

7. Agricultural Marketing

DFID

The purpose of these *Key Sheets* is to provide DFID Natural Resource Advisers with an easy and up-to-date point of reference on issues relating to development in the natural environment.

The sheets are designed for those who are managing change and who are concerned to make well-informed implementation decisions. They aim to distil theoretical debate and field experience so that it becomes easily accessible and useful across a range of situations. Their purpose is to assist in the process of decision-making rather than to provide definitive answers.

The sheets address three broad sets of issues:

- Service Delivery
- Resource Management
- Policy Planning and Implementation

A list of contact details for organisations is provided for each sub-series.



Overview of the debate

Over the past 5 years the debate relating to agricultural marketing has focused on:

- Drawing up guidelines for methods and sequencing of marketing parastatal reform.
- Analysing the production responses to marketing reform, especially in sub-Saharan Africa.
- Assessing the equity implications of marketing reform.
- Understanding the nature and extent of entrepreneurialism in developing countries (particularly in SSA) and the constraints to the development of private enterprise.
- Finding cost effective ways to provide stability in staple food marketing.
- Developing an understanding of the role of traders in broader agricultural systems (eg. in provision of extension advice or credit).

Key issues in decision-making

In most countries of the world there is some state intervention in agricultural produce marketing. The rationale behind this intervention varies somewhat but usually centres around risk reduction and a desire to safeguard national food security by stimulating increased production. In some countries there is also a concern with equity; pan-territorial pricing policies were intended to safeguard the interests of the poorest living in remote, marginal areas.

The impetus for marketing system reform – much of which has been sponsored by donors/lenders – has come from recognition of the inefficiencies of parastatal marketing monopolies and, more importantly, from an urgent need to reduce budget deficits. There is, however, little consensus on what the residual role of the state in agricultural marketing should be. For many, including most policy-makers in developing countries, the underlying goals of state intervention, particularly in staple crop marketing, remain valid. Large fluctuations in food prices can have severe negative effects not only in immediate nutritional and livelihood terms: if poor people are worried about price instability they will fail to invest what productive resources they have effectively (preferring to keep assets highly liquid). Domestic policy-makers are also concerned about political destabilisation caused by food price fluctuation.

There is still, then, a quest for new-style mechanisms of state intervention which yield the benefits of price stabilisation at an acceptable cost. Few answers have yet been found and it remains important to finance research and experimentation in this area. Donors are well-placed to provide ideas and analysis of other countries' experiences. In the meantime donors should not use policy leverage to try to insist on complete state withdrawal from food crop marketing. This may be both unwise and unachievable.

On a more concrete level, donors can help support the transition to private supply:

- Is the market infrastructure (including definition of weights and measures, contract enforcement mechanisms etc.) adequate to encourage private traders to enter?
- Have plans been made to sell off disused public storage facilities to the private sector?
- Is there a public information and statistical service in place to transmit price and planting information? Is this appropriately detailed?
- Has thought been given to how taxes and/or levies on production (eg. to finance research) will be collected when monopsonistic marketing structures are disbanded?
- To what extent was the provision of production credit and inputs linked to parastatal purchasing under the old system? Can alternative supply systems be identified and supported?
- Are there mechanisms in place for identifying and guarding against unfair trading practices?

DFID should investigate novel options for providing direct support to the private sector, where necessary (especially where traders are reluctant to enter or private sector monopolies are developing):

- How vibrant is the private sector, or might it be? (Evidence of any parallel trade should be gathered and analysed and constraints identified.)
- At what stage in the marketing chain will storage of produce be concentrated (eg. on-farm, with smaller traders, with wholesalers)? Is there adequate storage capacity? Can storage losses be reduced? Would the construction of pooled warehouses ease traders' access to inventory credit?
- Do traders have adequate access to capital to cover start-up costs and stock holdings? Are there import/export or other trade or licensing regulations which deter private traders?
- What role do private sector associations, such as chambers of commerce, play? Can they be strengthened?

DFID Financed Research

- Agricultural marketing in Africa: Privatisation and policy reform (OPM - start 1993)
- Implementation of cereals market liberalisation in SSA (NRI/Wye - start 1992)
- Interlocking transactions: market alternatives (Wye - start 1996)
- The role of the government in adjusting economies (University of Birmingham - start 1995)

DFID project experience

- Ghana: Liberalised grain marketing project (start 1996)
- Zimbabwe: Support to Cold Storage Commission, Cotton & Dairy Marketing Boards
- Indonesia: Support to BULOG (start 1989)
- Colombia: SENA training in fruit and vegetable marketing (start 1993)
- Ukraine: Agricultural marketing development (start 1993)
- Poland: Agricultural food marketing (start 1993)

UK and other expertise

- **Natural Resources Institute** (Jonathan Coulter)
- **University of Glasgow** (Lawrence Smith)
- **OPM** (Stephen Jones)
- **Wye College** (Andrew Dorward, Jonathan Kydd)
- **Michigan State University**

Agricultural Marketing *continued*

One area that is often neglected is the provision of training courses directly to private agents. Would-be traders may need skills in new areas including: book-keeping; quality control; marketing (especially when produce is to be exported) and processing and packaging. It may be effective to provide such training through a recognised association of traders so that a domestic resource centre can be built up.

The fragmentation of both production and marketing systems in developing country argues strongly for a role for groups. Marketing cooperatives are often tainted with past failure but opportunities for working with them should not be written off entirely. Alternatively, representative unions or less formal farmer controlled enterprises can play a role in bulking up produce in remote areas and in raising the bargaining power of producers in an unfamiliar competitive environment:

- Are these organisations able to communicate/bargain effectively with potential purchasers? (Investments in telecommunications infrastructure can provide an important boost as can marketing training.)
- Do they have strategies for communicating with their members? (They may need help developing their own internal networks.)
- Do they have access to credit/financing to establish marketing efforts?
- Are there bodies which regulate trade to which they can apply in the case of marketing abuses?

It has rarely been possible to predict the impact of marketing reform. This makes it particularly important that monitoring systems are set up in parallel with reform efforts. These systems should seek to monitor not just aggregate supply responses but also the effects of reform on particular groups of producers/consumers which may subsequently require targeted assistance (not necessarily to support agricultural production which may prove uneconomic under the new circumstances, but to secure their livelihoods in some form while they adjust to change, for example if local processing facilities are closed).

Ultimately agricultural marketing must be treated as just one aspect of the overall agricultural system. Perhaps the most effective way to facilitate effective marketing will be to invest in non-specific infrastructural areas (transport, communications) the benefits of which will be felt throughout the agricultural system.

Seminal literature

- Coulter, J. (1994) *Liberalization of Cereals Marketing in Sub-Saharan Africa: Lessons from Experience*. Chatham: NRI.
- Coulter, J. & A.W. Shepherd (1995) *Inventory Credit: An approach to developing agricultural markets*. FAO Agricultural Services Bulletin 120. Rome: FAO.
- Jayne, T.S. & S. Jones (1996) *Food Marketing and Pricing Policy in Eastern and Southern Africa*. MSU International Development Working Paper no. 56. East Lansing: MSU.
- Lele, U. & R.E. Christiansen (1989) 'Markets, Marketing Boards, and Cooperatives in Africa: Issues in Adjustment Policy'. *MADIA Discussion Paper* No. 11. Washington DC: World Bank.
- Timmer, C.P. (1997) 'Building Efficiency in Agricultural Marketing: the Long-run Role of BULOG in the Indonesian Food Economy'. *Journal of International Development*, 9:1. pp.133-145.

Key Sheets are available on the Internet at: www.odi.org.uk/keysheets/
or through DFID's website

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