

Monopsonistic Power in Fragmented Food Markets in Malawi: The Case of Maize and Soybean

Bob Baulch, Seng Kiong Kok, and **Aubrey Jolex**
IFPRI Malawi

7th Annual Competition and Economic Regulation Conference

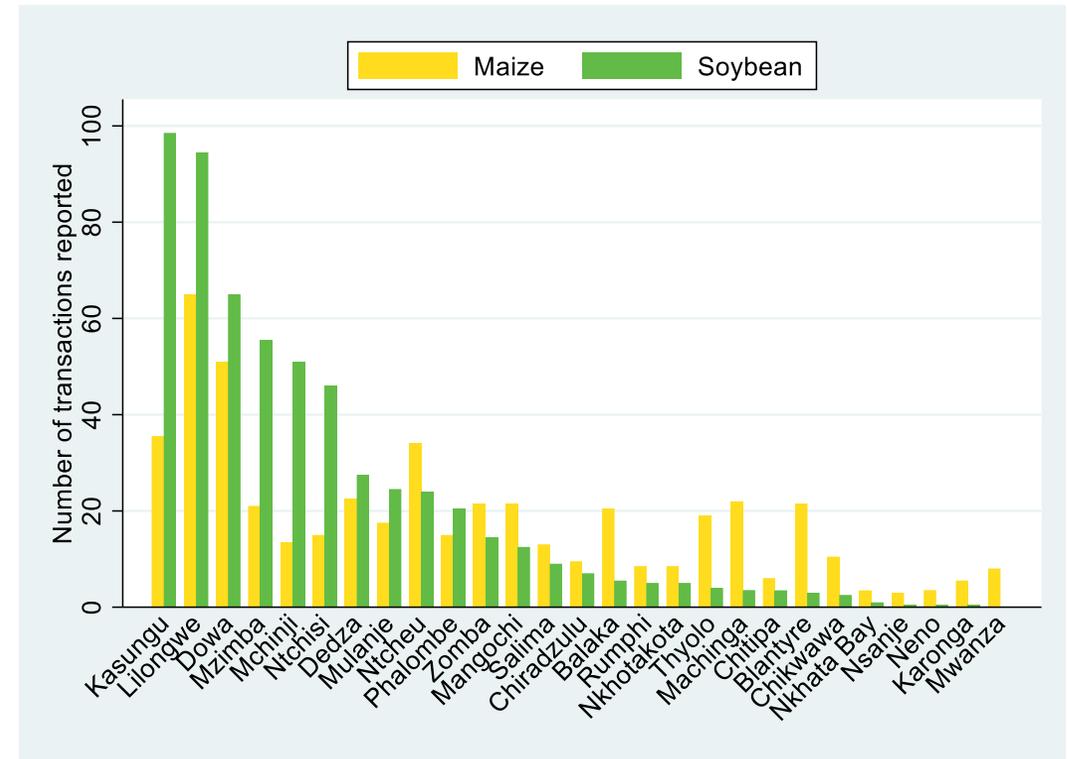
16th September 2022

Introduction

- It is common for farmers, civil society organizations, government officials and journalists to accuse traders of ‘exploitative behavior’ in the post-harvest season.
- Yet the evidence on which such accusations are made is largely anecdotal
 - government efforts to collect and report farm gate prices are often patchy and inconsistent
- Using an innovative and relatively inexpensive method we crowdsourced the prices farmers were actually paid for their maize and soybean
- Prices were analyzed using novel non-parametric conditional density estimates (CDEs) against several measures of monopsonistic power
 - measures for distribution of bargaining power between buyers and sellers, the types of buyers, and travel time to market for sellers

Data description

- Data was corrected during the harvest season (April – July 2020)
- Radio jingles were broadcasted to invite farmers to report their crop sales to a free call center operated by Farm Radio Trust
- Phone numbers of farmers who responded were entered a (biweekly) raffle for agro-inputs coupons worth MWK 25,000 (about \$25).
- A total of 1048 maize and 1265 soybean farmers called the FRT call center to report the prices at which they had sold these crops

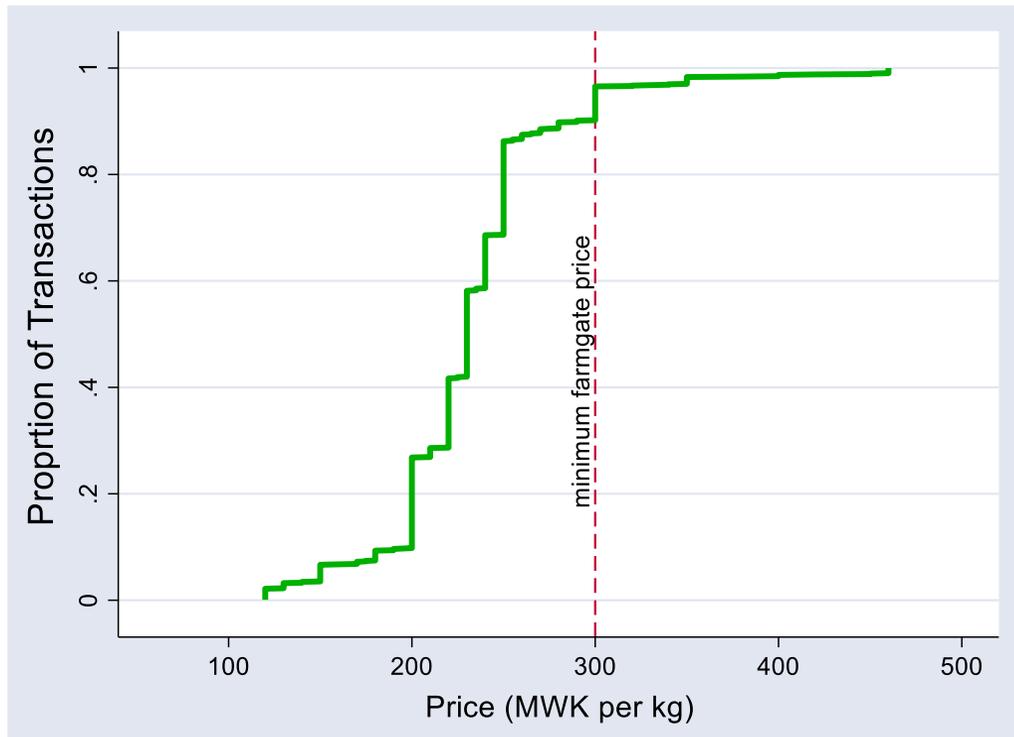


Results - highlights

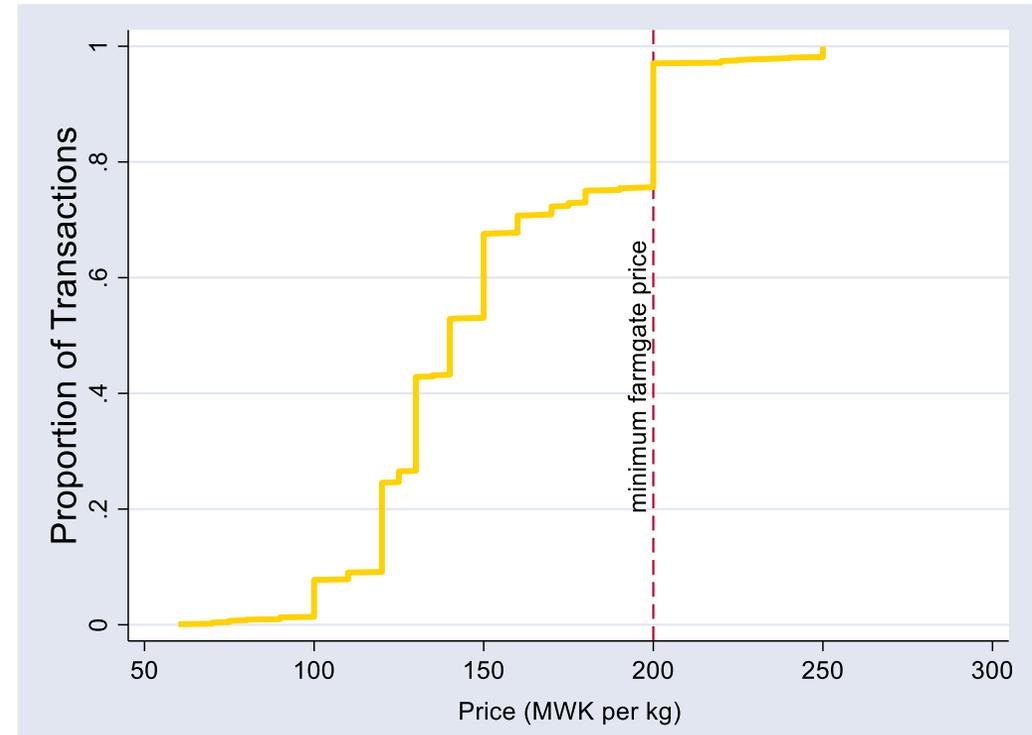
- We discover that on average farmers in Malawi receive substantially less than the minimum farm gate prices for both maize and soybean
 - Malawi's minimum farm gate prices are loosely enforced
- So, what should be done about the widespread non-observance of MFG prices?
- Many feel that MFG prices should be enforced by the ministries of agriculture and trade, along with the Malawian Bureau of Standards and the police
- However, we should ask ourselves whether these organizations really have the capacity to enforce the widespread adherence to MFG prices

Farmer Prices of % of Minimum Farmgate Price

Soybean



Maize



Soybeans: 10% of farmers received prices equal to/greater than the MFG price

Maize: 25 % of farmers s received price equal to/greater than the MFG price

Results - highlights

- Further, our non-parametric conditional estimates disaggregate the prices paid to farmers using three indicators of monopsonistic power
 - bargaining power; type of buyer; travel time to market
- Specifically, we discover a pattern of higher prices at higher levels of seller bargaining power and the presence of multiple-equilibria
- For the type of buyer, especially in the context of maize, larger traders and processors are just as likely to pay a lower price as smaller assemblers
- We also discover that travel time to market exerts a weak influence on the prices of crops potentially indicative of cost absorption by farmers

What is to be done?

- Many commentators and policy makers instinctive reaction to these findings is that MFG prices should be enforced by the authorities
- But do the Ministries of Agriculture and Trade, the Malawian Bureau of Standards and the Police really have the capacity to enforce widespread adherence to MFG prices?
 - We suspect not
- And we believe that the raising of penalties for nonpayment of MFG prices might instead serve to deter small traders (such as assemblers)
- Might also increase rent-seeking behavior by those who are meant to be enforcing MFG prices

What is to be done?

- We, therefore, strongly argue that promoting competition is likely to do more to raise the prices farmers receive than penalties imposed on some traders who do not adhere to them
- Hence, we suggest that food processing and retail chains should be encouraged to give rise to competition
- Competition authorities should deal with anti-competitive mergers, abuse of dominance, cartels and price fixing
- More importantly, effective enforcement of competition rules in food markets, rather than the pure existence of competition rules, makes a difference in the impact of competition policies