

# **Liberalisation of Maize Marketing in the Arusha Region in Tanzania**

**By**

**Willy Wilson Saiguran Parsalaw**

**[PhD, University of Sussex]**

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## **Abstract**

The Government of Tanzania liberalised the grain market in 1988 by allowing private traders to participate in grain trade and seeds distribution. The Government also directed the National Milling Corporation (NMC) and cooperatives to operate on a commercial basis. This marketing arrangement was expected to improve the efficiency of the marketing system through competition. Efficiency of the marketing system was gauged in terms of the relation between the consumption utilities created by the system and the resources put into the creation of those utilities. Thus, a marketing system would be considered inefficient if the resources put into the creation of consumption utilities by producers, market intermediaries and consumers were excessive in comparison with the alternatives and/or would yield higher returns elsewhere in the same economy.

In this regard, market liberalisation was meant to reduce distortions resulting from Government intervention, while encouraging private traders to compete and, therefore, provide better services to farmers.

This study sought to evaluate the performance of the grain marketing system after these liberalisation measures. The focus of the study was on maize marketing in Arusha region. The evaluation was based on secondary and primary information obtained from the National Milling Corporation (NMC), co-operatives, private traders and maize producers in Arusha region. This information was used to assess the emerging structures and competitiveness of the private marketing system and derive several economic performance dimensions: margin, spatial and temporal price spreads, profit /losses, market integration, methods and timelines of payments.

The driving broad hypothesis behind this study was that, with the liberalisation of the marketing system, the performance of maize marketing was likely to improve. Consequently, five other hypotheses were that:

- i) There would be a decline in marketing costs of various market participants in the marketing system as a result of competition following the legalisation of private trade
- ii) Private market channels made prompter payment to producers than official marketing channels

- iii) Input prices would be lower in the private market channel than in government -instituted marketing system
- iv) There would be an efficient price formation after the liberalisation of the grain marketing system
- v) Grain market liberalisation would reduce the financial deficits of public sector marketing agencies.

According to this study, there was improvement in the competitive structure of private grain market as revealed by the increase in private market participants after liberalisation. There was a noticeable increase of private trader activity in maize trade and milling. The emerging structure was, however, rudimentary because private traders lacked facilities such as transport, storage and mills. They, therefore, performed limited storage and transport operations.

Generally, according to this study, there was a decline in market margin as a percentage of consumer prices with a corresponding increase in the producer share of the consumer price during normal years. Evidence of reduction in marketing margin during normal years was more pronounced in the private market channel. This decline in marketing margin led to an increase in producer share of consumer price despite a decline in consumer prices.

On the other hand, there was marked improvement in market integration, with seasonal price rise declining post liberalisation. The NMC and co-operative, however, did not improve their performance as they largely operated as before trade liberalisation. On the part of public marketing agents, liberalisation measures did not reduce marketing margin. Producer share of the consumer price declined, indicating the increase of costs.

The study also revealed the danger of relying on the market during years of poor harvest. Given the fact that most private traders largely lacked the capacity and willingness to perform operations such as famine relief and price stabilisation, the study recommended that the public sector should play a role in these operations. The operations should be specifically budgeted for, with proper accounting and management of stocks.

According to this study, the average post-liberalisation producer and consumer prices indicated that while producers fared almost equally in both channels, consumers suffered more in official marketing channel due to a higher consumer price.

Further, the study revealed that promptness of payment on cash basis by private traders, on-farm procurement, provision of gunny bags, early start of buying and a higher price at different times of the year made most producers prefer the private market channel. Consequently, this increased their market share particularly in 1990/91 when there was poor harvest in most parts of the country.

With regard to the distribution of seeds, the study noted that this was being at administered prices. Consequently, this practice eroded the incentive to compete and reduce costs - the inherent tenets of trade liberalisation. It was recommended that further research be done in this area to determine the impact of input market liberalisation on output and rural incomes. Further, the study recommended that there should be reforms in parastatals and government commitment to enable co-operatives and NMC to operate commercially.

Further, there was need to improve access to credit for actors in the production and marketing of grain. The study observed that access to credit could be improved, among other things, if the asset base of producers and traders was improved to provide for collateral. One major asset which could be provided as collateral was land.

There was also need to improve access to market information. Competition in grain marketing could be improved if market information was made available to all actors in the marketing system.