon 193 cocoa exporters are presently licensed, but only six of them cover 80 percent of exports. Most of the leading companies are branches of multinationals. In an attempt to avoid a similar trend, Côte d'Ivoire has restricted such companies to 15 percent of exports of cocoa.

In the countries reviewed most export sales are the result of direct sales at an agreed price between exporter and importer although, increasingly, the two are subsidiaries of the same company. In Tanzania, coffee continues to be sold by the coffee board through auctions. Export buyers have to obtain their coffee requirements from the auction that is held once or twice a month during the peak season. Presentation of stocks for auctioning is done through delivery of samples to the Liquoring Department of the Coffee Board which, in turn, carries out tests to determine quality. Information on quality and grade of individual samples is compiled in an auction catalogue and sent, together with the samples, to bidders who are licensed by the coffee board.

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31 The "differential" is the difference between prices in the major markets and the export price, after taking into account transport and other costs.

The wisdom of continuing to use auctions in Tanzania perhaps merits further investigation. A proposed government review of this procedure had not been carried out by mid 1998. A common feature of these compulsory auctions is that now processors often bid for their own stocks. Although the auctions are said to be very competitive and many licensed traders who bid at the auctions have difficulty in obtaining sufficient supplies, the fact that some processors are able to profitably export their own coffee even after meeting auction charges suggests that the auctions may be becoming an unnecessary and burdensome link in the chain. The export auction system for coffee is also used in Kenya where liberalization has proceeded relatively slowly.

The transfer of exports from public institutions to the private sector has not been without difficulties. Despite the problems mentioned earlier, the single channel was often based on a unique public organization, which was often staffed by experienced officers who maintained strict quality control and were able to exploit economies of scale[32]. It is not by accident that these are the main arguments in favour of the maintenance of the export monopoly for Malian cotton and Ghanaian cocoa. In Ghana, export quality control is carried out by Cocobod's Quality Control Division both at the cocoa buying points and prior to purchase by the export subsidiary. In effect, therefore, private traders are having their cocoa inspected by their competitor at farm level and by the monopoly at export level. Support for the continued monopoly of CMC comes from the premiums obtained by Ghanaian cocoa on world markets. Shepherd and Onumah report that in 1996 Ghanaian cocoa was selling at a premium of up to US$ 80 a ton whereas cocoa in Côte d'Ivoire was discounted by US$ 20 and Nigerian cocoa by up to US$ 60 a ton[33]. Such differences are ascribed both to quality and to buyers' concern to deal with reliable suppliers such as the CMC. Whether such premiums would be lost if exporting was

32 For a more detailed description of the positive role played by marketing boards, see the papers by Van der Laan cited in "References and Further Reading".

33 Shepherd, A. and G. Onumah, 1997.

taken over by the private sector with quality control still rigorously enforced is open to debate.

Generally speaking, export quality control is still a responsibility of those remaining at the public institution which previously had the export monopoly. In Cameroon a state organization, ONCC, was responsible for export quality controls. However, this has recently changed, with transfer of export control to the private sector. Prior to liberalization there was a pre-control by the cooperatives at the time of purchase but this no longer takes place. In Ghana, too, there have been suggestions, mainly by the World Bank, that quality inspection should be privatized.

In the case of cotton, TCLSB, as regulator of the cotton industry in Tanzania, is responsible for controlling the quality of cotton lint and other by-products. In order to do this the board inspects and certifies the quality of seed cotton that has been classified at the buying centres. It also inspects the type (variety) and quality of the lint at the ginnery. According to the board, there is a tendency among ginners, particularly private ginners, to provide false information regarding the quality of lint, as well as the selling price, in order to understate the value of exports and thereby avoid paying relevant taxes. Under previous arrangements ginneries in Tanzania were each located in a "zone". The zones were created mainly to control the spread of pests and diseases by ensuring that cotton was not transported over large distances. The construction of new ginneries and competition for seed cotton has meant that the zones are no longer respected, with adverse consequences for cotton quality. Also, the breakdown of the zoning system has meant that cotton from different varieties has become mixed. Variety mixing was also common in Uganda at the time of civil strife but recent years have seen progress in overcoming this problem.

The worst consequences of overnight liberalization were observed in Nigeria, where the drastic drop of cocoa quality prompted letters of protest from European importers. At one time the International Cocoa Organization (ICCO) suspended Nigeria for exporting poor quality cocoa. The new merchants were more interested in capital transfer rather than long-term trading in cocoa. Most of the facilities which were provided for the state inspection services were sold off as a result of privatization. However, pre-shipment inspection of cocoa was reintroduced in Nigeria in 1995 in an attempt to restore the confidence of overseas buyers. Procedures were poorly defined at the time and the scheme was slow to get going. Its introduction also apparently led to an increase in smuggling. In Cotê d'Ivore internal quality control was abolished for cocoa, resulting in a lowering of quality. Reportedly, several thousand tons of unexportable cocoa were destroyed[34].

A final problem associated with the export stage relates to excessive bureaucracy. While some governments have been less rigid in promoting necessary export quality controls others continue to inhibit exporters with excessively complex procedures. For example, exporters in Cameroon encounter significant bureaucratic delays at Douala port. While the bureaucracy is not necessarily greater than it was prior to liberalization the complex procedures now have to be repeated for a large number of relatively small consignments rather than a small number of large consignments as was previously the case. Commodity exports reportedly require 16 documents from 9 different administrative offices, 15 stamps and 6 cheques. It is estimated that at least ten working days are required to complete all these procedures.

34 Kouassi Atse, P., 1995.

Chapter 7

Impact on prices and production

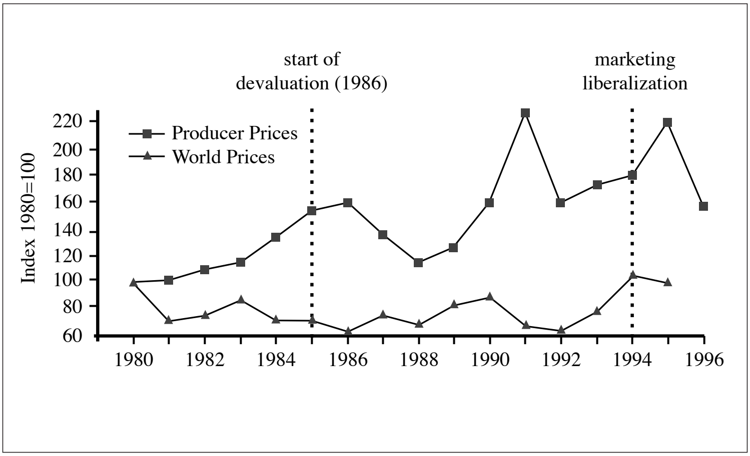
This chapter briefly examines some of the available statistical evidence regarding the impact of structural adjustment and marketing liberalization on producer prices and on production levels. The statistical limitations with regard to data concerning producer prices are fully acknowledged. In fact, liberalization has made accurate collection of producer prices difficult as in most countries one pan-territorial price has been replaced by negotiated prices which vary from day-to-day and place-to-place[35].

It is not always easy to identify the main causes of changes in producer prices. While the introduction of competition at the farmgate and removal of marketing board inefficiencies may have had a beneficial effect, this is likely to have been insignificant compared with measures such as devaluation, reduction of export taxes, and an end to administered prices. Further, it is necessary to factor into the equation the possibility of declining revenue as a result of deteriorating export quality. Indeed, in

35 The data used for this section, if not otherwise specified, are from FAOSTAT databases and from the FAO National Reports cited in the bibliography. The producers' prices have been converted into constant prices (base = 1980). We have used the GDP deflators of the IBRD/World Bank Socio-Economic Time Series Access and Retrieval System (STARS) and of IMF International Financial Statistics Yearbook to convert current prices into constant prices.
The world prices are from S&O/CWS 1996 Economic Research Service of USDA (Cotton), FAS/USDA-Horticultural and Tropical Product Division 1997 (Cocoa), ICO Statistics on Coffee 1997 (Coffee).
The term "prices received by farmers", as used here, should in theory refer to the national average of individual commodities comprising all grades, kinds and varieties. These prices refer to the farmgate or first-point-of-sale transactions. Of course, data of this type must be considered less than reliable, particularly in the post-liberalization era when prices are determined by the market, not by the marketing board. Methods of arriving at national averages also differ from one country to another.

several countries it is possible that adjustment and liberalization have increased the producers' share of declining export prices.

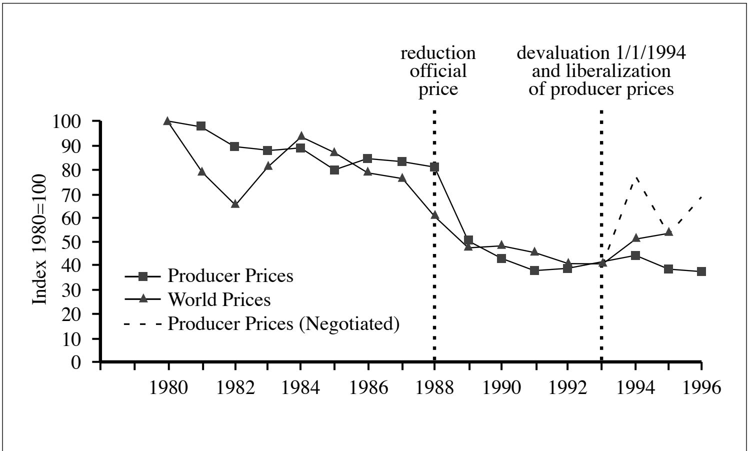
Figure 4
Tanzania - Cotton
Constant producer price and world price, 1980-96



In Tanzania producer prices used to be set following annual calculations by the Ministry of Agriculture which took into account estimated sales returns and the marketing and processing costs of the cooperatives and/or board. Since 1994/95 producer prices have been determined by prevailing market conditions. The average producer price of Grade A seed cotton has increased substantially in 1994/95 but fell back again in 1995/96. Given that marketing costs, with the exception of financing costs, are more or less constant, it can generally be assumed now that an increase in world market prices will result in a greater percentage increase in producer prices and vice versa.

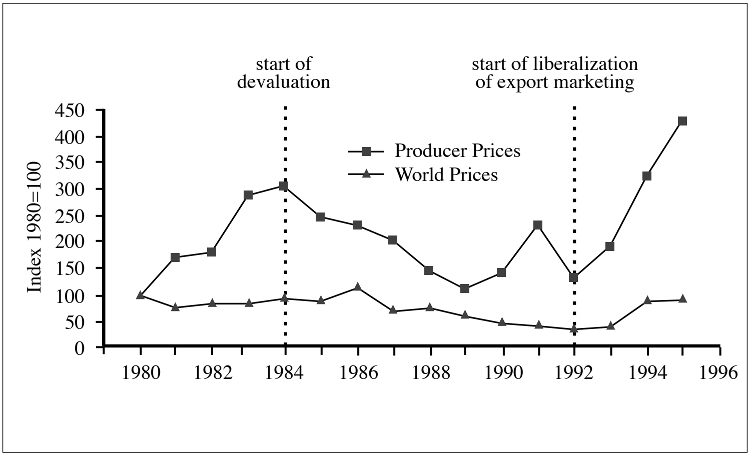
In Cameroon liberalization seems to have resulted in good access for farmers to processing facilities, and to timely and reliable payment. However, Figure 5 below, which shows the evolution of the cocoa farmgate price during both the Office National de Commercialisation des Produits de Base (ONCPB) monopoly system and after liberalization and devaluation of the CFA franc suggests that there has been no significant increase in producer price. This applies particularly to farmers not organized into groups. In fact, after liberalization some farmers' groups were reportedly able to negotiate prices nearly double those achieved by individual farmers.

Figure 5
Cameroon - Cocoa
Constant producer price and world price, 1980-96



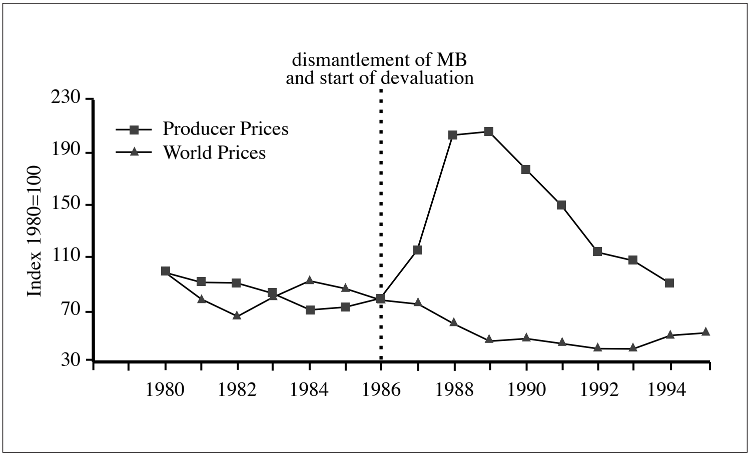
In Uganda farmgate prices seem to have benefited from the liberalization process in both the cotton and coffee sectors. In the case of coffee there has been a tremendous improvement in the producer prices received by farmers in real terms, since the government decided to replace the administered pricing system with an indicative price and allow market forces to determine producer prices. Furthermore, with liberalization, farmers' share of the world price for both arabica and robusta has increased from less than 25 percent in 1990/91 to current levels now averaging about 70 percent. Apart from liberalization, which eliminated the marketing board's inefficiency from

Figure 6
Uganda - Coffee (Robusta)
Constant producer price and world price, 1980-95



the cost structure and resulted in intense competition among buyers at the primary marketing level, the coffee price boom which began in 1994 contributed significantly to the increase in the farmers' share.

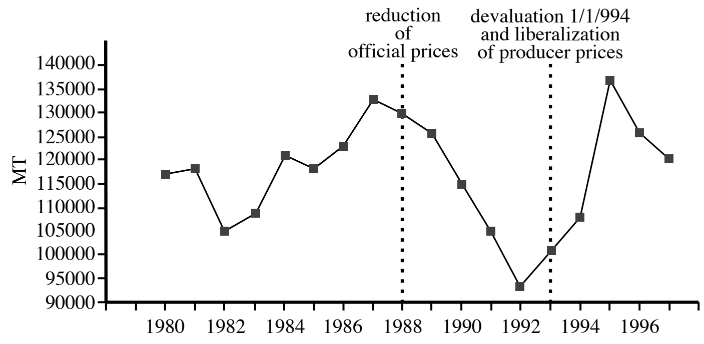
Figure 7
Nigeria - Cocoa
Constant producer price and world price, 1980-95



In Nigeria cocoa marketing liberalization in the mid 1980s initially led to a rapid rise in the producer price in naira as buyers competed for the opportunity to use cocoa for capital flight purposes. In time, however, things settled down and recent years seem to show a significant deterioration in the price paid to farmers, possibly resulting in part from lower export returns as a result of poor quality.

It is perhaps too early to draw many meaningful conclusions regarding the impact of liberalization on production levels. Production response to improved prices can be short, medium and long term. In the short term farmers can take advantage of higher prices by simply harvesting more. In the medium term production improvements can be brought about through improved cultivation practices, while in the longer run planting of new areas or replanting of old stock with higher yielding varieties should bear fruit. Given input supply difficulties it must be assumed

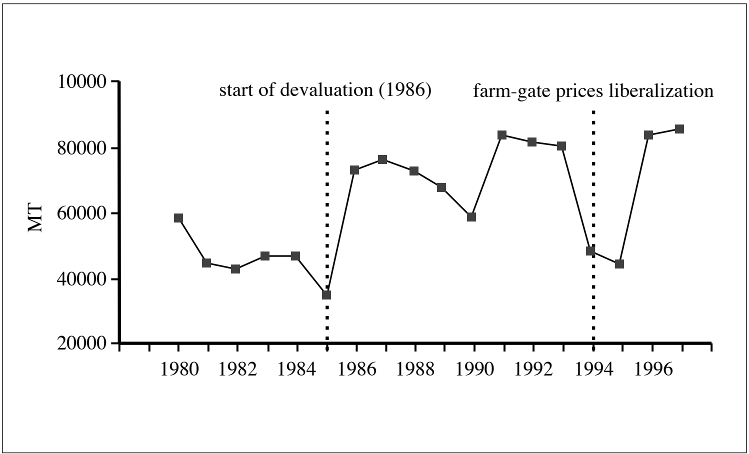
Figure 8
Cameroon - Cocoa production, 1980-97



that the supply response to liberalization observed for tree crops to date stems mainly from the first of these[36].

In Cameroon market liberalization coupled with the CFA franc devaluation of 1994 led to a strong increase in total cocoa production levels. This trend changed in the 1995/96 season, however, when production started to decline because of the lower prices experienced in 1995. There has been little evidence of new plantings and considerable difficulties have been experienced in obtaining inputs.

Figure 9
Tanzania - Cotton production, 1980-97

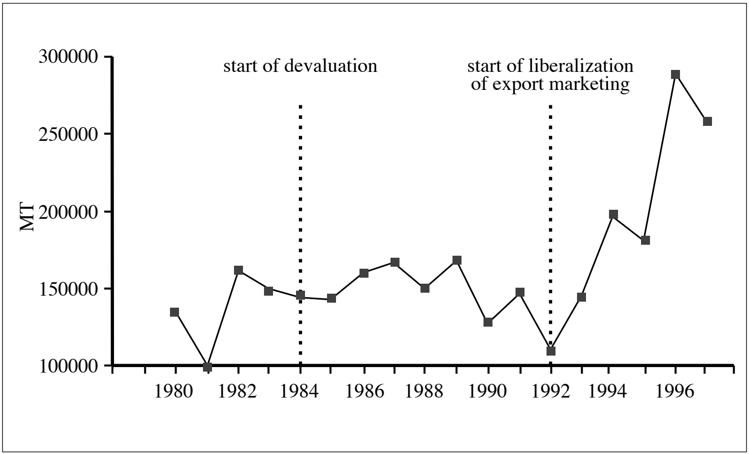


Tanzanian cotton production was relatively low in 1993/94 and 1994/95 because of low rainfall and the unattractive seed cotton prices paid to the farmers in the 1993/94 marketing season, which caused a reduction of the area planted with cotton and neglect of crop husbandry. Following the higher producer prices in 1994/95 and 1995/96, production increased significantly.

36 It is important to note that if the increased cultivated surface can be a reason for short-term cotton production increases, it cannot be a reason for cocoa and coffee. In fact the period for entering into production for coffee and cocoa trees is from three to five years after planting, and the maximum yields are reached between eight and twenty years after planting.

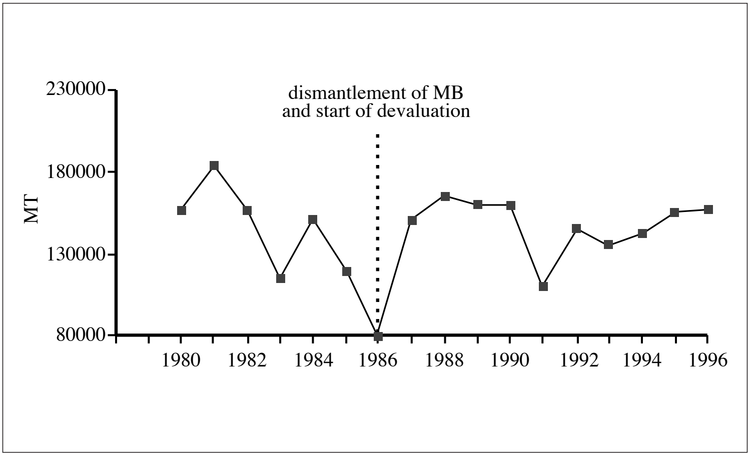
Coffee market liberalization in Tanzania has apparently led to increased plantings. The increase in area under coffee planting has come solely from smallholders, who now account for over 95 percent of total production.

Figure 10
Uganda - Coffee production, 1980-97



In Uganda production of cotton increased from 33 000 bales in 1994/95 to 100 000 bales estimated for the 1996/97 cotton season. The increased production is attributed mainly to expansion in area from about 50 000 ha in 1994/95 to about 90 000 ha in 1996/97 and improved supply of quality planting seed, which has led to yields increasing from an average of 360 kg/ha in 1993/94 to about 550 kg/ha in 1996/97. Coffee in Uganda has also experienced a remarkable growth in production. Notwithstanding disease problems, the implementation of reform measures may be viewed as a success story. The industry has completely recovered from past problems and coffee exports during the last two seasons have registered the highest figures (about 4.2 million 60-kg bags) ever recorded.

Figure 11
Nigeria - Cocoa production, 1980-1996



In Nigeria the closure of the marketing board for cocoa in 1986 and the consequent increases in farmgate prices induced better maintenance and some replanting. Yields per hectare rose. However, the price of most inputs has risen significantly (up to 400 percent) as a result of subsidy removal and devaluation. Farmers have reacted by reducing the use of inputs and a consequence of this has been decreased yields and low quality cocoa resulting, in part, from diseases.

Chapter 8

Other consequences of changes

Some consequences of the export marketing liberalization process can be seen on the whole economic system. These include the impact on employment and on tax revenue. More specific consequences of the withdrawal of the public sector from export crop marketing have been a reduced research and development effort and a decline in extension services. Finally, the closure of marketing boards has had a considerable impact on the availability of information for planners and policy-makers.

In the 1970s Cocobod in Ghana had some 120 000 employees on its payroll, 20 000 of whom were either dead or fictitious. As a result of measures to improve efficiency, followed by the fairly tentative liberalization measures, the payroll is now down to just over 10 000. Relatively few of those who lost their jobs continue to be involved in the industry as employees of licensed crop buyers. In other countries, data available regarding loss of employment as a result of liberalization presents a less dramatic picture. In many cases, however, this is because the marketing activities carried out by a board in Ghana were carried out elsewhere by cooperatives. Information concerning loss of employment in boards thus severely understates the true picture of employment implications of liberalization. It is undeniable that the policy changes have had a severe impact on employment levels. It is also undeniable that much of the past employment was unproductive and that the resultant high marketing costs acted as a disincentive to agricultural production.

Under previous arrangements it was possible to tax farmers directly by setting an official marketing board buying price at a lower level than that justified by the FOB and marketing costs. Replacing this form of taxation is a relatively simple matter as taxing exports is one of the easiest forms of tax to administer, although care must be taken not to fix the tax at such a level as to encourage smuggling. The adoption of the liberalized marketing system has, however, made local revenue collecting a less straightforward task than it was in the past as few, if any, countries studied have an efficient local tax collection system.

In Tanzania coffee, cotton and other crops are subjected to a district tax charged by the local authorities. Given the number of farmers, this annual district levy is in practice charged to the licensed traders and not directly to the farmers. Traders, in turn, pass on the levy to the farmers in a form of lower producer prices. Before liberalization, this levy used to be centrally predetermined by the Prime Minister's Office in consultation with the Ministry of Agriculture and the relevant board. The new policy does not, however, spell out who should take the lead in determining the tax rates. Consequently the district tax is determined locally by the district councils. Rates therefore vary greatly across the country resulting in producer prices also varying. This is only one of many taxes facing traders in Tanzania (see Chapter 3).

Monitoring of the export crop sector in the old controlled market system was simplified by the mere fact that there was a limited number of buyers of the crop and the marketing board was usually the sole exporter. Thus data related to annual purchases, exports and input supply and distribution could easily be obtained. Liberalization has, however, rendered the monitoring task very difficult. Prices are subject to change during the marketing season and vary according to location. There is no such thing as a pan-territorial or pan-seasonal price, and it is thus difficult to make an accurate assessment of total farmer revenue. Similarly, while it should still be possible to obtain accurate export figures, the fact that traders are purchasing crops in several administrative districts can make a breakdown of production figures by province, for example, difficult to obtain. To address these problems, the Tanzania Coffee Board now obliges each coffee buyer to provide information regularly regarding producer prices paid and the volume of the crop purchased in each area. This information is passed by the board to the Ministry of Agriculture for compilation, analysis and dissemination to make the marketing system more transparent. The only other regularly collected data in Tanzania is information related to auctioned coffee. Auction prices are disseminated through the mass media once every month. The government also requires information on cotton for monitoring and decision-making purposes. Regulations require cotton traders to provide specific market information on a regular basis.

Following the liberalization process, public research and development services often suffered. In Nigeria liberalization has resulted in a sweeping eradication of all public support systems, save the barely existing research institute, with almost no replacement by private assistance. Cameroon and Tanzania have also experienced a drastic dismantlement of the public research and extension services. In Ghana, however, where Cocobod still maintains a monopoly on the export trade, the cocoa research and development services have been protected and, if anything, reinforced. The same applies to coffee and cocoa in Uganda. Outgrower schemes in several countries, operating primarily with cotton, have also attempted to provide extension to their farmers.

Chapter 9

Conclusions and recommendations

CONCLUSIONS

Liberalization of the export sector came about largely as a result of the inefficiencies of the institutions charged with cash-crop procurement, processing and exporting. In some countries tentative efforts had been made to reform these institutions but such efforts often proved to be unsuccessful, or the effects of the reform were short-lived, mainly because those with vested interests tended to reassert themselves. Some countries, including Tanzania and Zambia, had attempted to restructure the export sector by transferring some functions from marketing boards to cooperatives but these changes usually only succeeded in inserting an extra stage into the marketing chain. Very often this extra stage was just as inefficient as the organization it replaced. In the 1990s only Ghana (cocoa), Kenya and some cotton producing countries in West Africa have opted for reform of existing institutions rather than complete liberalization.

Proponents of liberalization tended to justify marketing system changes on the grounds of removing the negative aspects of state-controlled marketing rather than introducing the positive aspects of private-sector operations. It appears to be the case that the potential implications of major changes to the marketing system were not considered in advance, and are only now, at far too late a stage, really being considered. In particular while it was assumed that the private sector would have little difficulty in taking over crop marketing operations, it seems that virtually no attention was given to the fact that export marketing boards also played a major role in ensuring that farmers were adequately supplied with inputs. The boards also theoretically played an important quality-control function. While this function may not always have been carried out in a particularly efficient way, reports of declines in export-crop quality throughout Africa suggest that liberalization has given rise to serious quality-control problems.

Prior to embarking on this review the authors were aware of difficulties associated with export quality in Nigeria as a result of liberalization. The research confirms that this situation applies to many of the countries studied. The authors had suspected that declines in export quality would have resulted from poor control procedures at the export stage. The study has shown, in fact, that the problems go much deeper than that, encompassing input supply arrangements, extension services, levels of knowledge of traders, lack of price incentives and even the introduction of new types of processing facilities. Based on earlier research by FAO[37], they had also suspected that input supply arrangements under liberalization would prove to be unsatisfactory. This has been more than confirmed and has implications for both crop quality and quantity. The final assumption was that crop buying arrangements by the private sector would prove to be unsatisfactory owing to a lack of finance. The experience of most countries studied tends to disprove this, although the liquidity in the marketing systems has been partly achieved through the involvement of multinationals, a trend some governments may not welcome.

Although statistical information is generally not very reliable and has become less reliable as a result of liberalization and the consequent difficulty of obtaining farmgate prices, it can generally be concluded that the impact of liberalization on farmers has been positive in terms of farmgate prices. Nevertheless, this increase may be offset in the medium to long run by lower prices because of a general lowering of produce quality, increased world production as a consequence of liberalization and, possibly,

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37 Westlake, M., 1994.

reduced competition owing to a trend towards concentration of trading in the hands of a limited number of companies. Liberalization has led to increased uncertainty for farmers, both in price and in outlets but it has usually improved the speed of payment[38].

In most countries liberalization began with considerable competition among buyers although some consolidation has been witnessed over time. Many of the early buyers were inexperienced or lacking long-term commitment and this has clearly been one reason for lower quality export crops. Indications are that as consolidation continues, and as traders buying at the farmgate continue to develop linkages with processors and exporters, some of the problems presently being experienced with quality will be overcome[39]. However, this will take time to achieve and a successful resolution of the quality problem cannot be guaranteed unless exporters themselves begin to insist on higher quality, both by establishing rigorous minimum standards and by paying premiums for higher grade produce.

Marketing boards and cooperatives frequently offered extension services to farmers which were often tied in with input-supply arrangements financed from crop marketing proceeds. While some private-sector outgrower schemes do provide extension services, the past few years have witnessed a significant decline in the availability of extension services for farmers. With national extension services run by ministries of agriculture generally performing badly in Africa, it is difficult to see how this situation can be reversed.

Farmers living in remote areas and producing small quantities have seen few benefits from the liberalization of marketing. Under the marketing board system, such farm-

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38 Balancing this are occasional examples of farmers claiming that they have delivered crops to traders but have never been paid.

39 To recapitulate, quality problems can be caused as follows: (a) at the production level because of the lower quantities of inputs used, the lack of knowledge of new imported inputs, and the reduced research and extension services, (b) at the primary buying and processing level because of limited access to processing plants of private traders, low quality standard of some of the new private plants, presence of small and inexperienced buyers with a short-term approach, and (c) at the export level because of the lack of export quality controls.

ers were effectively subsidized by those living in more productive areas and closer to the export ports. With the closure of the boards, farmers in remote areas are having to face the realities of the market which, at best, means lower-than-average prices and, at worst, no buyers for their harvests. This would appear to be an area which governments need to address, depending on the circumstances, by encouraging diversification, by promoting additional production to provide suitable quantities to attract traders or by building new roads or other infrastructure. In the final analysis some farmers may either have to withdraw from the cash economy or relocate.

A largely unforeseen consequence of liberalization has been the apparent ease with which traders have been able to obtain finance to buy crops from farmers. Past difficulties experienced by traders in the agricultural sector in obtaining loans from commercial banks, together with the fact that government guarantees to boards and cooperatives would not be available to the private sector, suggested otherwise. In fact a fairly rapid vertical integration of export crop industries has come about, such that overseas buyers are financing exporters, exporters are financing processors and processors are financing traders. To a lesser extent a similar situation has been witnessed as a result of food crop liberalization in eastern and southern Africa. A notable exception to the general trend is Ghana, where a failure to liberalize the export of cocoa has led to a total lack of vertical integration in the private sector and to consequent difficulties for private traders to finance crop purchases. The extent to which multinational involvement with export crop marketing has developed because of the lack of alternative financing options for local businessmen is open to debate. Challet[40] believes this to be the case and suggests that collateral financing would be one way of overcoming liquidity problems.

In general, traders have been allowed to function without too many restrictions on their activities. Most coun-

40 Challet, J.P., 1995.

tries insist on licensing them, although the extent to which this is policed is unclear. Licensing can perhaps be recommended as a way of identifying traders in order to obtain statistical information or to provide training. However, care needs to be taken to ensure that licensing is not simply an excuse for rent seeking on the part of officials.

With regard to *input supply* there are significant differences between countries analysed. In Uganda the situation concerning availability and prices of agricultural inputs is said to have improved after liberalization. In other countries it has become a major problem, in particular in Tanzania and Cameroon where the effects of devaluation compounded those of liberalization of agricultural input supply. One of the authors of this paper writing in 1989 on fertilizer marketing liberalization noted the problems of implementing macroeconomic measures in parallel with marketing reforms. Devaluations or currency flotations at the same time as marketing liberalization would inevitably lead to farmer hostility to private traders, who would be seen as the cause of rapid price rises[41]. Even in countries which have already undergone devaluation, it is difficult for farmers to grasp the fact that input price rises are not caused primarily by rapacious private traders but by the termination of subsidies and subsidised credit.

The former system, whereby farmers were guaranteed inputs, paying for them through lower marketing board purchasing prices, had much to commend it in theory, although its practice may at times have been far from ideal. All farmers had access to inputs and the great majority used them efficiently. Now, even when a farmer who wishes to use recommended inputs is able to finance their purchase and find a supplier, he runs the risk, at least in the case of pesticides, that their effectiveness will be diminished because of the failure of his neighbours to apply similar treatment.

In the private sector attempts to replicate the integrated input and output marketing arrangements of the marketing

41 Shepherd, A. W., 1989.

boards have met with limited success to date. This has been partly caused by the entry on the scene of rogue traders with little or no commitment to industry development. In the case of outgrower schemes, companies could delineate their spheres of operation thereby reducing competition for farmers and making it easier to identify those crop buyers who are encouraging default. However, such arrangements may be seen as being anti-competitive and the negative consequence of being accused of cartel-like behaviour may outweigh the benefits of maximizing throughput and credit repayment.

Cooperation between traders is probably necessary to avoid loan defaults. As noted, they have to be prepared to share information concerning bad debtors and, possibly, to advise each other about the farmers with whom they have credit arrangements[42]. Legislation to enforce contracts between farmers and traders with regard to input supply credit is probably futile. The Zambian experience with a 1995 Act would seem to bear this out. The workability of such contracts will have to depend on the awareness of reciprocal interests. While the concept of "inventory credit" has been proposed as one way of addressing marketing constraints, particularly in the grains sector,[43] this is based on credit issued against the security of a harvested crop stored at a secure location where the lender has a lien on that crop. In theory, a trader-farmer credit arrangement could be based on the trader having a lien on the crop in the farmer's field but in practice this would prove to be a bureaucratic nightmare and would be totally unenforceable. Similarly, the establishment of a register, with sanctions against traders who buy crops from farmers with registered contracts, would also be impossible to enforce. This may, however, be something which could be established on an informal basis by associations of traders.

There are some examples of input dealers supplying inputs to farmers on credit without making arrangements to buy the resultant crops. Such arrangements should be

42 Poulton, C., A. Dorward and J. Kydd, 1997.

43 See Coulter, J. and A. W. Shepherd, 1995.

encouraged but will, of necessity, take time to develop as traders will only enter into these arrangements when they know the farmers well. There may be the possibility to develop a fifty-fifty arrangement, whereby the farmer deposits 50 percent of the cost of his input requirements at the time of the previous year's harvest, is supplied with the inputs when he needs them and repays the loan at the time of the next harvest.

Primary processing liberalization has not been implemented with the same speed in all countries studied. For instance, in Tanzania, the ginneries and the coffee processing plants continued to be controlled by the cooperative sector immediately after liberalization. This led to serious problems in terms of access to processing facilities for private traders. As a response the traders built their own processing plants which, in some cases, may be responsible for reduced quality. In contrast, Uganda reformed the processing sector more or less at the same time as it liberalized crop purchasing, and relatively few problems were encountered, particularly with cotton. Export marketing liberalization has also caused difficulties for almost all secondary processing industries, e.g. textile mills and cocoa butter factories, which now have to behave as normal purchasers on the free market to obtain raw material supplies, when previously they had preferential access to the raw materials.

All countries which have seriously embarked on liberalization have liberalized the export stage, with the exception of Ghana in the case of cocoa. The most dramatic impact was felt in Nigeria where, almost overnight, liberalization and failure to impose any controls on the industry meant that cocoa was seen as an ideal way of effecting capital transfer at a time when it was difficult to obtain dollars. A dramatic decline in quality of Nigerian cocoa resulted. In other countries export quality has usually gone down, although not so dramatically.

It is difficult to say whether ineffective export inspection is the main reason for the decline in export quality or whether it owes more to the failure of the marketing system to apply the sorts of controls which in the past were implemented by the boards and cooperatives. In the era of marketing boards export controls were probably more of a formality than an important aspect of quality control. Indeed it was often the board that was inspecting its own produce. Since the liberalization process, however, controls at the primary purchasing stage have disappeared and new problems which can adversely affect quality have emerged.

An argument in favour of continued export monopolies for marketing boards is that they can benefit from economies of scale. Van der Laan[44] has also argued that boards with guaranteed supply are able to sell forward, something denied most private exporters. More detailed research is required to assess the actual value of boards being able to negotiate shipping discounts. With regard to actual sales practices, exporters have tended either to sell FOB on the spot market or have direct contracts with parent companies overseas, although some exporters in Ethiopia, for example, have been selling forward. Again, more detailed research is required to examine the benefits of these private-sector trading practices. One clear benefit, however, is that the private sector is turning over capital far more rapidly than did the marketing boards, as a result of making sales on a spot basis.

Countries have generally retained institutions to monitor and control the export industries. These are either slimmed down versions of the former boards or new organizations with new names. The new organizations, however, usually employ the same staff and occupy the same facilities of the former boards. Responsibilities of these institutions vary from country to country but generally involve licensing of traders, processors and exporters, quality control, overseas promotion, industry development and statistical services. The main problem faced by

44 Van der Laan, H., 1992.

these new boards is that, unlike the former marketing boards, they do not have unlimited funds available for these activities, being dependent on levies on the private sector and/or a contribution from central government. Given the difficulties that have resulted from liberalization, particularly with regard to quality, it may be concluded that part of the problem stems from the lack of resources available to these boards. Certainly, additional resources will be required to implement some of the recommendations which follow.

RECOMMENDATIONS

The authors have grouped their recommendations under the following categories:

- Sequencing;
- Retention of marketing boards;
- Supporting production;
- Input supply;
- Buying from farmers;
- Quality;
- Exporting;
- Monitoring, control and development;
- Legislative framework.

Sequencing

Very few cash-crop producing countries in Africa have failed to introduce changes into their marketing systems. Thus, those commentators who have argued in favour of retention of marketing boards have, by and large, fought a losing battle. Although some boards may well, with justification, continue to function (e.g. within the cotton sector in francophone Africa), the question for most countries is now one of how to overcome problems encountered, rather than how to set about liberalizing from the outset.

Sequencing, as practised in Africa over the last decade, has not been a conscious effort to make changes in the most appropriate order but rather a series of responses to difficulties encountered. In general, it can be observed that, under external pressure to make rapid changes, governments have introduced policy reforms without considering carefully all of the implications of those reforms. The most obvious example is Nigeria where changes were introduced more or less overnight without considering the necessary support and control structures. In Tanzania private traders were permitted to buy from farmers and to export. Unfortunately, the intermediate stage of processing was left entirely in the hands of the cooperative sector, and it took some time for the resultant problems to be resolved. In Ghana private traders were permitted to buy cocoa from farmers but the failure to liberalize exporting meant that traders had no access to funds and were forced to rely on the marketing board for finance. Perhaps the biggest unresolved problems concern input supply and quality control. Both problems seem to have developed, in part, as a result of the liberalization of the purchasing stage, but it is only now that serious attempts are being made to resolve them.

For countries still contemplating marketing liberalization, or planning further stages of liberalization where the process is already under way, the recommendation must be to consider thoroughly all of the implications of a policy change. Do the necessary preconditions exist for the policy change to have the desired effect? Could the policy change have any undesirable consequences? If so, what further changes are necessary to avoid these? Such consideration may delay completion of the liberalization process but should, in the long run, lead to more effective policy making.

Retention of marketing boards

While liberalizing to a certain extent, many countries have retained marketing boards, either to control one stage of the marketing chain, as in the case of cocoa in Ghana, or to compete with the private sector in some or all of the stages. It is not at all clear that such an approach is desirable, except for very clearly defined transitional purposes. Even if it is not subject to political interference, there is little chance for a state agency, with an established infrastructure designed to meet non-commercial objectives, and with staff recruited as civil servants, to compete on equal terms with new private-sector entrants. Experience suggests that the government agency will gradually see its market share erode. In turn, this will increase unit costs, opening the possibility of government subsidies to keep the agency in business, and thus defeating one of the purposes of market liberalization. While some cooperatives have continued to function in competition with the private sector, they have also seen their market shares eroded. Similar concerns about their long-term viability must also be expressed.

Supporting production

Under the single-channel system marketing boards invariably provided cash-crop extension while ministries of agriculture were responsible for food-crop extension. The knowledge of farmers regarding cultivation, input application, harvesting and processing can only be expected to decline, as the skills built up during the years when some marketing boards offered specialist extension services are not reinforced. The trend to outgrower schemes, primarily with cotton, may offset this decline to a certain extent but the generally poor condition of national extension services does not suggest the situation is likely to be remedied in most countries.

While marketing boards could in the past fund extension services out of the proceeds of crop sales, the industry boards which have replaced them are likely to meet considerable resistance if they try to increase levies, licence fees or government support to a level sufficient to continue to provide adequate extension services. Nevertheless, it appears to be important that governments ensure at least basic funding for cash-crop extension, whether through national extension services or through the industry boards. On the one hand, raising revenue through licence fees or levies is bureaucratically complex and encourages attempts at evasion by the private sector. On the other, this permits a certain amount of independence for the boards, which would not be possible if they were funded directly by governments.

Ultimately, the best approach to extension may be to rely on those in regular contact with farmers, i.e. the traders who buy the crops and those who sell the inputs. As there is a tendency to consolidation of the cash-crop exporting sectors and crop buyers are increasingly becoming linked to large exporters, either working on their own or as agents, it may be possible to implement training programmes for buyers through the exporters or their associations. There would appear to be no reason why those at the export stage in the industry should not fund part of the cost of such training programmes and contribute to crop-research programmes as, ultimately, they stand to gain from increased exports and higher quality.

In some cases marketing liberalization has had a significant impact on farmers' comparative advantage of production. Those farmers in remote areas and areas with limited production are encountering difficulties in finding buyers. When they do find buyers, they discover that marketing costs are taking a much greater share of the price paid than they did under the parastatal or cooperative system. There would appear to be a role for governments to play to assist such farmers to diversify where possible, although a problem here is that, with the exception of cotton and sugarcane, cash crops tend to be high-value-for-weight commodities. If they cannot be produced profitably in remote areas then it is likely that little else can.

Input supply

An end to the monopoly operations of marketing boards as crop buyers has also meant an end to the ease of access to inputs for farmers. Except in a relatively small proportion of cases, farmers now have to identify dealers who can sell the inputs to them, make sure that the inputs they are buying are the right ones and find enough money to purchase the inputs for cash. Failure to consider adequately the consequences of this was perhaps the major mistake of cash-crop marketing liberalization.

This paper has briefly reviewed some of the ways in which input supply can be facilitated such as outgrower schemes, "interlocking transactions" and dealer-funded credit. All of these approaches present problems, most notably related to default on the part of farmers. The paper concludes that, while it is important for countries to have in place a body of commercial and contract law consistent with a free market, this is unlikely to represent a practical response to the problem of deliberate default. This basically appears to be a problem which the private sector needs to resolve itself. Exporters, processors and traders need to communicate among themselves and this would best be achieved if they were able to organize themselves into formal or semi-formal associations. The role of governments should be to try to create conditions where a climate of trust between the farmers and private sector can be developed. This requires assuring complete availability of market information, training of extension workers in marketing and production and creating the necessary conditions for private-sector associations to flourish. While we hold out little hope that trader-farmer relationships will be helped by suitable legislation, it is nevertheless important that such legislation be developed. Finally, it is important that ministers and members of parliament on the government side, as well as local officials, refrain from making statements which appear to contradict the policy of liberalization and which serve to engender hostility between private traders and farmers.

Past failures of government-run agricultural development banks suggest that such institutions do not have the potential to sustainably address the present deficiencies in credit for cash-crop input supply. Continued support for such banks by donors and international financial institutions often represents a triumph of hope over experience and reflects an urgent need to rapidly disburse funds which makes profitability take second place to expedience. Evidence to date suggests that promotion of rural savings is more likely to lead to a sustainable capacity on the part of farmers to buy inputs than would further support for development banks that are not viable.

Buying from farmers

This is an area of liberalization that has resulted in the fewest problems for most African countries. Nevertheless, in some countries traders have found it difficult to function because of the many controls on their operations. Governments need to achieve a balance between promotion of competitive marketing arrangements beneficial to farmers and monitoring, control and revenue raising. Rules relating to licensing of traders need to be closely examined in order to confirm their necessity and to ensure that they do not facilitate corruption on the part of local and national officials. Licences should be granted automatically to anyone who meets the criteria established in advance by the government or industry board. These criteria should be clear and easy to obtain and there should be a mechanism for speedy and transparent appeals against refusal. The obligation to obtain licences should not be used as a mechanism for restricting private sector access in favour of existing cooperatives, the marketing board or friends of influential persons.

Licence fees and other levies should be set at such a level that they discourage frivolous applications but not at such a level that they inhibit competition by making it difficult for qualified individuals or organizations to enter the business. Establishment of licence fees and other levies requires an understanding of the way the marketing system has developed after liberalization. For instance, a system where a few large buyers/processors buy up all of the crop using their employees to contact the farmers will require an entirely different scale of fees than a system where small independent traders buy from the farmer for subsequent resale to a processor.

It is recommended that the Tanzanian practice of enforcing purchase only at designated buying centres should not be replicated and that the parties should be free to transact business at mutually convenient locations. With the Tanzanian centres being primarily located at sites of the cooperatives who formerly dominated the cash-crop trade, it appears that the main reason for the establishment of these centres was to facilitate continuing involvement on the part of the cooperative movement, rather than to facilitate efficient produce marketing.

A similar situation exists for sun-dried coffee in Ethiopia where coffee can only be sold at certain market centres. Here the problem is compounded by a rigorous separation of primary crop buyers from wholesalers. Although the wholesalers tend to finance the primary crop buyers they are not permitted themselves to deal directly with farmers. However, this arrangement is under review and may well be changed.

The announcement of either minimum or indicative prices is superficially attractive, particularly in countries where suspicion of the private sector has a long history. However, the practical utility of announcing prices is open to some doubt, and it does present the opportunity to officials or politicians to try to manipulate markets, often for their own rent-seeking purposes. The best protection for farmers in the long run is likely to come from government activities which maximize competition, consistent with efficient operation, and provide full information concerning prevailing prices to enable farmers to form their own opinions regarding the adequacy of the prices they are offered.

The capacity of the private sector to provide its own finance for crop purchasing, through a process of vertical integration, has been one of the more notable features of the liberalization process. Countries where this has not really happened need to review why, with a view to making policy changes. The answer will often be found in the extent of liberalization of the export stage. The clearest example is Ghana where Cocobod continues to be the sole exporter and where private crop buyers face difficulties in financing purchases. Countries such as Ethiopia, Kenya and Tanzania which continue to operate export auctions also experience problems in this area.

Quality

Export crop quality is influenced in numerous ways and governments should aim to improve quality through a variety of interventions. Actions undertaken should always be cost effective. That said, it is not easy to establish whether a single intervention is cost effective. A simple comparison of the benefits, in terms of higher prices, of quality improvement with the costs of bringing about those improvements may be insufficient. Although poor-quality produce may find a market when world supply and demand are more or less in balance, it will face major marketing difficulties when a commodity is in surplus on world markets. Further, where a percentage of a country's output is of recognizably poor quality, this may tend to drag down prices paid for the rest, even if of good quality, because of the risk that importers feel they are taking.

At the production level, areas have already been indicated where steps could be taken which are favourable to improving quality. Training of crop buyers is essential as is improved input supply, both to increase quantity and improve quality. However, those buying directly from farmers will usually have an interest in maximizing their purchases and, even if trained about quality issues, will not refuse to buy produce which they can subsequently resell. Thus, in the long run, improvements to quality will have to come about through the marketing system. In time exporters can be expected to demand better quality, either in response to demands from their markets or as a result of export quality controls imposed by the government. They, in turn, will demand higher quality from processors who will demand higher quality from the buyers.

Few of the newly liberalized marketing systems offer farmers quality premiums. Provided farmers meet basic minimum standards, which may presently be pitched at a very low level, they can sell their output. They have no incentive to improve quality. In the past the marketing board or cooperative would impose buying standards at farmgate level, although these were often followed more in theory than in practice and could sometimes offer rent-seeking opportunities for board or cooperative employees. It is recommended that governments and their industry boards work with private-sector associations to review the possibility of introducing price premiums for quality which are economically viable for exporters, as one way of promoting quality improvement. In the case of crops which are processed at factories, e.g. cotton and coffee, buying grades for the factories could be established, backed up by frequent monitoring by the industry board.

The gradual consolidation of exporters and the increasing role played by multinational concerns suggest that in time export companies may come to improve quality themselves. No reputable company wants to jeopardize its reputation by supplying poor quality. However, governments cannot just rely on the private sector to police itself, as some of the companies who become involved may not be particularly committed to long-term development of the industry. An efficient export-inspection service would appear to be essential and where this does not exist governments are strongly recommended to establish one, either a national service for all crops or crop-specific services run by industry boards. As with licensing arrangements, care has to be taken to ensure that crop inspection does not become just another excuse for rent seeking by corrupt officials. Provision must be made for independent and rapid arbitration in the event that the exporter does not agree with the decision of the inspectors. The experience of Cameroon, which has privatized export quality control, needs to be evaluated. There would appear to be no *prima facie* reason why the private sector should be any more efficient at crop inspections or, indeed, why its employees should be any less given to rent seeking. However, international private inspection services may be open to legal challenge in the importing country, in a way that a government service would not.

The major influence on crop quality is probably the standard of processing, whether it be at farm level or on a larger scale. In the case of cocoa, most fermenting is done by farmers and this is the last stage that beans go through prior to export. Types of fermentaries used need to be reviewed by industry boards and, if found to be the cause of poor quality cocoa, the introduction of new types may have to be encouraged. Often, the fermentary may be adequate but management and operational skills may be lacking. This implies a role for the relevant cocoa industry board to carry out training in efficient fermentation. With other crops major processing difficulties may arise after the crop has left the farm. For example, in several countries many processing facilities for coffee and cotton are ageing and inefficient. These are mainly the facilities operated by cooperatives during the single-channel marketing system era. Our country study of Tanzania, however, suggests that the biggest problems with cotton processing are presently caused by new gins constructed by the private sector. This perhaps merits further investigation. In Ethiopia, new coffee pulperies are causing problems, not because there is anything intrinsically wrong with the equipment but because of a lack of skills in operating them. Certainly, industry boards should be in a position not only to offer training in processing, but also to advise on types of processes to be used. Inspection of processing facilities, as carried out by the Coffee and Tea Authority of Ethiopia, for example, is also a necessary and legitimate function for industry boards. However, as previously noted, the main impact on the quality of processed product output should be its acceptability to exporters and their markets.

Exporting

As previously discussed, the capacity of the private sector to take over crop buying functions from parastatals appears to be constrained when the private sector lacks access to finance. Where the exporting function has been liberalized it appears that this constraint has been or is being resolved as a result of the flow of funds through the marketing system, from the exporter down to the petty trader. In Ghana, where export liberalization has not taken place, liberalization of the buying stage has been slow to proceed because the private sector has difficulty in obtaining funds to compete with the cocoa board. Thus Ghana appears to have the worst of both worlds. On the one hand, the private sector is not as competitive at the buying stage as in other countries. On the other hand, the cocoa board no longer has a buying monopoly and thus cannot continue to offer inputs on credit as it risks default.

Governments should therefore consider encouraging the private sector to take over cash-crop exports at the same time as private traders are permitted to buy from farmers. In any transitional phase there will inevitably be a period of adjustment as the private sector feels its way into the business and as linkages are developed between exporters, processors and crop buyers. During this transitional phase there are bound to be objections from farmers and, hence, politicians as the system, at least temporarily, breaks down in places. Nevertheless, from evidence to date, a transition which involves all sectors being handed over to the private sector more or less simultaneously appears more likely to be successful than one which denies the private sector the opportunity to develop vertical linkages.

Export auctions continue to be used in the coffee sectors of Kenya, Ethiopia and Tanzania. At least in the case of the latter two, there appear to be reasons why they could be discontinued at this stage. In Tanzania, for example, companies submit coffee to the auction and then bid for the same coffee. The use of auctions also appears to inhibit the development of vertical linkages within the industry and thus restricts the ability of traders to finance purchases from farmers. Governments in countries where auctions continue to be used for crops other than tobacco, which is a special case because of the multiplicity of grades, are recommended to closely examine whether they continue to be necessary.

The experience of Nigeria was perhaps a particular case, in that the private sector was permitted to take over cash-crop exporting almost overnight. An overvalued local currency gave exporters the opportunity to use cash crops as a means of converting naira into hard currencies. The recommendation for any countries which have not yet liberalized the export sector but plan to do so is thus to ensure that liberalization policies are consistent with macroeconomic policies. Ideally the value of national currency should be market determined prior to export liberalization.

Monitoring, control and development

Previous sections have specified in some detail activities in the cash crop sector which remain the legitimate concern of the state. These activities include extension, quality control, export promotion, licensing, and monitoring and statistics, as well as longer term industry development activities such as trials with new varieties and testing and certifying of processing equipment. Where cash crops constitute an important component of a country's economy such activities are probably too important to be covered by a generalist ministry of agriculture. Most, if not all, countries studied for this review have established industry boards and this is the recommended approach. Such boards need to be given full legal backing; there have been cases where a board has been more or less powerless because it did not formally exist under the law of the land. Boards need to be able legally to establish quality standards and amend them as they see fit, to issue licences, to authorize varieties and, perhaps, the location in which they are planted, to authorize processing equipment and some types of agricultural inputs (chemicals) and to require actors in the marketing chain to provide necessary statistics.

Funding of industry boards should be carried out in the simplest way possible consistent with guaranteeing the board's independence. On the one hand, levies on small traders would be complex, bureaucratically difficult and likely to lead to attempts at evasion. Direct finance by government would, on the other hand, jeopardize a board's freedom by making continued funding dependent on the annual whim of the minister or ministry of finance. A compromise approach may be for each board to be entitled to a fixed export levy per ton which would be paid directly from the excise department to the board, bypassing the ministry of finance. Such a levy could, if necessary, be supplemented by direct board levies on exporters and processors.

Legislative framework

The relationship between legislation and marketing has become increasingly important as a result of marketing liberalization, both for cash crops and food crops. This paper has highlighted areas where the need for appropriate legislation is vital, such as that governing commercial transactions, that relating to quality control and that relating to the functions of industry boards. Countries are recommended to examine closely all legislation relating to cash crops, ascertain whether such legislation remains relevant in an era of liberalization, and make changes to the law as necessary.

A wider problem than the legislation itself is the extent to which it can be enforced. This is a major issue for all African countries and far too wide and complex an issue to be addressed here. Nevertheless, it is important to highlight that, without a satisfactory dispute-resolution mechanism in the case of civil cases and rapid enforcement of the law in the case of criminal cases, changes to the law will have very little impact.

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As a result of Structural Adjustment Programmes throughout Africa, the agricultural export sector has witnessed significant changes in recent years. With a few notable exceptions, government marketing boards have largely been replaced by private sector exporters, processors and crop buyers. This transfer of export crop marketing responsibilities from the state to the private sector has been reasonably successful although there have been problems, notably with regard to input supply, crop quality and processing. This bulletin reviews approaches to and experiences with export crop liberalization in Africa. The problems encountered are identified and ways of overcoming them are considered. The review should be of particular interest to policy-makers in Africa, to agencies which have promoted the policy changes and to the private sector.

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