

Policy Interventions and Economic Benefits for a Market Driven Oil Palm Industry

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ABSTRACT

In effective policies, Governance structures and management system relating to environmental and social (access to markets and fair prices) performance are perhaps one of the major problems to sustainable oil palm development at various levels; from Governments, international institutions and industry bodies down to individual oil palm companies.

The role of the Government is regulatory and to create suitable investment climate. It is a common occurrence for Governments to be involved in the economies of their countries depending on their systems of governance. A state may wish to correct market failures of macro-economic inequity or undesirable outcomes that a pure market-driven system can sometimes produce.

The paper examines policy interventions (reforms) and economic benefits for a market driven oil palm sector in Nigeria. It observes that the output market was previously controlled by monopoly marketing board; market liberalization in 1986. It also observes that there are issues of policy uncertainty which undermined the impetus for reform. Also highlighted are the benefits of Government interventions in Agriculture. The kinds of intervention to be taken to have a stable institutional development and regulatory framework needed for the palm oil industry to operate efficiently and for competition to proceed effectively are considered.

INTRODUCTION

The Government is the single most important manager of the economy, and does this through policies and policy-making essentially based on knowledge of the economic conditions of the people. An important issue today such as Agricultural productivity which is a business of policy makers and Governments, is involved in using scarce resources efficiently (Oji,2002).

Regulations are interventions by the Governments in the oil palm industry to ensure its growth and sustainability. A lot of people assume that the relationship between Government and Agricultural marketing consist only of laws directed at Agricultural products and their handling. However palm oil marketing appears to cover broader perspectives. Marketing of palm oil is directed to:

- i. Prevent monopoly
- ii. Facilitate trade
- iii. Encourage uniformity and standards
- iv. Formulate laws to protect palm oil consumers

In the oil palm industry market failure can occur when efficient outcomes do not result from price mechanism, demand and supply forces do to certain issues and forces.

Market failure is a fact of economic life in any society, but it tends to be more pervasive in developing economies. The market paradigm of development which has its roots in Adam smith "invisible hand" or "get prices right" is criticized by modern theory of market failures that recognize that information is never perfect and that markets are never complete (Eboh,1999).The theory of market failure is particularly relevant to developing countries because they generally suffer the problems of underdeveloped or missing and imperfect information. Market failure occurs when the competitive market system either (i) produces the "wrong" amount of certain groups and services or (ii) fails to allocate resources what so ever to the production of some goods and services whose output is economically justified (McConnel and Brue,1999). This arises because wrong signals are being transmitted by the price system to the producers and consumers of those goods. Overall however, the reform experience has been disappointing. This is especially through in sub-saharan Africa where most countries experienced a contraction in per capita agricultural GDP and agricultural value-added throughout the reform period of the 1980s and 1990s (Kherallah, Delgado et al. 2000).

Reforms have often been partial, and sometimes reversed, creating policy uncertainty and undermining the impetus for reform. Lack of Government commitment to full market liberalization, fear of disturbing existing

patron-client relationships (corruption), and concern over losing important sources of public revenue is some of the factors that hindered reform programs. Over the last thirty years, the policy agenda in agriculture has been dominated by a shift away from state-led development-involving pervasive state intervention in agricultural production or marketing-towards the adoption of market-led approaches. This change has been driven by number of factors; most notably, by an ideological shift towards economic efficiency and market-based solutions for resource allocation, combined with budget constraints and perceptions of greater benefits from spending to social sectors. This perspective is supported by the poor performance of previous public spending in Agriculture (Akroyd, 2004). Policy reforms delivered positive impacts in a number of areas for example in the supply chain systems for some cash crops in Africa, and in reduce food prices to poor rural and urban consumers (Jayne and Jones, 1997)

However, Government action on policy can correct all types of failures (Oji, 2002). Government intervention and liberalization can occur effectively in the palm oil industries if stable institutions (frameworks) are in place.

The issue should not be how much Government intervention should be but what kind of intervention Government should undertake and which policy instruments does Government have a comparative advantage as regards the palm oil sector. This raises serious questions for Governments in Nigeria about how future policy as regards the palm oil sector reform should proceed.

Types of market failures

- (i) Spill over (externalities) –occurs when cost or benefit of a good or service are passed on to or “spilled over to” parties other than the immediate buyer or seller of the commodity or service. Because the parties enjoying the “spilled over” benefits or suffering the “spilled over” cost are external to the market transaction.
- (ii) Public goods (agricultural research and rural infrastructure)
- (iii) Imperfect information available to the producers and consumers (Eboh, 1999)

With the intervention currently underway through the various Governments created initiatives, the oil palm industry is being prepared to increase levels of production, through increasing yields per hectare and area under cultivation (Dada, 2007). The need to drive change through markets has already been appreciated by some NGOs which have started market transformation initiatives. This points to usefulness of voluntary certification and other schemes, which use market forces to function as a complement to Government regulation (Teoh, 2010).

As the palm oil industry moves towards production of certified sustainable palm oil according to the standards set by the round table on sustainable palm oil (RSPO), small holders face the risk of missing market opportunities if they do not improve production practices to meet the stringent certification requirements (Teoh, 2010).

Benefits of Government interventions in markets

In fact, one crucial point of difference between the new directions and older theories in development economics is that the limits of markets are now recognized, and there is acceptance of the notion that given imperfect information and incomplete markets, Government intervention can be pareto-improving-that is, it can lead to reallocation of resources that will make some better off without making others any worse off (stiglitz, 1990). There will be transformational partnerships with companies to improve the sustainability of supply chains, development and promotion of sustainable investments in commodities.

Government intervention in the Nigerian oil palm industry

In Nigeria, until few years ago, the Government was involved in price regulations such as marketing boards. The Government in recent past decided to liberalize the market, so prices now depend on supply and demand locally and internationally within this context, however there is currently a 35% duty on the import of palm oil, providing the local industry with significant protection.

However, Government intervention in the palm oil industry must from this time on, in future be guided by a number of critical considerations

- Restructuring distribution and marketing networks to export standards, trade agreements between parties involved to reduce high tariffs and issues of import restriction
- Development of improved technologies (use of resistant varieties), processing activities so as to reduce cost of production.
- Engaging in effective linkages (forward and backward) for processing and production of palm oil.
- Complying with international laws and regulations as regards quality of palm oil, processed products.

- Focussing on research and development,giving incentives to small scale farmers who contribute about 80% total production.
- Supporting out growers schemes to encourage cultivation of oil palm and increase in production of oil palm products.
- Developing the local market and expanding sub-regional market in Africa to reduce vulnerability of producers to fluctuations
- Information and analysis
- Palm oil inspection
- Seed inspection
- Establishment and enforcement of grades and standards
- Incorporation of risk reducing activities that meet the standard welfare economic criteria for government intervention in the economy (World bank,1997),eg. government provided health insurance and crop insurance, price stabilization schemes, government credit guarantees(Devarajan and Hammer,1998)

The general principle behind government intervention is to make producers to pay or absorb the spilled over cost in some way. This can be achieved through legislation (command and control), imposition of taxes (Oji,2002),subsidies. The paper observes that policy interventions represents governments intentions, ambitions and goals for the palm sector given available resources, technologies, preference patterns and institutional capability. It is the responsibility of the government or the public sector to correct for market failures in the palm oil sector. There is a need for shift from command and control policies to those that work through the markets. The several kinds of interventions mentioned earlier are considered more effective for a market driven oil palm industry.

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