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Why Africa's food markets are thin

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DURHAM - The food crisis facing developing countries has pushed the World Bank to announce that it will nearly double its loans for agriculture in sub-Saharan Africa from $450 million to $800 million in the next year.

Presumably, a significant portion of these loans will go toward increasing agricultural productivity so as to stimulate supply. Although this is crucial in the long run, focusing purely on productivity would ignore a critical factor: A good number of rural African households don't participate in markets for staple foods such as rice, teff (a grain) and sorghum -- they are neither buyers nor sellers.

In most cases, these households are in this situation against their will. Many would like to have access to markets so they could improve their well-being. Those whose agricultural output falls below the subsistence level could fill a crucial nutritional need, and those who grow more than they need could enjoy higher incomes, which might be used to make the investments necessary to increase their agricultural productivity.

The problem is structural. My research on market participation in Northern Kenya and Southern Ethiopia has convinced me that a majority of rural African households face major constraints, or transaction costs, that prevent them from participating in markets.

For some, the road leading to market is impassable during the rainy season. For others, going to market is too risky because of bandits. For still others, the closest market is simply too far to even consider traveling there, and not all villages are visited regularly by traders who buy at the farm gate.

Even when these constraints are negligible, it is often impossible to store staples for a significant amount of time. This forces many households to sell the bulk of what they grow right after harvest, when prices are at their lowest, and to buy back the same crop during the lean season, when prices are at their highest.

Without these constraints, rising prices on the world food market would be much less of a problem. Families that both produce and consume rice, for example, could sell the rice and substitute other, less-expensive staples in their own diet in order to ensure their subsistence. The existence of high transaction costs, however, means that markets are thin in rural Africa, which in turn means that substitutes are few and far between.

Because of these myriad transaction costs, increasing yields alone won't solve the world food crisis. Other interventions -- either from African governments, from the World Bank or from nongovernmental organizations -- are necessary in order to make it possible for rural African households to turn toward other staples.

What sub-Saharan Africa needs most are new roads, better trained and better paid police forces, improved means of transportation and access to better food storage technologies. Such improvements would not completely solve the problem of hunger in Africa, but they would provide households greater ability to participate in markets, and therefore greatly mitigate the effects of rising food prices.

Increasing agricultural yields is without a doubt an important long-range goal along the path to economic development. But Nobel Prize-winning economist Amartya Sen has shown that famines are rarely, if ever, caused by a lack of enough food to go around. Rather, they are caused by structural factors.

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