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Economic Systems 27 (2003) 83–115

ECONOMIC SYSTEMS

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Commodity market reform in Africa: some recent experience

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Received 10 January 2001; received in revised form 23 December 2002; accepted 5 January 2003

Abstract

Since the early 1980s, dramatic changes in export commodity markets, shocks associated with resulting price declines and changing views on the role of the state have ushered in widespread reforms to agricultural commodity markets in Africa. The reforms significantly reduced government participation in the marketing and pricing of commodities. This paper examines the background, causes, process and consequences of these reforms and derives lessons for successful reforms from experiences in markets for four commodities important to Africa—cocoa, coffee, cotton, and sugar. The commodity focus of the paper highlights the special features associated with these markets that affect the reform process. The paper complements the current literature on market reforms in Africa, where grain market studies are more common. We suggest that the types of market interventions prior to reform are more easily classified by crop than by country. Consequently, there are significant commodity-specific differences in the initial conditions and in the outcomes of reforms related to these markets. However, there are general lessons as well. We find that the key consequences of reform have been significant changes in or emergence of marketing institutions, and a significant shift of political and economic power from public to private sector. In cases where interventions were greatest and reforms most complete, producers have benefited from receiving a larger share of export prices. Additionally, we conclude that the adjustment costs of reform can be reduced in most cases by better understanding the detailed and idiosyncratic relationships between the commodity subsector, private markets, and public services. Finally, while there are significant costs to market-dependent reforms, experiences suggest that they are a necessary step toward a dynamic commodity sector based on private initiative. Indeed, this is particularly true

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doi:10.1016/S0939-3625(03)00018-9

in countries and sectors where interventions were greatest and market-supporting institutions the weakest.

JEL classification: N57; 013; 019; 024; P42

Keywords: Africa; Agricultural policy; Commodities; Market reform; Structural adjustment

1. Introduction

As a result of reforms initiated in the mid-1980s, there has been a sea change on how agricultural export commodities are marketed and financed in many African countries. The reforms have had profound ramifications for the roles of the government and the private sector, and hence for all the institutions related to agriculture.

Generally, market reforms are intended to boost an economy's efficiency—that is, to enhance the productivity of human talents and physical assets. In turn, these improvements in efficiency are expected to generate growth that improves the lives of many and especially the poor. In practice, reform has meant relying more heavily on markets to direct how resources are used and to direct future investments. In the context of this paper, the term market reform refers to steps taken toward opening domestic and export markets to competition and toward putting in place public and private institutions consistent with and supportive of private markets. For commodity markets, market reform has meant reducing government involvement in marketing and in production, increasing participation of the private sector in these activities and reducing distortions in commodity prices—especially producer prices. Measures implemented to achieve these goals have varied but often they included elimination or privatization of government marketing agencies, the introduction of competition in marketing, the elimination of administered prices, reduction in explicit and implicit taxes, and the privatization of government-owned assets.

Events triggering commodity market reforms were not independent of broader political and economic changes in most countries and the consequences of reform are often linked as well. However, issues related to the approaches and effects of general and agricultural market reforms have been discussed elsewhere and receive minimal treatment here. Instead, our purpose is to discuss reform in the specific context of cocoa, coffee, cotton, and sugar markets, and to provide lessons by selectively drawing on African cross-country experiences in those markets.[1]

A central theme of this paper is that commodity markets warrant special attention for several reasons. First, commodities play an important role in many developing countries, especially in Africa. Reforms and the process of reform of commodity markets can affect communities and sometimes economies in significant ways. Conversely, it was the fiscal consequences of a sharp commodity price decline in the 1980s and the early 1990s

[1] This paper draws on African experiences of market reform, some of which are included in a more general discussion by Akiyama et al. (2001).