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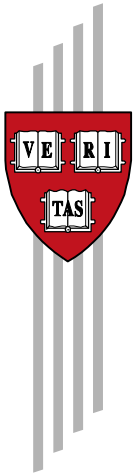

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Abstract

This study examines the characteristics and behaviour of key commodity/product markets and market institutions in Africa and their consequences for economic growth. Their contribution to economic growth appears to have been limited by high transaction costs and weak institutions. Government heavy intervention, persistent shortages of market infrastructure and lack of effective market information system, all contribute to the seemingly high transaction costs in these markets.

JEL Classification: F1, L1, N1, N7

Keywords: markets, transaction costs, institutions.

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1. Introduction[1]

The last few decades have witnessed a resurgence of interest in the determinants of long-term economic growth. The new endogenous growth theories have stimulated research in identifying the differences in long term growth rates across countries. Although several studies investigating specific aspects of economic growth in Africa have appeared, only a few have attempted a comprehensive study of the determinants of economic growth in Africa (Easterly and Levine, 1995; Savvides, 1995; Ghura, 1995). A systematic investigation of the factors promoting/hindering economic growth in Africa has become imperative. One institution in dire need of study is African markets.

The importance attached to markets in economic analysis cannot be overemphasised. The efficient functioning of markets is seen as the primary force underlining growth and development. Despite the perceived role of markets, the dynamics of African commodity/product markets and market institutions and the linkage to economic growth have received inadequate attention especially in recent times even though markets may be more important in Africa than in developed economies due to the near absence of large hierarchical organisations such as firms and government agencies (Fafchamps, 1999). Although several studies have explored the relevance and efficiency of contemporary market institutions especially in the agricultural sector in the post-adjustment years (Coulter, 1994; Jones, 1994; Barret, 1997; Meerman; 1997), only a few have attempted a detailed examination of product markets in Africa and their economic effects. Economic-historical analysis of marketing structures in Africa and the forces moulding them is much rarer. Almost nothing is known about the nature of existing markets, the magnitude of commodity trade, facilities used and the cost of performing the relevant functions, the operating margin of assemblers, wholesalers and the processes of price determination. Factual statements are confined to a brief discussion of food markets. Such crucial issues as the speed, with which prices respond to changes in demand and supply, the efficiency with which the market allocates supplies throughout the economy, and the capacity of the market to handle increased demand and supply can only be handled impressionistically. The obstacles confronting research in this area are formidable because little quantitative information is available on these aspects of African economies. Under these circumstances, the probability that any particular government intervention

[1] The comments of Professors T. Ademola Oyejide and Akin Iwayemi on an earlier draft are gratefully acknowledged.

in commodity markets will impair the functioning of the system more than improving it will be rather high. The cost of misguided policies is quite high in Africa as dysfunctional commodity markets continue to hamper growth and structural transformation of these economies.

There is increasing recognition of the need to develop efficient, integrated and highly responsive marketing channels in Africa. This is particularly so given the underdeveloped structure and institutions in these economies. The overriding objective of this study is to examine the characteristics and behaviour of African commodity/product markets and market institutions and their consequences for economic growth. It is envisaged that the study would enhance a greater understanding of the functioning of these markets, the depth and complexity of obstacles confronting them and the extent to which the existing markets and market institutions aid or impede economic growth.

The rest of the paper is organized into eight sections. Section 2 presents the analytical framework, Section 3 appraises key commodity/product markets in Africa and section 4 presents a characterisation of these markets by broad typologies. The extent of commodity/product markets integration/disintegration is the focus of section 5, section 6 examines the evolution of commodity/product markets regulation in Africa and section 7 is on the magnitude of taxation in these markets. Section 8 identifies the consequences of these markets for economic growth while section 9 concludes.

2. Markets and Economic Growth

Product markets figure relatively little in economic development and the theoretical and empirical foundation of markets and market institutions are still in their infancy. Even the recent literature concerned with the implications of absent markets take the absence of such markets as exogenously given (Stiglitz, 1985). The study of product markets in developing countries began in the 1950s (Bauer, 1954, Bauer and Yamey, 1954) following Holton's observation that distribution was of greater importance in economic development of backward areas than its neglect in the literature suggested (Holton, 1953). Even then, markets are still subjected to considerable administrative intervention- often without a sound economic basis.

Markets are social institutions, which structure, organise, and legitimise contractual arrangements and the exchange of property rights. They not only provide price conventions but also communicate information regarding products, quantities, potential buyers and potential sellers (Hogson, 1998 p 189). The market is simply a low-cost institution for facilitating specialisation

and exchange. It reduces scarcity by guiding the allocation of resources to their highest-valued uses by means of prices, which provide both consumers and producers with the information and the incentive to respond to changes in individual circumstances. The market does this automatically, while it requires no big administrative apparatus, no central decision-making, and very little policing other than the provision of a legal system for the enforcement of contracts. The effectiveness of the market in relieving scarcity is closely tied to the extent to which property rights are fully allocated, privately held, and voluntarily exchangeable at relatively low transaction costs. Thus, the market both favours and is favoured by a political environment of individual freedom.

The market process is a powerful mechanism for the dissemination and utilisation of knowledge, providing individuals with the incentive to search for and, through exchange, take advantage of opportunities to improve their production and consumption possibilities. Indeed, under ideal conditions, the market solution can be shown to be Pareto-efficient in the sense that it is impossible to make someone better off without making someone else worse off.

A properly functioning market system tends to ensure economic efficiency and stimulate economic growth. Each market is expected to function efficiently in ensuring appropriate resources allocation that would enhance economic growth. According to Yamekura (1995), an ideal market must satisfy three major conditions. First, there must exist a competitive equilibrium price that ensures the efficient allocation of resources and makes the market work as a consistent incentive system. Second, transaction costs are negligible for each player in the market. Third, complete information must be provided (under the assumption that there is no asymmetry of information and no adverse selection by the players). More importantly, all markets are expected to be properly integrated together in a network of efficient market system. Goletti, et. al. (1995), identified adequate and well functioning infrastructure (e.g. transportation, communication etc.), and less volatile government intervention as major determinants of market integration.

In practice, the conditions under which the market or any other economic system actually functions are far from ideal. Klitgaard (1991), observed that markets in most developing countries have functioned less well due to what he called “environmental conditions”. Many markets possess structures that deviate from the competitive norm. The legal and institutional foundations for free and efficient markets are weak or absent. These foundations includes the following:

- A stable and credible currency
- A well-functioning legal system with well enforced contracts and property rights
- Capital markets and systems of credit and banking that enforce rules of repayment
- An infrastructure that ensures low transportation and communication costs and thereby facilitates trade; and
- Ample market information on prices, quantities, and qualities for products and labour.

An equally important and pervasive set of limitations is imposed by transaction costs. The higher these costs are, the greater is the extent to which they inhibit the establishment, enforcement, and exchange of private property rights. As a result, some rights may not be fully assigned, enforced or reassigned through exchange. In addition, many domestic markets are thin, with few buyers/sellers and irregular demand, which are easily swamped by local and international economic tides. Also, externalities and common property resources are widespread which makes for unfettered and inefficient competition. Due to these imperfections, markets tend to malfunction and in some cases outrightly fail in their contributions to economic growth.

Government often intervene in product markets, prompted by equity, food security, farmer support and other considerations. While government clearly has a fundamental role in helping to define, allocate, and enforce private property rights, and to provide alternatives when such arrangements do more harm than good, the extension of government activities beyond these limits, however, reduces the ability of individuals to respond to changes in circumstances, inhibiting entrepreneurial incentives and weakening the effectiveness of the market process in reducing scarcity (Kirzner, 1973). In evaluating markets, adequate consideration should thus be given to the consequences of government regulation including the possible occurrence of unintended and undesired side effects.

A broad consensus among economists favours the liberalization of markets as a strategy to achieve both greater efficiency and more rapid economic growth in developing countries. The reform agenda promoted by donors, especially in Africa, has taken an increasingly negative view of the role of the state in product markets. Subsequently, several countries have adopted product market reforms as an integral part of adjustment. Kydd and Scarborough, 1989 and Thompson, 1991 provide evidence on the reform measures adopted by several African countries. More recent studies indicate that the reform in several countries have been partial. The government still intervenes in many aspects of product markets while the transition to a private sector based

marketing system faces tremendous obstacles (World Bank, 1994, Coulter, 1994, IFPRI, 1999). Tentative evidence suggests that liberalisation and privatisation of commodity/product markets has been one of the least well implemented of all 'structural adjustment' reforms in Africa. This may be due to the complexity of the issues, which are rarely well understood, and their political and social sensitivity. These problems derive in significant part from weak theoretical and empirical understanding of markets and marketing systems (Jones, 1995). Managing the reform process and improving its efficiency necessitates a good understanding of the characteristics and behaviour of local markets and marketing institutions.

3. Key Commodity/Product Markets and Marketing Institutions in Africa.

3.1 Product Markets

Since the colonial era, most African economies have been characterised by a dual trading system, which, to an extent, informed the nature of commodity markets and market institutions in Africa. These are (i) a relatively well developed export trade on primary commodities, particularly mineral products and agricultural cash crops concentrated in ports and other internal cities serving as entrepots; and (ii) an interregional trade in food crops and consumer goods from surplus to deficit areas within each country. This, of course, may be carried on to other countries despite the restrictions imposed by stringent regulations and poor infrastructure. Overall, the marketing system was geared towards external trade. Thus, transport facilities including rail, road and harbour investments, and the organisational system of wholesaling and export-import companies were dictated by the needs of this trade rather than internal trade within African countries.

The organisation of marketing systems in Africa shows a wide variability. All marketing channels are currently represented. These range from direct producer-consumer relationship involving hawking of food items to sophisticated supermarket chains retailing commodities purchased from central wholesale markets, through buying agents, or from specialised producers on contract. In what follows, we identify the key commodity/product markets and market institutions in Africa. Some level of ambiguity should however be expected in this classification, as there is no defined boundary binding these markets.

3.1.1 Local Markets

These are highly localised and specific sites where buyers and sellers meet to exchange goods and services. It is a loosely connected system of markets of various categories, both formal

and informal, servicing the needs of consumers in both villages and major urban centres. There is no consensus concerning their origin. Hodder (1965) attributed their origin to exchange stimulated by long distance commerce; a stance corroborated by Smith (1962) in his study of markets in Hausaland in Nigeria. Meillassoux (1971), however, linked their existence to local exchange.

There is evidence that the local marketing system has been relatively efficient in integrating the markets of various locations and in equilibrating supply and demand (Hill, 1962; Jones, 1972). However, it has worked efficiently only within the limited context of segmented regions, rather than as a truly integrated national market. Few transporters and assemblers reach remote sources of food supply or demand. Market information services are rudimentary. There is little reliable information on crop outlook, supply and demand balances, prices in distant markets, stocks and inventory in major supply sources and markets, or new technology and methods of application. Areas of surplus coexist with areas of need because of grossly inadequate market information.

Local markets are of two categories- rural and urban markets with peri-urban markets sometimes serving as the link.

Rural Markets

These are local periodic marketing networks, on average 10 kilometres apart, which supply local people with their everyday needs. Equally, they act as the basic collection points for the rural surplus, and as the loci through which a limited range of urban goods is sold. They are points of initial sale for most farm produce entering the market stream and also serve as the final point of sale of some imported and manufactured goods.

Rural markets, in whatever form, are important in African countries. Ghana had around 1,000 markets with at least 50 sellers in each market in the early 1980s (Abbott et al, 1986). Most rural markets spring up by themselves at a place that is convenient for local trading, and the major criteria for their emergence include a central location in a productive area, availability of a river or water, trees for shade and easy access. Rural markets are mainly reached by foot or bullock cart or road transport (including rail system). Residents of concentric villages and neighbourhoods are usually involved as sellers, and as such, the markets usually serve producers within 12-25 kilometres radius. These markets are held usually on a cyclical system, such as every fifth day, based on an indigenous week. In Nigeria, Morocco and parts of Togo, a six-day week is the tradition. Some of the markets, especially in Yorubaland, are usually organised into market rings or circuits, a term for an integrated sequence of markets operating every four days or multiple of

four day periods (Hodder, 1965). Within each ring, each market takes place on a day that no other market operates.

Intense haggling takes place in these markets and there is generally less competition between sellers. There is, of course, price variation within established limits, and the process of price setting often depends upon the relationship between sellers and producers. Thus, some vendors are able to sell for a lesser margin of profit than others because they themselves have produced the good. On the whole, prices are determined largely by the forces of demand and supply, actual or anticipated. A given market place may exhibit price differentials for the same commodity at different times of the same day, especially for perishables such as fish and vegetables. Prices tend to be higher in the morning, as commodities are still fresh and begins to fall as late afternoon approaches and some of the perishable commodities begin to deteriorate. Little is wasted, however, as there are traditional ways of preservation. For example, fish, which is not sold, is either smoked or dried in the sun to be sold later. Time also influences demand. During and immediately after harvest, rural households are on the whole self-sufficient. Pressures on the market, however, increase later in the year as most households exhaust their own output and begin to depend increasingly on these markets.

There are no binding contractual agreement between buyers and sellers, although verbal agreements may be entered into. The flow of information in these markets is intricate but both buyers and sellers appear to understand market conditions. These markets are fairly competitive. No single buyer or seller controls a significant proportion of the market.

Permanent shops are still suprisingly rare in rural markets. The limited development of such outlets have been linked to the tendency of rural consumers and petty traders to travel directly to the major centres to purchase costly items, especially after harvest (Porter, 1990). The urban markets serve as the final point of destination of their produce.

The peri-urban markets have the same features with rural markets. They, however, differ from the strictly rural markets, in that there is a direct link between them and urban markets. Two types of peri-urban markets have been identified (Barret, 1988), namely; those that rely on urban markets for supplies, and those that supply commodities to urban markets. These functions are usually not mutually exclusive.

Urban Markets

Urban markets are found all over Africa, especially in major cities. They are often congested, noisy and fluid, varying from congregation of less than five hundred to over one

hundred thousand people. Kumasi central market for instance is presumably visited by more than one hundred thousand people everyday. Most urban markets are massive and, unlike rural markets, have a large geographical reach. These markets may be held daily or periodic, depending on the culture of the community. However, in large cities, they are often held on a daily basis, including public holidays, from sunrise to sunset. The dynamic nature of marketing systems ensures that changes in pattern and periodicity are inevitable, especially in response to population growth, urbanisation and improved accessibility. The conversion of periodic markets to daily markets is one aspect of the changing retail environment in urban areas, and indeed in rural areas with high population densities (Okafor, 1982).

Urban markets are usually under direct control of the city or area council in which they are located. Many of the busier markets have municipal council constructed lockable shops, which are often rented out on monthly or annual basis. The council is usually responsible for the allocation of plots and rents. Although, almost all markets offer table and floor facilities, in most crowded markets, one finds a large percentage of floor sellers. Rent for floor space, prorated according to quality and type of merchandise goods they sold, is paid to tax agents. License fees are not prohibitive, but together with tax, discourage many people from entering the system and serve to prevent many peasants from marketing their own goods.

There is some order to the apparent chaos, with vendors of particular commodities seeming to congregate together. Weights, measures and standards are imperfect or lacking while most transactions are very small. Due to small transaction size, legal institutions offer little protection against breach of contract (Fafchamps, 1999). Friendship, personal loyalty and repeated dealings all play a part in constraining the behaviour of participants. Search and screening costs are much higher than in developed economies. Consequently, market participants tend to operate in highly simplistic and inefficient manner. Within a country, all markets supply the same range of goods, but with varying qualities. Differences are often minimal and can be attributed to environmental factors. Most vendors carry their merchandise to the fair by truck, although some of the more marginal vendors come on foot. Transport costs are inputted into the prices of goods so that profit can be made, but there does not seem to be any fixed percentage mark-up above expenditure. Marketers habitually accept widely different prices for a seemingly homogenous good in the same location and time, a phenomenon which can partly be attributed to differential levels of transaction costs. Profits are difficult to calculate, but based on anecdotal evidence it can be inferred that earnings are low. Bureaucratic control also cut sharply into earnings. Taxes are

paid to local and state authorities and entry into the market place require licenses. Many governments appoint tax collectors who regulate all market behaviour.

The major functional categories of the urban markets are the wholesale and retail markets. In retail markets, wholesalers usually sell quantities of produce bought in assembly markets to retailers. They also act as the distribution centre for goods imported from overseas and other regions of the country.

Wholesale markets, on the other hand, are developing due to the burgeoning population of many cities in Africa. They serve retailers located in various parts of a city. Generally, the prices established at a major wholesale market become the basis for pricing both for farmers and consumers. Wholesale markets are operated by a market authority or cooperatives, including qualified representatives of the city and central government, and of the various sets of market users. This market is less competitive because of its specialised function as well as its large capital requirement. The retail markets are more competitive because of their small capital requirements and the need to serve consumers at various locations.

Merchant wholesalers in each local area enjoy both oligopolistic and oligopsonistic positions, primarily because the scarcity of capital and the reluctance of capital-possessing entrepreneurs to join the unpopular merchant class severely limit the number of merchant wholesales in each local market area. Rational as well as irrational preferences for dealing with particular merchants in each area strengthens individual buying and selling positions. The merchants are very conscious of each other's buying and selling policies. This could conceivably result in intense rivalry, but in practice there seems to be recognition of their common interests in manipulating the local market. In their routine distribution to retailers (and, in the case of the few inedible staples, to secondary industry), the wholesalers' margins are remarkably high.

Indigenous institutions and organisations have evolved to reduce the cost of transacting among agents. "Guild–type organisations" or "traders associations" are a common feature of the marketing landscape in Southern Nigeria (Jones, 1992). Smith and Luttrell (1994) in a detailed study of the activities of *elubo* and *lafun* wholesalers association in Ibadan observes that these associations or *egbes* concentrates on decreasing their members' transaction costs. In particular, these associations reduce the marginal private cost of trading by expanding their members access to transport and credit facilities, collecting, processing and disseminating information that individual traders find too difficult to acquire on their own, and providing, where the government does not, the necessary institutional and physical market infrastructure.

Unofficial daily markets supplementing the main market can also be found in urban conglomerates. They usually specialise in the sales of food items and some operate only in the evening. Indigenous foodstuffs are never weighted in these markets, only the butchers have weighing machines that are seldomly used.

Apart from the local markets, there are two other types of retail outlets- the supermarkets and small stores. Most supermarkets are located in cities. Multinational enterprises, expatriate communities (e.g. Asians, Syro-Lebanese, etc.) and wealthy nationals usually own them. A retailing alternative to the market is offered in the form of small family store. They tend to stock mainly imported consumer good such as sardines, margarine, cigarettes, bread and soft drinks. These markets enjoy a virtual monopoly of such items. They do confer several advantages on their customers, which, perhaps, guarantee their existence- the availability of credit and operation at odd hours.

Complementing these markets is street hawking which is a recent phenomenon in several developing countries. It is becoming a major feature of commercial cities all over Africa. Instances abound in most major cities across the continent. Its antecedent can be linked to the growing complexities of modernisation, characterised by a breakdown of social institutions and accentuated by the prevailing harsh economic climate. They are concentrated in areas where economic activities are highest; e.g., markets, motor parks and busy roads during rush hours even when they cause both traffic and pedestrian congestion and some city officials consider them a health harzard. Due to low overheads and high adaptability, their goods are relatively cheaper. They can adapt quickly to changes in market situation, weather conditions or the arrival of law enforcement agents who harass them from time to time. Almost any item can be bought in these markets. Items traded on ranges from apples imported from Europe to vehicular spare part. Prices are not predetermined thus giving room for intense haggling. Adolescents, usually between the ages of seven and twenty-two dominate sellers. Although both boys and girls tend to be found in this hardly lucrative occupation, there is no consensus on the sex that predominates.

3.1.2 The Personal Services Market

The personal service market plays a very minor role in Africa, compared to the developed economies. It is virtually non-existent in rural areas as each household strives to satisfy the bulk of its limited service requirements through a household division of labour. The more skilled requirements such as the smiting and medical services that cannot be rendered within the

household grouping are supplied within the village grouping. In most cases, the supplier of the service has a nominal monopoly within the village; other members of the village may be equally capable, but family tradition and custom tend to dictate the choice of a particular person for each type of vocation. However, the village monopolist can rarely maximise his earnings since fees are usually limited to a narrow range. This, however, does not preclude a certain amount of price discrimination based more upon the social than the financial status of the buyer. This is not usually the only vocation of participants. In most cases, it is combined with farming.

In towns and cities, there are however organised personal service markets although most of them operate within the informal sector setting. Examples include laundry, barbing, shoe shinning, dry-cleaning, nail cutting, hairdressing etc. They render services mainly to the middle class and upper echelon comprising between about 15-20 per cent of the population. They are often organised in some sort of guild or association, but the functions and strengths of these vary enormously. It can be safely stated, however, that these associations are just as much concerned, if not more so, with political lobbying on a municipal level to protect themselves against what they consider to be excessive police harassment and tax burdens as they are with wage and price policy.

The structural rigidity and price inflexibility of the personal services market is reinforced by a surprising degree of government regulation. Government, at the municipal level, generally exercises a lot of control over the personal services market than over any other type of market. Licensing, excise taxation, and even price fixing by government are prevalent in this sector. One explanation sometimes offered for this marked degree of government intervention in the personal services market is that it provides easy profit opportunities for local police and petty officials in a weak sector of the economy.

3.1.3 Contract Farming System

This is a growing phenomenon in Africa. It entails a contract between a farmer or group of farmers and a firm that will process and/or market the farmer's products. Contract farming has many variants but its basic feature include agreement on acreage of a certain crops to farm and deliver to the buyer at a future date. The price may be agreed upon at the time of contracting based on price expectation (fixed price contract) or predetermined later, as a residual after processing costs from revenue (formula price contracts). Fixed price contracts are usually more risky compared to formula price contracts as the contract price may turn out to be either below or above spot price at the time of harvest. The price that will prevail is usually unknown at the time the

contract is being specified. In most cases, the contracts detail planting and harvesting dates, weeding and fertiliser practices, and cultivation techniques although such clauses often lead to friction between farmers and operators of the scheme. It is not uncommon for the buyer to provide planting materials thereby having control on the variety of the produce. The buyer may also provide extension services. Contract farming is becoming widespread in Africa. The typology and characteristics of contract farming in Africa is presented in Table 1. As shown in the Table, it involved 66 different schemes in 16 different crops. The contracting crops include annual and perennial crops as well as domestic and export crops. Grosh (1994) reported the presence of contract farming schemes in 17 African countries. Over a quarter million farmers in Kenya are estimated to be participants (Jaffee, 1988)

A major criticism of contract farming is that it confers monopoly power on buyers insofar as it ties farmers to only one buyer (Clapp, 1988). However, contracting works best if there is only one buyer such that neither party has any incentive to renege.

Table 1: Typology and Classification of Contract Farming Schemes in Africa

Commodity	Class	No. of countries with CF schemes	No. of CF schemes in sample	No. of schemes with nucleus estate	Ownership % of all schemes[b]			Av. No. of outgrowers	Av. Contracted acreage per outgrower (ha)	Av. Size of nucleus estate (ha)	Export or domestic market	Services (C, E, I, T)[c]	Organisational form[d]
					Pr	St	P/S						
Tobacco	Q	6	6	0	10	45	45	5,500	0.6	0	D	C, E, I, T	3
Spices	Q	1	1	0		na		100	small	0	E	E, I, T	¾
Coffee	Q	4	4	50	50	50	0	500	1.5	na	D/E	C, E, I	1/3
Seed malt	Q	2	2	na	50	50	0	100	na	na	D	E, I, T	3
Tea	P/Pr	5	7	60	33	67	0	26,000	0.5	8,600	D/E	C, E, I, T	½
Horticultural	P/Q	9	19	19	80	0	20	1,160	0.2	na	E	C, E, I, T	2/4
Dairy	P/T	3	3	25	0	100	0	4,000	na	na	D	na	¼
Cotton	Pr	4	4	50	33	67	0	9,500	na	na	D/E	C, E, I, T	3
Palm Oil	Pr	5	8	100	0	80	20	2,000	4.0	10,500	D/E	C, E, I, T	½
Sugar	P/Pr	6	12	90	33	33	33	5,000	2.3	5,000	D/E	C, E, I, T	½
Pineapples	Pr	2	2	50	50	0	50	25	na	na	E	E, I, T	½
Rubber	Pr	2	2	100	0	50	50	1,200	5.0	12,600	E	C, E, T	½
Oil seeds	Pr	1	1	0	100	0	0	1,500	1.5	0	D	E, T	3
Poultry	T	1	1	100	0	0	100	20	400[e]	120,000[e]	D	C, E, I, T	½
Rice	F	2	2	0	0	0	100	2,000	0.2	0	D	C, E, I, T	2
Gari	F/Pr	1	1	0	100	0	0	141	1	0	D	E, I, T	2

[a]Q - quality control; P - perishability; Pr - large scale processing; T - throughput; F - food contracts.
[B]Pr - private; St - state; P/S - joint venture.
[C]C - credit; E - extension; I - inputs; T - technical
[d]1 - nucleus estate and processing; 2 - centralized outgrowers and processing; 3 - decentralised outgrowers and processing; 4 - outgrowers and marketing company.
[E]numbers of birds

Source: Watts and Little (1988) p.24 and Grosh (1994) pp 234-235.

3.2 Marketing Institutions in Africa

Four marketing institutions play crucial role in product/commodity markets in Africa. These are private indigenous firms, transitional firms, cooperatives, and government parastatals.

3.2.1 Private indigenous firms

Mainly confined to the agricultural sector, private indigenous firms serve as the link between farmers and consumers (with respect to food crops) and between farmers and international markets (with respect to export crops). They have several appellations "export merchants", "produce buying agents" or "produce marketing companies" as the case may be. Between the farmers and consumers or produce merchants, there are middlemen who buy directly from the farmers and sell to the produce merchants for export.

It obviously would not be economical to move thousands of small bundles of produce separately over long distances. The commodity must first be assembled at a number of central points and then moved in bulk consignments. In Africa, farmers generally take their produce either to the local market, cooperatives or local shop all of which form the primary buying points. In the case of export produce, an agent or small trader purchases such commodities at the local market and transfer them to a large merchant in a major township who will, in turn, market the produce in large quantities to an export - import company at the port.

Prior to the on-going marketing reforms, private trading was banned in several countries. These firms assumed greater prominence with marketing reforms which have been underway since the mid 1980s in the majority of African countries. For instance, in Nigeria they have completely replaced marketing boards that were scrapped in 1986 following the introduction of SAP. They are, however, confronted by several constraints of which finance, is perhaps the most important. Christiansen and Stackhouse (1987) have shown finance to be a major barrier to private sector development in Malawi.

3.2.2 Transnational firms

Early attempt at marketing export crops in Africa, particularly West Africa, was carried out by foreign private monopolistic trading companies. They were the precursors of marketing boards. Large trading companies such as the United African Company (general merchants) and more specialised dealers and processing manufacturers such as the British Cotton Growers' Association (Cotton grinners) and Cadbury Brothers (Cocoa manufacturers) engaged in extensive cash crops marketing. They enjoyed monopoly profits by establishing stations in West Africa, using local traders to reach the farmers and accumulate large quantities of produce at the stations for onward movement to their respective warehouses for industrial consumption. They operated in unregulated markets, as there was no government intervention, except the imposition of export duties. Most African governments subsequently introduced commodity marketing boards in an attempt to reduce their monopoly profits and improve their marketing efficiency.

3.2.3 Co-operatives

The emergence of co-operatives strengthened the institutional framework for export crop marketing in Africa. In the 1960s, many newly independent governments and donors actively promoted cooperatives as a potential source of decentralised grassroots participation in agricultural credits, inputs and commodity marketing. In Tanzania, they were however established for a different reason, to counter the dominance of Asian traders. They played a significant role in the marketing system of Eastern Africa (Livingstone and Ord; 1981). Apart from buying directly from farmers, they render other services such as the provision of pricing information, extension services, seeds and seedlings at reduced cost, transportation facilities and credit facilities.

Prior to the introduction of the Structural Adjustment Programme in some African countries, co-operatives had no direct access to international market. Rather, this role was undertaken by marketing boards. Since the abolition of marketing boards as part of the economic recovery programmes, several co-operatives have featured prominently in exporting. Examples are Association of Nigerian Co-operative exporters (ANCE) in Nigeria and Kilimanjaro Native Co-operative Union (KNCU) Tanzania.

In co-operative system, marketing is undertaken in stages. First, products are collected from growers who may be members and non-members of the co-operative society. The union will grade the produce, and based on the grade which reflect the quality and quantity of the

produce, a price is paid to the farmers. The accumulated produce at the union level are then packaged and sent to the apex organisations which may be marketing boards or co-operatives as the case may be. These apex organisations will, in turn, package the product for onward delivery to the international market. Co-operative unions also perform other functions such as the provision of transportation, storage, extension services, credit facilities and improved seed and seedlings to farmers.

In Eastern Africa, co-operatives developed most strongly in area where a single high-priced crop was produced for export, as in the case of the coffee and cocoa marketing societies in Uganda and Tanzania.

Government subsequently undermined them. As cooperatives began to gain political and economic power, many governments perceived them as threats. In response, governments sought to increase their control and in the process, undermined their effectiveness. By mid -1970s, most co-operative movements in Africa had become state-dominated entities, regardless of the interest of their members (Lele and Christiensen, 1989).

Co-operatives tend to foster efficiency in marketing of export products. By competing with private traders and trading companies, they promote efficiency in the system in the sense that competition reduces the rate of exploitation of farmers due to asymmetric information and imperfect market structure.

3.2.4 Marketing Boards

The dominant institutional form of government intervention in agricultural markets in Africa is the marketing boards, or *caisses de stabilisation*. These are state marketing agencies established in the colonial era as autonomous or semi-autonomous bodies with supposedly independent decision-making capability to reduce monopoly profits and increase marketing efficiency, compared with private monopolistic trading companies that preceded them. One of the first to be created was in Zimbabwe, then southern Rhodesia. They were created in the early 1930s in response to pleas by European farmers to the government for protection from falling world commodity prices. Kenya and Zambia followed suit within the decade. These institutions have, however, developed over time, and in some countries assumed different roles since they attained political independence.

Two major marketing boards are predominant in Africa. These are; (i) export produce marketing boards such as those established in Nigeria, Ghana, Uganda and Malawi to handle export

crops grown by peasant farmers; and (ii) statutory boards which were concerned with the marketing of staple food crops like maize and other grains for domestic consumption. They were more common in southern and eastern Africa. For example Kenya had 27 commodity boards in 1960 while Tanzania had 12 in 1966.

The main objective for establishing marketing boards has been price and income stabilisation. It was thought that by imposing a buffer between farmers and foreign markets, farmers would be protected from short-term world price fluctuations, thereby enhancing greater stability of their income. Also, the monopolistic structure of the market in which large expatriate export- import firms dominated the produce buying trade in several African countries permitted the exploitation of farmers. It was perceived then that marketing boards would address these problems.

Many of these marketing boards subsequently established stabilisation funds to protect farmers against the widely anticipated collapse of the post-war boom. Almost inevitably, the marketing boards lent these funds to central government, thus adding an additional method of extraction of surplus to the export duties that were widely collected. Bates (1981) argues that this extraction of surplus was, and is, the principal function of export marketing boards, and that there is very little historical evidence of price stabilisation in the face of fluctuating world prices.

Most marketing boards do not have significant degree of autonomy. Prices are usually set once a year, and there is little flexibility in the system to adjust these prices in the face of unexpected circumstances. In 1986, Zimbabwe, Kenya and Malawi experienced bumper harvests due to favourable climatic conditions. Prices had been set earlier in the season and, as a result, the marketing boards had massive oversupply, resulting in heavy losses. Other boards in similar circumstances simply had to stop buying, because they ran out of funds.

Marketing boards are sometimes required to take on additional public-sector functions which they are not necessarily well organised to undertake, and for which they are not adequately reimbursed by central government, thus reinforcing their financial overheads and accounting weaknesses. Examples are preparation and implementation of externally-funded crop development projects, provision of subsidised crop inputs, credit provision, extension work, and crop specific research.

In most countries, marketing boards have not achieved the desired results in terms of increasing efficiency and improving prices to farmers. The Berg report argues that serious inefficiencies in the operation of export marketing boards have led to a lower share of export proceeds being paid to farmers, and farmer disaffection through inefficiencies in collecting and grading of

crops, and delays in final payment. These inefficiencies result from overstaffing, inadequate budgets, poor management and lack of competitive pressures. They are often prone to much higher overhead costs than would be incurred by private traders undertaking the same marketing functions. This may occur due to a legal obligation to provide the same service in many different locations irrespective of the costs involved.

Marketing boards were dismantled in several African countries as part of the marketing reform implemented under adjustment. However, cereal boards still exist in Ghana and Benin, though their share of the market is very minimal. In Malawi, ADMARC continue to play a dominant role in agricultural marketing.

It should be recognised that not all experience with marketing boards is negative. Some, such as the Grain Marketing Board in Zimbabwe, have been successful in extending to small farmers the benefits of the large-scale marketing organisation that had previously been experienced by European farmers. Other boards have been successful in encouraging the spread of high quality export production. According to Jones (1987), the Ghana Cocoa Marketing Board was successful in reducing international price fluctuations at the local level.

4) African Commodity/Product Markets By Broad Typologies

In Africa, like most developing countries, there are several deviations from well functioning markets, which can be attributed to pervasive interventions by governments. The notions of parallel, fragmented, black and informal markets convey the existence and persistence of differences in prices, and hence, of multiple market settings for seemingly homogeneous goods and services (Jones, et al., 1992). Although these terms are often employed interchangeably, they however describe different phenomena as shown below.

4.1 Parallel markets

Parallel markets are often created inadvertently by government controls (Jones and Roemer, 1991). In response to widespread dissatisfaction with the intervention of marketing boards in agricultural sector procurement and input supply, especially in sub-Sahara African, several flourishing parallel markets sprang up as producers, traders and consumers tried to evade price and quantity controls. They are not necessarily illegal but arise as a consequence of government intervention in a particular commodity/ product market thus creating a situation of excess demand or supply in that

particular market. Official control of commodity market is, at best, impartial, as there exists a perfectly legal market of undefined proportion where consumers and producers trade freely, as well as an illegal market which is by no means inconsequential.

Several factors are accountable for the existence of parallel markets in African commodity/product markets. The most prevalent is control over prices. Whereas the price, which the board pays to the farmer, is fixed for each crop year, the free forces of demand and supply determine the price ruling in the extra-board market. It would seem reasonable, therefore, that the farmer diverts sales from the board to other sources when the price ruling in the latter is sufficiently higher than that offered by the board. Failure of the board to move products efficiently between surplus and deficit regions can also stimulate illegal trading.

The size of these markets is often large. For example, Kriesel (1970) estimated that not more than 10-20 per cent of maize was being marketed through the National Agricultural Product Board (NAPB) of Tanzania. The attempted prevention of illegal trading involved the maintenance of a large cadre of surveillance and inspection forces, including security personnel adding further to the cost of marketing. For example, in Madagascar, an enforcement agency, the *Brigade mixte d'Intervention Economique* was set up to seize illegal commercial stocks and arrest those caught trading illegally (Barret, 1997).

Parallel markets are rarely confined to one or two commodities but proliferate across markets. For the fact that private enterprise and co-operatives operate alongside the marketing boards and due to asymmetric information in the marketing system, the prices that are received by the farmers are not the official marketing board prices but the parallel market prices that are fixed by private enterprises and co-operatives (Thompson, 1991).

Parallel commodity markets often involve additional costs and risks for market participants. The risks and other costs incurred by sellers raise the price for goods sold outside the official market. These costs include the risk of being caught and punished for selling illegally, the cost of avoiding detection, payment of bribes or fines if caught, the diseconomies of trading in smaller quantities, and the costs of dealing in underdeveloped markets. However, some of them may be officially tolerated or approved, such as the Gambian groundnut market. In Tanzania and Kenya, the law permits free sales of maize directly from producers to consumers in the district in which the maize is produced. The existence of a parallel market does not imply that the market will necessarily clear. Puetz and Braun (1991) using the Gambian groundnut and fertiliser markets aptly demonstrate this. The major

explanations for this phenomenon are personalised trading, which is prevalent in Africa on the one hand; and risks, on the other hand. Their importance has diminished in recent years following the liberalisation of several commodity markets and the consequent legalisation of parallel market activities.

4.2 Fragmented Markets

Markets are *fragmented* or *segmented* when prices differ from one part of the market to another because of physical isolation, markedly different endowments, tastes, and risks or market behaviour. They are distinct from parallel markets since part or all their price differentials can be attributed to the structural characteristics of the market even though government intervention may exacerbate the disparities in such markets. Segmentation may, however, take place simultaneously with parallelism. They often emerge under various conditions or circumstances including the following:

(a) When there is need to differentiate between various qualities of a particular commodity. This is very common in agricultural products marketing where different prices are attached to different qualities of a particular product. The products are graded and the ones with the highest grades command highest prices. This means that prices that are offered to farmers offering their produce for sale may be different for the same commodity in the same market or different markets.

(b) When there is need to distinguish between wholesale price and retail price or farm gate prices and middlemen prices. Wholesale prices are usually lower than the retail prices because of large volume of purchase involved in wholesale trade. Also middlemen prices in retail trade are usually higher because of the transportation cost and profit margin;

(c) Prohibitive transportation costs and poorly developed channels of communication are perhaps the major factors responsible for fragmented markets. Prices of the same product within a market, in adjacent markets or neighbouring markets should fluctuate together, differing only by the cost of moving supplies between or within them. Asymmetric or incomplete market information usually widens price gap between market participants. This is because the middlemen who posses such information use it to exploit consumers and even some other agents.

4.3 Black Market

This is often expressed as a synonym for parallel market and remains in common usage for parallel goods markets. But "black" is not merely a synonym for "parallel." But also covers markets for prohibited goods such as narcotics for which no legal market exists, so the illegal market is not "parallel". Bevan, Collier and Gunning (1988) clarify the nature of illegal exchange, distinguishing between *black goods,* for which possession is illegal, and *black* (parallel) *markets*, constituting illegal trade in goods that are themselves legal. (Bevan, Collier and Gunning, 1989) It also refers to illegal trans-border trade. The official prices that are fixed by marketing boards may be so low that commodity trade will be diverted to neighbouring countries. This results to black marketing. Prior to the introduction of economic recovery programmes, the marketing of export crops in Africa tended to be highly structured and often was restricted to a single publicly regulated channel. This means that farmers were greatly influenced by the efficiency of the marketing organisations responsible. It was noticed that in Nigeria, Ghana and some other African countries, the official prices paid to Cocoa farmers in the past were very low, due to overvalued exchange rates and inefficiencies of the cocoa boards. Substantial quantities of produce were diverted to neighbouring countries. A good example was the case of Uganda, during the prolonged period of high implicit coffee taxation when about 27 per cent of the crop were smuggled out of the country (Collier and Gunning, 1997). Until 1985, a parastatal body in Niger, COPRONIGER, held the monopoly of a wide range of consumer imports including tea, sugar, matches, sea salt, wheat flour, etc. It was also responsible for their distribution through agents or its own sales points. The closure of the latter and the withdrawal of the monopoly in 1985 allowed the private sector to compete officially: Well before then, however, a considerable quantity of manufactured products were coming in unofficially from Nigeria, allowing traders in the frontier areas to recycle the Naira arising from the export of agricultural products from Niger. The prices and availability of consumer goods have been affected in recent years by the loosening of administrative controls (by 1987 only bread and motor fuel were still subject to direct price controls) and by reductions in import restrictions. Increased competition on the part of private traders seems to be developing and their costs are certainly lower than those of COPRONIGER are.

The significant effect of this trade diversion is that it may reduce the negative effect of official pricing policy on farmers, but it increases marketing cost because private enterprises or traders require greater return to undertake the risks associated with unofficial marketing (Thompson, 1991).

4.4 Informal Markets

Informal marketing channels are found all over Africa. Despite the pervasive nature of the informal sector, there is no consensus as to the precise definition of the terms 'informal sector" and "informal market". An informal market may refer to agents who are evading official market regulations, in which case the term is synonymous with parallel markets. But the terms "informal markets" or informal sector" are also used to describe very small, generally poor firms or individuals in various markets, both legal and illegal, who work at very low productivity. The markets included in this sense of the term may be parallel, fragmented or segmented (Jones and Roemer, 1989).

The functional attributes of this market which set it apart from formal markets are ease of entry, reliance on indigenous resources, family ownership of enterprise, small-scale operation, labour-intensive and adapted technology, low receipts or income, and skills acquisition outside the formal school system or training programmes. They are usually unregulated and uncompetitive. In addition, informal markets are beyond official recognition and records, and without formal systems of control and remuneration. As informal enterprises often operate outside the formal tax system, their profit/loss figures do not generally enter into official statistical records (Abumere, et. al. 1998). Most of the marketing of staple foodstuffs in urban West Africa takes place within the informal sector of the economy (Smith and Luttrel, 1994). The traders usually operate in a world of incomplete markets for credit, imperfect information, and outright government hostility or ambivalence towards them.

5) Extent of Market Integration/Disintegration in Africa

Market integration can be defined as the inter-relationship between price movements in two markets. It refers to co-movement of prices or smooth transmission of price signals and information across spatially separated markets (spatial integration), or across inter-temporal separated market (Seasonal integration), or between producers and consumers (vertical integration). Spatial integration analysis appraises the efficiency of marketing infrastructure such as transport and communication, level of entrepreneurial activities, etc. The higher the efficiency of these marketing support services, the higher the level of spatial integration. Analysis of seasonal integration explains inter-temporal price differences in terms of adequacy of storage facilities. It is expected that high cost of storage facilities should lead to seasonal wide variation in prices of the same commodity over a period of time. Vertical integration analysis measures marketing system efficiency by analyzing the gap between what the ultimate consumer pays and what the producer receives. Thus

inquiry about the extent of market integration/disintegration in Africa necessarily involves impact analysis of transaction costs on the flow of trade. Such costs include transport and infrastructural bottlenecks, differences in regulatory regimes, communication, credit, taxes and storage facilities etc.

The extent to which these factors have promoted or hindered market communication, connections and prices is the focus of our analysis. If the marketing system and the participants within it are working efficiently, prices of the same products in neighbouring markets should move in the same direction. Transport cost should account for differences in price of the same commodity in different markets.

Commodity/product markets in Africa are weakly integrated. The situation in many African countries is such that there may be considerable differences in the prices of similar products between adjacent markets at the same time. More specifically, Livingstone and Ord, (1981) observed that in both Eastern and Western Nigeria, even though the towns are linked by good roads through densely populated areas, there were considerable differences in market prices for the same products. Wide price variations for same product were also reported in Zaria and Giwa in Northern Nigeria, which are only 20 miles apart, and in Kampala and Jinja in Uganda with 50 miles of good tarmac road separating them.

Several measures of market integration can be found in the literature. These include correlation of prices (Lele, 1992; Golleti, et al, 1995), short and long-term tests of integration (Ravallion, 1986) and cointegration analysis (Palaskas and Harriss, 1991). In the absence of these measures for Africa, we intend to measure the extent of integration in African commodity/product markets by comparing regional price spreads for Africa and Asia. Table 2 and Figure 1 adapted from Ahmed and Rustagi (1987) presents regional spreads in prices of foodgrain markets in five African and four Asian countries. These spreads reflect the differences in prices at various regional markets at a particular time.

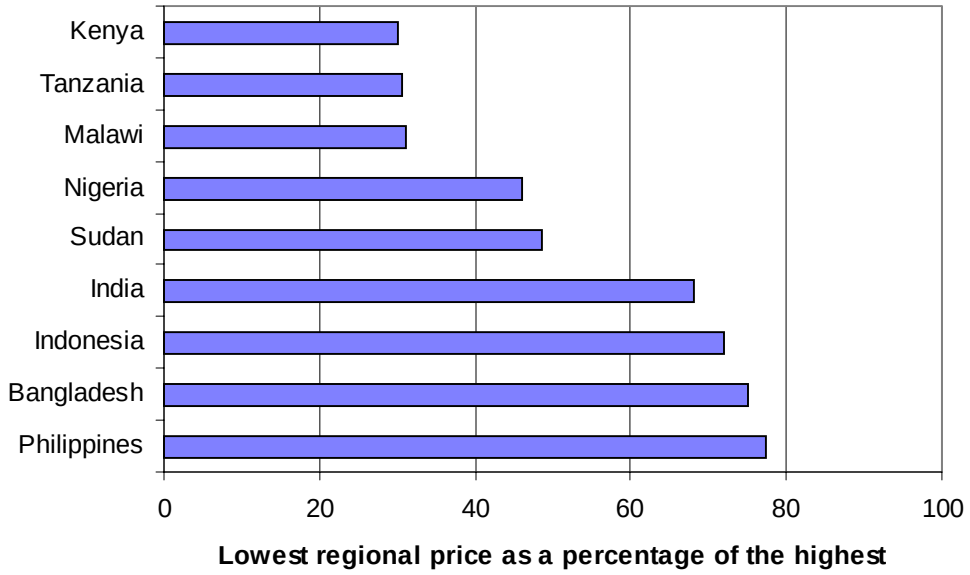
Table 2: Regional Price Spreads in Selected African and Asian Countries (1975-85)

Country	Commodity	Weights (by production)	Regional spread[a] (percent)
Kenya	Maize		30.0
Malawi	Maize	80	21.9
Nigeria	Maize	14	35.6
	Rice	6	72.9
	Sorghum	80	45.9
Sudan	Sorghum	92	48.2
	Wheat	81	52.1
Tanzania	Maize	76	25.7
	Rice	10	61.3
	Sorghum	14	35.5
Bangladesh	Rice		75.0
India	Rice	54	69.8
	Wheat	38	65.9
	Sorghum	8	63.5
Indonesia	Rice		71.9
Philippines	Rice	70	82.7
	Maize	30	64.2

a. Regional spread = (lowest price/highest price) x 100

Source: Ahmed and Rustagi (1987)

Figure 1: Regional Price Spreads in Selected African and Asian Countries



A cursory examination of Table 2 and Figure 1 reveals that regional price differences in each country are larger in Africa than in Asia. On average, regional prices of foodgrains in Africa differ from each other by a multiple of two to three, indicating that the

low price in one region could be only a third or half the amount of high price in another region. Although it is unconventional to derive conclusion on market integration from a set of data, the implication of our finding is that African markets may not be linked with one another. There is widespread fragmentation in African commodity/product markets. Several reasons can be proffered for this phenomenon. Perhaps, the most formidable are weakly developed marketing infrastructure and volatility of government intervention.

Marketing infrastructure has been identified as the set of transportation, communication, credit and storage facilities that allow a smooth functioning of markets (Goletti, et al 1995). Efficient infrastructure is necessary if the national economy is to be integrated and the benefits of economic growth are to be spread throughout a country.

Africa's infrastructure trails the world in both extent and quality. Poor infrastructure is a major obstacle to the region's economic growth, and adversely affects trade. In the absence of adequate power, water, transport and communications facilities, locational advantages may not be optimized.

Inadequate transport infrastructure significantly constrains the development of commodity/product markets. In many African countries, road transport is the most widely used means of transportation. The fragmentary nature of the railway system and the limitations imposed on the scope of inland water transport by geographical factors are such that the movement of people and goods is effected by road irrespective of distance. Of course, local feeder roads linking trunk roads are often lacking and the main transport links of road and rail were developed to support export-import trade rather than facilitate the internal circulation of commodities between regions within the country. Thus in several rural areas where a majority of the population resides (about 70 per cent), the most common means of transport are legs, heads and female proterage. Community roads, tracks and footbridges make up the local infrastructure system through which rural dwellers gain access to markets. Household surveys show that 87 per cent of trips in rural areas take place on foot and that women devote more than 68 percent of the household time and effort on transport (Calvo, 1998). Poor infrastructure also hinders inter-regional trade. Transportation and communication links are not adequately developed to facilitate mobility and inter-regional market connections.

Precisely how the African marketing system provides regular market integration of connections and flow of commodities can be seen in its ability to provide adequate storage facilities especially for farm produce. In several African countries, post harvest losses are considerable due to farmer's inability to store their farm produce. These losses reduce the net output available for sale in the market, and apart from harvest period, especially during boom, the flow of commodities in African markets is generally low, and prices tend to rise in the post-harvest period. Lack of storage facilities together with `the ever-prevailing need for cash among farmers has been responsible for farm surplus being sold off immediately after harvest, thus causing prices to fall more sharply than necessary during harvest and rise excessively in the post-harvest period.

The effectiveness of traders in performing storage function in Africa has been a subject of debate, even though Jones (1972) concluded that in Nigeria, seasonal increases in prices are in line with rough estimates of the cost of storage, which suggest that traders are effective in performing storage function. The problem of storage has also restricted the level of inter-regional trade as well as foreign trade in Africa.

Non availability of credit has also restricted the extent of market integration in Africa. Inability of the peasant farmers to have access to loans and credit has resulted in low productivity.

Farmers cannot maintain large farmland, cultivate improved seeds and seedlings and purchase other farm inputs due to lack of fund. It would be recalled from our previous discussion that lack of fund has discouraged farmers from performing storage function that could have enhanced regular flow of produce in the markets and as well increased farmers' income. Also, the difficulty of securing credit from financial institutions has compelled African traders to lose their markets to expatriates. The level of marketing done among African traders is generally low because of all these constraints. Many African enterprises have not been able to reach foreign markets because of their inability to raise enough funds to procure produce in large quantities for export.

6) The Evolution of Commodity/ Product Market Regulation and Market Structure in Africa

Africa has had a long history of state intervention in commodity/product markets. Despite the heavy fiscal and economic costs that it often entailed, a high degree of government regulation of these markets was, until recently, regarded as both necessary and politically inevitable. Policy outcomes were often dominated by inefficiencies created by distortions and rent-seeking activities within the bureaucracies that intervention created.

Many of the restrictive practices that characterise commodity/product marketing in Africa evolved during the colonial era. Marketing restrictions were used extensively during the colonial period to create economic rents through trade. Governments' perceptions of the “success" of public-sector marketing institutions to foster commercial agricultural production and mobilize resources to maintain operations of the colonial governments, their desire to maintain control over the marketing of politically strategic commodities such as maize, and doubts about the efficacy of the traditional private sector in conducting organized trade all contributed to the post independence prejudice against private trade and to the continuation of public control and regulation. The evolution of these practices reflected a prejudice against the trading function in general and was influenced by economic relationships between classes and the public sector's need for revenues neither of which was unique to Africa (Lele and Christiansen, 1989).

Since attaining independence, two major episodes of commodity/product market regulation in Africa can be identified; namely, the pre- and post-market reform. In the pre-market reform era, the establishment of government sponsored marketing boards and heavy regulation of activities of private marketing channels where they exist characterized commodity/product market regulation.

Following the independence of many African countries in the 1950s and 1960s, their governments inherited quite elaborate marketing institutions that held a legal monopoly over the purchase and export of major export crops. During the next two decades, governments assumed an increasing role in commodity marketing. The potential role of indigenous private enterprise was largely ignored, and transnationals were denigrated. The weakness of the local private sector combined with the clear unwillingness of African governments to let non-indigenous communities (i.e., Indians in East Africa and Lebanese in Senegal) achieve a prominent position in politically sensitive or economically powerful areas worked in favour of parastatals. The marketing parastatals, which were set up or expanded by African governments, performed very poorly; many were so inefficient that their performance constituted a key constraint on marketing. Typical weaknesses included inadequate and untimely supplies of production inputs, unreliable access to produce marketing facilities, late payments to farmers (typically in situations of high inflation) and poor quality control. They obtained few of the benefits of being government departments, while suffering many of the disadvantages. Control by governments has often been detailed and obtrusive, while at the same time ignoring major issues of policy and strategy. Marketing parastatals are forced to channel even the most minor decisions through government departments, making them inflexible and unable to adjust to market conditions. Governments did not have effective mechanisms to make parastatals marketing boards accountable for their performance. Together with salary controls, which aimed to keep remuneration at the same level as in government, this meant that there were weak incentives to operate efficiently, or to actively work to co-ordinate the market. Additionally, parastatals have been subject to political control to a greater extent than the private sector, by virtue of their location within the public sector. Parastatals have been part of the system of political patronage, and this has been conducive to overmanning at all levels (Kydd and Sponeer, 1989).

Apart from the establishment of a single channel marketing system, various regulations existed on other marketing channels especially in the marketing of food-crops. Bureaucracies were also created to purchase food-crops from local farmers at government regulated prices. Such bureaucracies controlled the storage, processing and marketing of such food items often at marketing ceilings set below market clearing rates or international price. In the conduct of their operations, they often imposed restrictions on movement of food items, culminating in the emergence of parallel markets. Bates (1981) offers an illustration, in the marketing of maize in

Kenya. According to the Maize Marketing Act, all maize grown in Kenya, shall, subject to the provision of the Act, be purchased by and sold to the board and all movement of maize require a movement permit valid for only twenty four hours.

In addition, taxes are often imposed on agricultural commodities in recognition of the need to mobilize public-sector revenues to modernize and industrialize economies (Lele and Jain 1989). Given the perceived inelastic demand for primary commodity exports, taxing agriculture to modernize and diversify economies was considered to be the logical approach. While agricultural export commodities are taxed in most African countries, the situation for food has been less clear-cut, because self-sufficiency and import-substitution objectives have exerted a positive influence on prices. The main exceptions are some cereal exporting countries, and some other countries where food aid has been permitted to depress domestic prices. However, even where staple food producers enjoy nominal protection, indirect policy effects (chiefly exchange rate overvaluation) have often outweighed this (Taylor and Philips, 1991). In many African countries, governments also play an active role in setting the food prices received by farmers and the prices paid by urban dwellers. This is usually accomplished through a variety of mechanisms such as pan territorial pricing, setting up price regulation authorities which control the prices at which traders can sell, by explicit food subsidies sometimes accompanied by rationing, and by export and import taxes. In many cases, the policies adopted seem at variance with the stated objectives engendering confusion. Often these agencies act independent of one another, under contradictory assumptions about the constraints facing society.

In recent years, reforming the state's role in agricultural marketing to support rather than hinder private sector development has been undertaken as part of the Structural Adjustment Programme adopted in several African countries since the mid 1980s. The new arrangements being tried include the reform of state grain marketing organisations, commercialisation of non-food grain parastatals, and encouragement of competition by obliging parastatals to compete with private traders. In Ghana, the monopsony buying arrangement of the Cocobod was suspended and private companies were licensed to compete in the domestic market with the state owned Produce Buying Company (PBC). Nigeria, in 1986, abolished the marketing boards and reduced the level of tariffs. Also in the same year, Egypt deregulated all food and export crop marketing, except for cotton, rice and sugar. Malawi liberalized agricultural trading in 1987 with the exception of cotton and dark-fired tobacco

while Central African Republic liberalized the marketing of domestic food crops and introduced simplified licensing procedures for traders in 1986. Maize movement was decontrolled in Kenya and Zimbabwe in the late 1980s and tendering for maize export and import contracts was adopted.

Case studies of the impact of liberalization of commodity/product markets are still rare, although Kydd and Scarborugh (1989), Kydd and Spooner (1989,1990) and World Bank (1994) presents sketchy evidence on the pattern, sequencing and effects of agricultural markets liberalisation in Africa. Table 3 adapted from World Bank (1994) presents the controls on major agricultural exports by countries at pre- and post-reform periods. The Table shows that prior to reforms, thirty-nine public monopolies scattered over 28 African countries were solely in charge of various export crops.

Table 3: Marketing Control on Major Agricultural Exports in Africa

		Export sales		*Domestic purchasing from producers*		*Producer pricing*	
Country	*Crop*	*Before reforms*	*Late 1992*	*Before reforms*	*Late 1992*	*Before reforms*	*Late 1992*
Benin	Cotton	•	•	•	•	♦	♥
Burkina Faso	Cotton	•	•	•	•	♦	♦
Burundi	Coffee	•	φ	•	φ	♦	♦
	Tea	•	•	•	•	♦	♦
Cameroon	Coffee	•	⊗	•	φ	•	•
	Cocoa	•	⊗	•	⊗	♦	♦
Central African Republic	Coffee	•	•	•	φ	♦	♦
	Cotton	•	•	•	•	♦	♦
Chad	Cotton	•	•	•	•	♦	♥
Congo	Coffee	•	•	•	•	♦	
	Cocoa	•	•	•	•	♦	
Cote d'Ivoire	Cocoa	⊗	⊗	o	o	♦	⊕
	Coffee	⊗	⊗	o	o	♦	⊕
Gabon	Cocoa	•	•	•	•	♦	♦
	Coffee	•	•	•	•	♦	♦
The Gambia	Grounduts	•	φ	•	φ	♦	∇
Ghana	Cocoa	•	•	•	•	♦	♦
Guinea	Coffee	•	o	•	o	♦	∇
Guinea-Bissau	Cashews	•	⊗	•	⊗	♦	∇
Kenya	Coffee	•	•	•	•	♥	♥
	Tea	φ	φ	•	•	♥	♥
Madagascar	Vanilla	⊗	⊗	⊗	⊗	♦	♦
	Coffee	⊗	o	⊗	o	♦	∇
Malawi	Tobacco (smallholdings)	•	φ	•	φ	♦	♥
	Tea	o	o	o	o	∇	∇
Mali	Cotton	•	•	•	•	♦	♥
Mozambique	Cashews	•	φ	•	⊗	♦	
Niger	Cowpeas	•	⊗	•	o	♦	∇
Nigeria	Cocoa	•	⊗	•	⊗	♦	∇
	Palm oil	•	o	•	o	♦	∇
Rwanda	Coffee	•	•	•	•	♦	♦
	Tea	•	•	•	•	♦	♦
Senegal	Groundnuts	•	•	•	•	♦	♦
	Cotton	•	•	•	•	♦	♦
Sierra Leone	Cocoa	•	o	•	o	♦	∇
	Coffee	•	o	•	o	♦	∇
Tanzania	Coffee	•	φ	•	•	♦	
	Cotton	•	•	•	•	♦	
Togo	Cotton	•	•	•	⊗	♦	♦
	Coffee	•	•	•	•	♦	♦
Uganda	Coffee	•	φ	•	φ	♦	
	Cotton	•	•	•	•	♦	
Zambia	Cotton	•	•	•	•	♦	♦
	Tobacco	•	o	•	⊗	♦	∇
Zimbabwe	Tobacco	o	o	o	o	∇	∇
	Cotton	•	•	•	•	∇	∇

- • Public sector monopoly (including cooperatives and de facto monopolies)
- φ Parastatals and private traders in competition
- ⊗ Exporters/private purchasing agents licensed by government or parastatals
- o Private sector competitions
- ♦ Price set at government's discretion
- ♥ Price set but linked to world prices
- ⊕ Indicative producer price recommended; export price linked to world market prices
  Indicative producer price recommended
- ∇ No price set

Source: Adapted from World Bank (1994)

By late 1992, only 23 crops were still under public sector monopoly. A cursory examination of the Table indicates that licensing agents were allowed to operate only in Cameroon, Guinea-Bissau, Niger, and Nigeria while private sector's competition featured in six countries, namely; Guinea (coffee), Madagascar (coffee), Nigeria (palm oil), Sierra Leone (cocoa and coffee), Zambia (tobacco) and Zimbabwe (tobacco).

Two other indices of reform, domestic purchasing from producers and producer pricing, also revealed substantial liberalization of marketing for agricultural crops. Although, the pattern of domestic purchasing from producer prior to the reform was not significantly different from its pre-reform pattern, there were some changes. The noticeable difference was that domestic purchasing from producers was relatively relaxed. Some countries no longer set producer prices but allow market forces to prevail, e.g groundnuts in the Gambia, cocoa in Ghana, coffee in Guinea and Madagascar, tea in Malawi, cowpeas in Niger, cocoa and palm oil in Nigeria, cocoa and coffee in Sierra Leone, cotton in both Zambia and Zimbabwe.

In the same vein, the marketing of staple foods has been liberalized considerably (see Table 4). Only four countries - Malawi, Mauritania, Zambia and Zimbabwe - still retained some form of control.

Table 4: Government Intervention in Marketing Major Food Crops in Africa

Country	*Crop*	*Before reforms*	*Late 1992*
Benin	Tubers	•	o
Burkina Faso	Millet, sorghum	•	o
Burundi	Beans	o	o
Cameroon	Cassava	φ	o
Central African Rep.	Cassava	•	o
Chad	Millet, sorghum	o	o
Congo	Cassava	φ	o
Cote d'Ivoire	Tubers	o	o
Gabon	Cassava	o	o
The Gambia	Sorghum, millet	•	o
Ghana	Tubers	o	o
Guinea	Rice	•	o
Guinea-Bissau	Rice	•	o
Kenya	Maize	•	o
Madagascar	Rice	•	o
Malawi	Maize	•	φ
Mali	Millet; sorghum	•	o
Mauritania	Millet	φ	φ
Mozambique	Maize	•	o
Niger	Millet	•	o
Nigeria	Yams	o	o
Rwanda	Sorghum	o	o
Senegal	Millets; sorghum	φ	o
Sierra Leone	Millet; rice	o	o
Tanzania	Maize	•	o
Togo	Maize	φ	o
Zambia	Maize	•	φ
Zimbabwe	Maize	•	•

- • Major restrictions on purchases and sales
- φ Limited intervention by government buying agency.
- o No intervention except in food security stocks.

Source: Adapted from World Bank (1994)

7) Taxation of Key Commodity and Product Markets in Africa

The magnitude of taxation in key commodity/product markets has been quite high. Many African countries rely on a handful of primary commodities for their export earnings. A major channel of taxation in these markets is through trade taxes. According to Collier and Gunning (1997), African governments were highly atypical in their heavy dependence upon taxation of product markets and, particularly, international trade. They imposed high taxation on international trade. Indeed, in addition to explicit taxes on exports, there were

Table 5: Summary of Export Taxes for Selected African Countries

Country	Commodity	Export taxes
Ivory Coast	Coffee	20 - 25% of f.o.b. value, including 15% from formal export taxes and 5 - 10% of Cois Stab operations
Kenya	Coffee	15% of current f.o.b. value, based on a progressive sliding scale
Central African Republic	Coffee	30% of current f.o.b. value, primarily Cais Stab net margin, plus minor taxes such as special transport tax for export commodities
Uganda	Coffee	Over 50% of f.o.b. value mostly from formal export tax
Nigeria	Coffee	4% of current f.o.b. value state tax of N 250
Ghana	Cocoa	As percent of current f.o.b. value, net margins of Cocoa Board
Ivory Coast	Cocoa	15 - 20% of f.o.b. value, including 15% from formal export tax and 0.5% of Cais Stab operations
Cameroon	Cocoa	15 - 20% of f.o.b. value, including 15% from formal export tax and 0.5% from Cais Stab operations.

Source: Shakolko, R. (1989) *Commodity Export Prospects in Sub-Saharan Africa.* Prepared for the UN Expert Group (August). Also in Lyakurwa (1991).

implicit taxes through exchange rate overvaluation and excessive margins for marketing parastatals. Several African countries have taxed income from commodity exports more heavily than income from other sources whether by export taxes or by running up statutory marketing board surpluses. Table 5 presents the extent of export taxation for selected African countries applicable to two

commodities, coffee and cocoa. In some African countries, trade taxes constitute, on average, around a quarter of government recurrent revenues and close to half of total tax revenues (Lyakurwa, 1991). The governments in Uganda, Burkina Faso, Sierra Leone, Sudan, Swaziland and Mauritius collect as much revenue from trade as they do from all other sources combined (Rodrik, 1988, p.7). Tables 6 and 7 show the ratios of producer prices to international prices for East and West Africa between 1970 and 1986. While they do not reflect transport costs, they do provide a good indication of the level of taxation of export crops. A cursory examination of these tables indicate that prior to 1986, only Kenya refrained from explicit taxation of its two most important crops, coffee and tea, the prices of which were determined at the international market. Malawi's small holders, on the other hand, were the most exploited. ADMARC, the parastatal agency in charge of marketing typically paid them only about a third of the price obtained for tobacco. On average, African farmers received only 30-60 per cent of world prices for their products.

Table 6: Ratio of producer to international prices for East Africa, 1970-86 (calculated at nominal exchange rates)

Kenya			Malawi			Tanzania		
Smallholder			Smallholder		Estate	Smallholder		
Year	Coffee	Tea	Dark-Fired	Burley	Flue-Cured	Tobacco	Cotton	Coffee
1970	0.91	0.60	0.22	0.4	0.57	0.43	0.72	
1971	0.90	0.67	0.25	0.39	0.68	0.50	0.61	
1972	0.98	0.63	0.23	0.40	0.63	0.46	0.57	0.57
1973	0.96	0.60	0.22	0.54	0.86	0.44	0.35	0.43
1974	0.97	0.55	0.23	0.62	0.84	0.42	0.32	0.43
1975	1.01	0.63	0.22	0.47	0.66	0.47	0.51	0.36
1976	0.85	0.57	0.21	0.48	0.70	0.40	0.41	0.30
1977	0.92	0.70	0.26	0.60	0.76	0.42	0.45	0.35
1978	0.94	0.64	0.26	0.50	0.74	0.47	0.55	0.39
1979	0.93	0.66	0.24	0.45	0.65	0.37	0.51	0.29
1980	0.98	0.76	0.23	0.46	0.40	0.35	0.52	0.41
1981	0.84	0.62	0.19	0.73	0.56	0.33	0.61	0.53
1982	0.83	0.62	0.19	0.73	0.56	0.33	0.61	0.53
1983	0.90	0.98	0.23	0.27	0.39	0.38	0.67	0.47
1984	0.80	0.66	0.25	0.30	0.38	0.27	0.65	0.47
1985	0.88	0.76	0.21	0.26	0.34	0.36	1.07	0.53
1986	0.79	0.69	0.22	0.43	0.45	0.32	1.11	0.33

Source : Lele (1990), pp.61

Table 7: Ratio of Producer prices to international prices for West Africa, 1970 - 1986 (converted at nominal exchange rates)

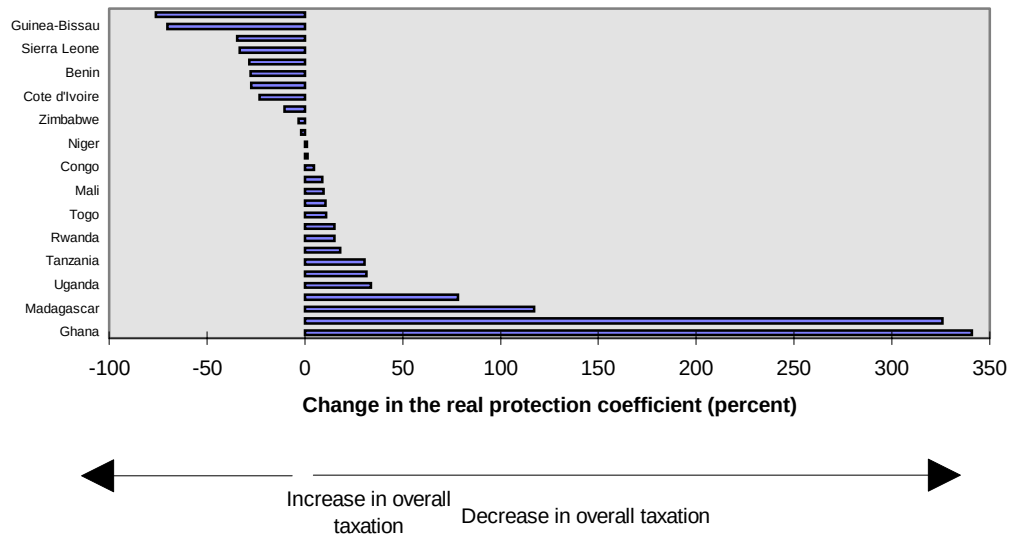
	Cameroon				**Nigeria**		**Senegal**	
	Arabica coffee	Robusta coffee	Cocoa	Cotton	Cocoa	Palm kernel	Groundnuts	Cotton
1970	0.55	0.49	0.45	0.50	0.61	0.51	0.27	0.16
1971	0.60	0.48	0.60	0.44	0.77	0.59	0.27	0.14
1972	0.62	0.50	0.56	0.45	0.84	0.80	0.36	0.15
1973	0.65	0.53	0.40	0.37	0.66	0.76	0.26	0.10
1974	0.54	0.43	0.32	0.37	0.67	0.51	0.17	0.09
1975	0.76	0.50	0.49	0.50	0.86	1.18	0.45	0.14
1976	0.41	0.29	0.31	0.40	0.51	1.04	0.41	0.10
1977	0.26	0.21	0.24	0.50	0.42	0.71	0.31	0.12
1978	0.44	0.38	0.34	0.53	0.48	0.65	0.29	0.13
1979	0.43	0.40	0.41	0.57	0.61	0.60	0.35	0.14
1980	0.47	0.47	0.55	0.54	0.91	1.06	0.44	0.13
1981	0.48	0.54	0.55	0.53	1.02	1.03	0.30	0.12
1982	0.44	0.43	0.58	0.59	1.11	1.29	0.56	0.13
1983	0.37	0.37	0.46	0.48	0.91	0.87	0.53	0.11
1984	0.30	0.32	0.39	0.55	0.82	1.00	0.46	0.10
1985	n.a	0.38	0.42	0.77	0.75	1.57	0.51	0.13
1986	n.a	n.a	n.a	1.25	n.a	1.61	n.a	0.27

Notes: n.a not available

Source : Lele (1990), pp. 63.

In recent years, several countries have attempted to reduce taxation on agricultural commodities on two counts- through reduction in explicit taxation (by reducing export taxes, and squeezing marketing board profits) and implicit taxation from overvalued exchange rates (through massive devaluation). Over all, progress has been limited as shown in Figure 2.

Fig. 2 Change in Overall Taxation of Export Crop Producers
1981 - 83 to 1989 - 91



Source: Adapted from World Bank (1994)

Apart from trade taxes, African countries display an enormous variety of institutional arrangements, and this critically influence taxation in product/commodity markets. Multi-level taxation at various tiers of government is the norm in several commodity/product markets in Africa. Although evidence is rare, Table 8 presents the types of levies on cashew nut sales in Tanzania. The table indicates that there were a total of nine levies imposed on cashew trade by district councils for several outrageous reasons ranging from road maintenance to sports development. Similarly, in Malagasy, shortly before the first steps towards liberalization, the government required grain traders to secure a license from the local jurisdiction *fiivondroonana*, for which intermediaries had to agree to pay commissions to *fonkotany*. Despite the repeal of this decree almost ten years ago, many jurisdictions still enforce it, whether through road barriers or moral suasion (Azam, *et al.*, 1993; Barret, 1994).

Table 8: District Council Cesses Levies on Cashewnut Sales, 1994/95 (sh/kg)

Types of levy	Council levy	Council devt.	Input levy/[a]	School fund	Primary society	Desks fund	Weighing scale	Tore fund-ation levy	Sport levy	Others[b]	Total
Newala	7.5	5	30	8	NL	NL	NL	NL	NL	/[c]	54.50
Masasi	3	5	10	5	4.10	2	1	0.5	0.2	NA	30.60
Mtwara	5	NL	10	5	4.10	2.7	1	0.5	6	NL	33.50
Lindi	3	5	10	5	4.10	2	0.5	0.5	NL	NL	29.60
Bagamoyo	5	NL	20	3	12.00	5	NL	NL	NL	18/[D]	63.00
Rufiji	10	NL	NL	NL	NL	NL	NL	NL	NL	NL	13.00
Kisarawe	10	10	20	2	15	NL	NL	NL	NL	NL	NA
Tanga	NA	NA	5	5	NA	NA	NA	NL	NA	NA	NA
Muheza	1	NL	NL	NL	NA	NA	NA	NA	NA	NA	NA
Pangani	5	NL	NL	NL	NL	NL	NL	NL	NL	NL	9
	5	NL	NL	NL	NL	NL	NL	NL	NL	NL	6

Notes:
[a] For crop development fund
[b] Village, stadium, road maintenance, etc.
[c] Stadium levy
[d] Road maintenance levy
NL = Not levied
NA = Not available

Source: Mwase, 1998

8) African Commodity/ Product Markets and Economic Growth

Collier and Gunning (1997) in a recent review of the deficiencies of African product markets and their impact on economic growth identify five mechanisms through which they constrain growth. These include government policies which have the effect of restricting the activities and movement of traders, price control regulations, high taxation of trade, imposition of minimum sales quantities, as well as the impediments to trade arising from poor infrastructure. Collier and Gunning (1997, p.61) concludes that these deficiencies of African product markets have been detrimental to growth because they "increased the costs of trade, reduced market integration, reallocated resources inefficiently, caused a retreat into subsistence, increased risks, and criminalized economic activity".

Government heavy intervention in African product markets both directly through participation in the conduct of trade and indirectly through stringent regulations has mostly been detrimental to these markets and economic growth. Until recently, government played a major and direct role in African commodity/product markets

through the establishment of quasi government institutions often with conflicting mandates. The activities of these organisations exacerbated inefficiencies in product markets. Such inefficiencies

often result from overstaffing, inadequate budgets, poor management and lack of competitive pressures in the conduct of trade. For example, Tanzania in the 1970s created six separate monopoly-marketing parastatals for six different export crops. Each parastatal had to create a countrywide infrastructure of procurement and transport facilities, all staffed permanently thorough the year, even though the harvest of an individual crop in a particular location might only last for two or three weeks. The absurdity of this situation was demonstrated by one local branch of the Tobacco Authority of Tanzania, which had 15 permanent salaried employees and a truck in order to purchase 13 tons of tobacco leaf during two weeks each year (Ellis, 1983a: 234). Some marketing agencies, such as the Agricultural Development Corporation in Somalia, do not even have control of staff numbers, or hiring and firing decisions.

Stagnating food production in several African countries, a retreat towards subsistence by farmers and skyrocketing food bills is often blamed on heavy state control (Barret, 1997 pp 764). In the food-crop sector, price regulation has usually been accompanied by the creation and expansion of government agencies for marketing and distribution that, for the most part, require higher operating margins for their financial viability than those previously charged by private traders. Food marketing boards operated alongside policies to regulate the prices of food paid by urban dwellers. For example, a comprehensive system of price control prevailed in Tanzania in the 1970s. At the retail level, prices were set for a large number of goods, increasing from 400 in 1972 to 3,000 in 1976. In the 1970s, quite a number of African governments introduced pan-territorial pricing for certain agricultural output with a view to promoting balanced regional development. In regulating prices and providing subsidies, governments have frequently been ignorant of farmers' production costs and have failed to understand the complex relationships among prices and their possible effect on farmers' production decisions. In many cases, the dominant motive of price intervention appears to have been the need to pacify urban consumers, who are politically most powerful, rather than to provide incentives to farmers and livestock owners. Price controls adopted in the interests of urban consumers coupled with a high degree of protection for domestic manufacturers have often turned the terms of trade against the rural population. The uniform pricing of agricultural products militates against regional specialization in accordance with the principle of comparative advantage. It also increased transport costs, and necessitated costly state interventions in trade and transport.

Prior to on-going reforms, private trading particularly in agricultural markets was banned in several countries. In Tanzania, 'operation Maduka' in 1975 closed all village shops. By the early

1980s, private trading in urban areas was also very heavily restricted, with house searches against 'hoarders'. At times government suspicion of markets and frustration with the evasion of controls induced not just neglect but active destruction of market infrastructure. For example, as a punishment for not complying with price controls, the Ghanaian government had the central market in Accra blown up (Collier and Gunning, 1997). Attempts by African governments to ban private trading in certain basic products and create single official channels for trade through state marketing boards have proved to be politically and economically costly and unsustainable.

African governments have been more concerned with extracting the required contributions from agriculture than removing the deficiencies that obstruct growth. The high rates of taxation in African commodity/product markets have contributed in no small measure to Africa's alarming decline in the agricultural sector. Cleaver (1993) attributed the decline in the average annual rate of agricultural growth in Africa from 2.2 per cent in 1965-73 to 1.0 per cent in 1974-80 and 0.6 per cent in 1981-85 partly to taxation. In several cases, such taxes played a major role in bringing about stagnation or decline in output and exports, shifting resources to the production of non-tradeables or heavily protected products as well as encouraging smuggling. Newbery (1990) has documented how the high taxation rates on cocoa in Ghana gradually destroyed the industry by the early 1980s. While tree crop farmers were still harvesting, they definitely did not replant in the face of low prices.

Abundant and scattered evidence, often anecdotal, attests to the extremely compelling nature of infrastructure bottlenecks throughout Africa. A good harvest accrued to farmers in the Meatu district of Tanzania in 1992, but they were only able to market only a small part due to the collapse of transport infrastructure (Oxfam, 1993, p8). The cost of marketing are unusually high due to poorly developed facilities such as transport, storage, handling, packaging and processing techniques. The poor quality of infrastructure translates in unforeseen transportation losses and storage delays. Fragmentation is further accentuated by the lack of competition in the marketing chain, lack of market information, barriers to entry, narrowness of markets, immobility of buyers and sellers, lack of credit, and absence of legal contracts.

9) Conclusion

In the main, African commodity/product markets have some peculiar features that have been growth retarding. These are pervasive government intervention, high taxation, lack of integration between disparate markets which makes product delivery and nation-wide distribution difficult, and the continued dominance of small-scale trading. Their contribution to economic growth appear to have been limited by high transaction costs and inadequacy of institutional and organisations governing exchange. The persistent shortages of market infrastructure, unclear market rules and systems of operations and lack of effective market information system all contribute to the seemingly high transaction costs, which probably explains why aggregate supply response to relative price changes is often quite slow.

In recent years, product market reform has been undertaken as part of the Structural Adjustment Programme adopted in several African countries since the mid-1980s. However, these reform measures have proved to be fragile and ineffective. In many African countries, governments continue to constrain the operation of commodity markets even though they have been legally liberated. The reform programmes are confronted with tremendous difficulties due to the structural weaknesses and structural deficiencies of domestic markets. These reforms have focussed exclusively on the removal of barriers to free trade and prices to the detriment of ensuring that the resulting private trading activity is competitive and transparent. Much less progress has been achieved in defining the new role that the state should play in reducing transaction costs, shaping a proper legal environment and promoting competition and transparency, the appropriate methods and instruments to undertake that role, and how donor support and state resources can most effectively be used to make markets more efficient and equitable. The private sector has been slow in filling the gaps created by the dismantling or downscaling of public parastatals. This has left marketing systems in various reforming countries in transitory situations. The need for accompanying measures is clearly indicated by the history of response to market liberalization of several African countries.

Reform measures in African commodity and product markets will need to be strengthened to embrace measures designed to reduce barriers to entry, ensuring free flow of market information, defining and maintaining quality standards, the provision of adequate transport infrastructure and reforming the legal system to uphold enforceability of contracts and the guarantee of property rights. There is need to reduce obstacles to private sector participation in African commodity/product markets if growth is to be invigorated. There will be greater incentives for private participation in

marketing when property rights and collateral are well defined and given appropriate legal recognition, the scope and conditions of market entry are clearly defined and the exclusivity of any rights are conferred. A credible legal and judicial framework that supports private economic rights, which is enforced equitably and transparently is essential for attracting private capital.

The poor past performance of many marketing boards and *caisses de stabilisation* does not imply that their original rationale is no longer valid. Dismantling of marketing boards has tended to enlarge the institutional hiatus, as private institutions are generally unable to take up many of the functions previously rendered by marketing boards. For instance, one unexpected by-product of the cocoa reforms undertaken in Ghana was the discovery that the private sector had to be resuscitated. When merchants were finally allowed to participate with the government in the domestic marketing of cocoa, they responded weakly. Trader's eager to enter into cocoa marketing lacked working capital, transport, storage capacity, equipment, and trained staff. Hence, their participation was delayed for a year. In Nigeria, the government eliminated the cocoa marketing board without finding an alternative way to provide quality control. The results were disastrous when entrepreneurs new to the cocoa market and eager to acquire foreign exchange sold a large quantity of substandard product abroad. Some of the needs which they were established to satisfy can now be met by the private sector, but government action remains indispensable in several areas of commodity trade such as financing, risk management, market promotion, and the provision of infrastructure and services unlikely to be forthcoming from other sources. Thus there is a strong case for institutional pluralism in which reformed and depoliticized marketing boards and *caisses* are part of a landscape that also includes private organisations, parastatals and co-operatives.

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