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'Markets don't work WITHOUT THE STATE'

A perceived lack of access to agricultural markets has thrown the spotlight on the role of government in agricultural marketing. Now, a possible new draft for the Agricultural Marketing Policy is on the cards. Prof Johann Kirsten asks just how involved government should be.

IS THERE A NEW ROLE FOR GOVERNMENT in agricultural marketing in South Africa, and if so, what should it be?

In 2006 Thoko Didiza, then-minister of agriculture, appointed a committee to review the Marketing of Agricultural Products Act of 1996. The recommendations haven't yet been made public. There are also reports that the Department of Agriculture is currently drafting a new Agricultural Marketing Policy.

This has reopened the question about government's role in agricultural markets, and thus the need for policy on them. This needs to be considered in the context of deregulated, liberalised agricultural markets, and a perceived

lack of access by many black farmers. Leading economists agree, markets don't work without the state. But should the state's role be creating enabling conditions, and/or a regulating framework for markets to function, or should it intervene directly, controlling prices and quantities or issuing licenses and quotas?

The state's role

Markets aren't just a physical space where goods or services are exchanged. They include formal and informal supply chains involving small enterprises, traders, agribusinesses, food processors retailers and exporters.

To access a market you need something

to sell and must know where the market for your produce is. You also need transport and infrastructure. Meanwhile, you mustn't be hindered as a seller by anti-competitive, or discriminatory behaviour from roleplayers and buyers.

Market access can be improved with better infrastructure both urban and rural. Better government policies regarding factors such as import substitution and competition will also help. So will proper market institutions, regulations and coordination.

Not all these factors can be supplied by the free market. The state therefore clearly has a role in the market, providing these basic support systems.

The state's responsibilities

The necessity of infrastructure, specifically rural roads, has been mentioned many times in agricultural circles. However, it's still only main roads that receive attention. The poor condition of rural roads in



- The state should not directly manipulate markets.
- However, it can provide legislation and infrastructure to keep markets running smoothly and help farmers access them.
- Farmers' associations and the private sector can also contribute.



Markets need legislation to operate and farmers need infrastructure, such as roads, to access them. Providing these should be the state's role.

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Mpumalanga, North West, and the Eastern Cape seriously hamper market access, and often increase cost. • The quality of infrastructure influences how the benefits and costs are shared between producers and other economic agents, such as transporters, middlemen, and consumers.

Proper infrastructure increases the efficiency of marketing and production by reducing transaction costs and ensuring more competitive pricing. Deficient transport infrastructure slows the adoption of technology, limits crop choices and cuts agricultural productivity.

Markets also can't function without institutions, commonly known as the "rulers of the game". The state has an important duty to ensure these institutions are in place, including grading systems, food safety legislation, and sanitary and phytosanitary systems.

Other examples include the bylaws and rules on municipal markets, information systems in agricultural markets in general and the futures markets in particular.

Coordination is also important. With many smaller scale farmers producing for the market, "horizontal" coordination in the form of farmer associations helps create marketing opportunities.

'The state should be working for markets, but not involved in markets.'

They can also lower the cost of accessing lucrative markets. Here the state and the private sector can both play an important role. Where it's necessary to share capital, it's important that farmers' associations aren't established with over-ambitious goals to avoid problems with farmers seeking "free rides".

Rather consider establishing local depots, especially for grain, to help assemble small quantities from small farmers. Train these farmers to improve and test for quality. The state and its parastatals could identify opportunities to engage cooperatives or agribusiness companies to establish these depots. This could be easier to implement and less distortive than proposed marketing schemes.

Obtaining and providing market information is an important state function, but it's being left to the private sector. There are many statutory measures regarding the state's duty, but the Department of Agriculture isn't funding any efforts to obtain the information.

In conclusion

There are problems with market access and inefficiency. Issues like racial discrimination, uncompetitive behaviour, production and entrepreneurial problems all play a role. However, many problems can be blamed on the factors government doesn't have in place. It's therefore fair to argue that where there's state failure, there will be market failure.

Any future agricultural marketing policy should make the state's role clear. It should be working for markets, but not involved in markets. It must deal with the problems discussed here. There are also issues of growing global concern like food quality, food safety, and competitiveness.

But for such an Agricultural Marketing Policy to have the desired effect, the state will have to take action and actually implement it.

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