DISCUSSION PAPER

MAY 2004

Poverty Reduction and Agricultural Trade in Sub-Saharan Africa

Recommendations for USAID Interventions

SUBMITTED TO
USAID/Washington

SUBMITTED BY
Nathan Associates Inc.
TCB Project

UNDER CONTRACT NO.
PCE-I-00-98-00016-00
Task Order 13

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Nathan Associates Inc.
Support for Trade
Capacity-Building Activities
Arlington, Virginia

PREPARED BY
Andrew Lambert

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Sponsored by USAID's Bureau of Economic Growth, Agriculture and Trade (EGAT) and implemented by Nathan Associates Inc., the Trade Capacity Building (TCB) Project, 2001–2004, helps developing countries assess their trade constraints and prioritize their trade-related technical assistance needs. The project provides trade experts for short-term technical assistance in developing countries and assists USAID Missions in designing, implementing, monitoring, and evaluating technical assistance that will stimulate economic growth and reduce poverty. Electronic copies of reports and materials related to trade needs assessments, resource guides, and trade training workshops are available at www.tcb-project.com. USAID Missions and Bureaus may seek assistance and funding for activities under this project by contacting John Ellis, USAID/EGAT, TCB Project Task Manager at jellis@usaid.gov.

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Executive Summary

The purpose of this paper is to describe a path for trade-led sustainable economic growth in sub-Saharan Africa (SSA) that will directly benefit the rising numbers of poor people who live primarily in rural areas. Our research has uncovered ample evidence that agricultural growth can deliver the increased incomes and better food supplies the poor require while increasing opportunities for profitable trade in domestic, regional, and global markets.

The key target sector for agriculture-led growth consists of 140 million small farmers occupying 90 percent of the agricultural land in the region. The individual contributions of these small farmers underpin the region's bulk commodity exports of cotton, cocoa, coffee, and tea. High-value export sectors rely completely on these small farms either for hired labor or for their skills as "outgrowers" and smallholders. Domestic and regional food markets are supplied by such farmers, who profit little from the trade that is built around them.

To derive greater benefit from the trade that they help generate, and thus to effectively reduce poverty, small farms will need assistance to improve their production and marketing conditions. The first step will consist of ensuring access to better infrastructure services, to be followed and complemented by more focused improvement in production technology and business skills.

On the trade front, improved market linkages and access, in a more favorable regional and global trading environment, will increase the flow of profits to the farmer. Policymakers, for instance, need to be aware of the dynamics of the global marketplace in order to help farmers be effective in it. Different export commodities present many and varied challenges. Traditional exports face problems of oversupply and shrinking margins, while competition among suppliers of non-traditional exports is fierce and supermarkets increasingly dictate terms of trade.

Changes in the regional trade environment can also spur agricultural growth. Regional bodies such as ECOWAS, WAEMU, SADC, and COMESA could do much to reduce cross-border transaction costs by focusing on reducing barriers to intraregional trade, including arbitrary and non-transparent border measures and high tariff walls. They could also facilitate creation

of region-wide markets by improving communication and transportation infrastructure linking regional trading centers.

SSA must also find ways to become more effective in the multilateral trading system. First, SSA countries need to develop coherent trade policies based on solid analysis of each country's trade and development needs. This will require some assistance for capacity building. SSA negotiators must also learn to work together in addressing the problems of agricultural subsidies and relatively high tariffs on food products—in developing as well as developed countries. Second, SSA countries need to participate in international standards bodies and in decision-making processes for standards that directly affect SSA exports. Donors can make a significant contribution here and thereby improve the ability of SSA to penetrate the largest developed country markets. Third, SSA countries need to raise small and medium producers' awareness of and ability to comply with international standards. Extension services, better information infrastructure, regional producer associations, and standards training for associations could all improve producers' abilities to comply with quality, safety, and ethical standards.

The policy agenda outlined in this paper has the potential to not only reduce poverty but also engender sustainable economic growth for the entire region. Only the agriculture sector has the potential to effect such radical change in a region afflicted by the world's most severe poverty. African agriculture possesses the physical, human, and technological resources necessary for a foundation for broad-based economic growth. And pro-poor agricultural growth can significantly reduce poverty in SSA.

Many of the region's agricultural sectors are not performing up to their potential, but others are—and on a global scale. In fact, sales of agricultural exports have far outperformed domestic agriculture sales. Exporting to markets with greater purchasing power can accelerate growth, and developing regional markets can benefit internal markets where growth opportunities are frequently underestimated.

SSA farming livelihoods could be much improved if developed nations reduced domestic subsidies and all nations reduced tariff protections on imported processed agriculture products. But SSA countries do not control the agenda nor the means and pace of implementation of the WTO Agreement on Agriculture. They therefore should not rely on this path to relieve poverty among rural dwellers in the immediate future.

SSA countries, however, can and do determine and implement their own policies of pro-poor agricultural development, with some assistance from the international community. By following sound principles of inclusive agricultural development SSA can achieve its development objectives while lobbying for a more open and less distorting multilateral trading environment. The international community can help provide the means for both of these objectives by

- Facilitating investment in economic and social infrastructure in rural areas;
- Following through with capacity building activities in farm production, marketing, export development, and trade; and
- Nurturing a more outward-looking approach to the multilateral trading system through policy dialogue on domestic, global, and regional platforms that will eventually lead to reform of farm subsidies and tariff protection in developed and developing countries.

Our recommendations for trade-led growth in the agriculture sector are as follows:

- Focus development assistance on increasing the proportion of tradable goods generated by small farmers. Develop policies to assist productive small farms in converting from subsistence to tradable goods agriculture through infrastructural and institutional development and improved production technology.
- Where commercial agriculture development is constrained by endemic poverty, but both the resource base and market conditions allow agricultural intensification, provide individual poor farmers and laborers with direct support to create a foundation for sustainable commercial farming as a precursor to producing marketable products for foreign customers.
- Continue support for agribusiness, but focus on improving SSA policy, regulatory, and institutional environments that strengthen markets and private sector initiatives.
- Provide support to exporters of high-performing non-traditional goods in shortening the value chain through vertical integration and by moving into higher-return portions of the chain, such as processing and marketing.
- Assist SSA in increasing its market leverage and, in turn, improving its terms of trade, especially through capacity building within the context of regional trade bodies such as WAEMU, ECOWAS, SADC and COMESA, as well as the WTO.
- Help SSA governments and producers cut transaction costs and shorten delivery times by cutting red tape, expediting customs clearance, and improving transportation and other infrastructure links.
- Assist SSA governments in building awareness among the general public and policymakers of the relationship between trade and poverty, and help SSA develop an empirical basis to support trade policy decisions regarding regional and global markets.

If these measures are implemented in a coordinated and balanced fashion, poverty reduction in SSA could be substantial.

1. Introduction

The purpose of this paper is to provide the EGAT office of USAID with the basis for an informed discussion of the relationship between trade and poverty reduction in sub-Saharan Africa (SSA) and to recommend ways to maximize the impact of economic growth on poverty reduction, particularly in the rural sector.

The paper is based on a review of literature on the following topics:

- Poverty, economic growth, and agriculture in SSA
- Agricultural production systems in the region
- Trends in agricultural exports from SSA
- Key theoretical approaches, especially value chain analysis
- Donor strategies for agricultural export development.

In Section 2 we examine the potential for agriculture-led economic growth and poverty reduction; in Section 3 we review major markets for SSA's agricultural products and related trade issues; and in Section 4 we offer recommendations for policy and program design for poverty reduction through agricultural trade in regional and global markets. Section 5 draws conclusions about the analysis we have presented.

2. The Agricultural Sector and Rural Poverty in Sub-Saharan Africa

A recent review of poverty-reducing growth strategies for Africa argues that while higher rates of growth achievable in export manufacturing may make it in theory the best sector to support poverty-reducing growth, only a handful of African countries will be able to achieve this. Thus, "the 45 or so other African countries that do not become export platforms must rely on other engines of growth: agriculture, mining, tourism or a combination of them."[1] Since many countries in SSA do not have good prospects in mining and tourism, and these activities often have weak linkages and high leakages in supporting secondary growth, the main engine of growth will be agriculture. With 180 million Africans working in agriculture,[2] the most immediate effect of sector growth will be an increase in employment and in wage earners' incomes—and a dramatic reduction in poverty. This conclusion is supported by a 2001 study of aggregate data that demonstrated fairly conclusively that poverty is directly linked to agricultural productivity.[3] If physical productivity increases, poverty will diminish[4] because

- Agriculture is central to the livelihoods of the rural poor who, in spite of rapid urbanization, still account for about 70 percent of the world's poor.
- In Africa, agriculture provides two thirds of employment, half of exports, and more than one third of Gross National Income (GNI).
- For each point in growth of agricultural yields the number of those living on less than $1 per day reduces by between 0.6 and 1.2 percent. No other economic activity generates the same benefits for the poor while providing affordable food.

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1 Fafchamps, M. and F. Teal, *et al.* 2001. Towards a Growth Strategy for Africa. Oxford: Centre for Study of African Economies. p 13.

2 Or 62 percent of the male labor force and 75 percent of the female labor force.

3 Irz, Xavier, Lin Lin, Colin Thirtle, and Steve Wiggings. 2001. Agricultural Productivity Growth and Poverty Alleviation. *Development Policy Review*, Vol. 19 Issue 4, December 2001, p. 449. The authors caution that although these results appear to be robust, variables such as the provision of public goods or the level of inequality also have a powerful influence on poverty and should be included in any analysis.

4 These findings presuppose that favorable market conditions exist for additional farm output. This paper specifically prioritizes the development of market linkages as a necessary condition for sustainable economic growth in the rural sector.

- General economic development requires prior growth and productivity gains in agriculture. Few countries have developed diversified economies without first achieving growth in agriculture. As a country becomes richer agriculture becomes less significant in its economy and people's livelihoods, but this is not a sign of agriculture failing.

Despite low average productivity and some precarious ecosystems in SSA, a sustainable agricultural system can be achieved there by increasing intensification.[5] Farmers significantly increase production and income where the conditions—physical, institutional, and political—for wider adoption of productive technologies and practices are met. Such examples, while still rare, support the argument that human ingenuity, accompanied by political will, can move SSA agricultural systems onto sustainable paths. This is not to say that we should wait for unsustainable practices to reach crisis before acting. Indeed, many systems must be attended to before damage reaches levels that make recovery and restoration even more difficult and costly.

Types of Farms

The small family farm with a subsistence orientation and small-scale cash crops is the major form of farming in SSA. Entrepreneurs run a much smaller but still significant number of elite commercial farms for profit. These may be engaged in plantation or arable crops, specialized livestock production, or a mixture. Given their use of modern technology and their access to finance, the commercial farms are well-placed to increase the volume and profitability of their market transactions, and hence their contribution to economic growth. However, a growing body of research and development experience points to the small family farm as the sector with the greatest potential for growth.[6] The experiences of commercial farms in supplying domestic and foreign markets profitably can be a useful asset for the development of a more prosperous commercial small farm sector.

The geographic distribution of these farm types can be estimated from Table 2-1. The data, which are derived from an FAO classification of farming systems by crop type in the region, show that 91 percent of the agricultural land and 86 percent of the population is engaged in small-scale farming, with 9 percent of the land and 14 percent of the population involved in commercial systems. Overall, the percentage of land occupied by the small farm sector is marginally higher than the proportion of population it employs, while in commercial farming the situation is reversed, indicating greater average labor intensity in the commercial sector.

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[5] J. R. Anderson. 2000. Risk, Resources and Research in the Semi Arid Tropics. In *Future of Agriculture in the Semi-Arid Tropics Food Security Livelihoods Livestock Partnerships Strategies*. International Crops Research Institute for the Semi-Arid Tropics.

[6] Rethinking rural development. 2001. *Development Policy Review* Volume 19, Number 4. Edited by Caroline Ashley and Simon Maxwell, Overseas Development Institute:UK, ISSN 0950-6764 (Pb).

We can surmise that this is due to the higher soil fertility of the commercial sector, which contains irrigated land and excludes arid and semi-arid pastoral regions.

Table 2-1
Distribution of Land Area and Population by Farm Types

Type of Farm	Main Features	% of Regional Land Area	% of Regional Agricultural Population
Small Family Farm	Root crop	11	11
	Cereal-root crop mixed	13	15
	Maize mixed	10	15
	Agro-pastoral millet sorghum	8	8
	Forest-based	11	7
	Rice tree crop	1	2
	Highland temperate mixed	2	7
	Other	3	6
	Highland perennial	1	8
	Pastoral	14	<7
	Sparse arid	17	<1
	Subtotal	91	86
Commercial Farm	Large and small scale	5	4
	Irrigated	1	2
	Tree crops	3	6
	Subtotal	9	14
All Types		100	100

SMALL FAMILY FARMS

Small family farms are arable, mixed, or livestock units whose primary purpose is to provide income and food for farmers and immediate family. They typically have a mixture of livestock (e.g., poultry, sheep, goats, and cattle or draft animals) and staple crops for home consumption and local sale on areas of as little as half a hectare to as much as 10-15 hectares, depending on soil and climate, location, and available labor. Where possible, commercial crops for the local market (e.g., fruit and vegetables) or processing (e.g., cotton, coffee, tea, cocoa, cassava) are cultivated to complement family income, creating a subcategory of cash crop smallholders who are often outgrowers for plantation owners and related agro-processors. Across the sector, crop yields tend to be well below agronomic potential mainly because of poor soil fertility and a lack of funds or credit to purchase modern inputs. Sale prices of farm products in remote areas tend to be below national averages because of poorer market linkages and access to market information.

Traditional livestock producers—particularly herders without secure grazing rights—fall into the category of small family farms and produce low yields because of a lack of inputs and poor market linkages. They have fewer opportunities for diversification than arable farmers and their quality of life as itinerant herders is lower, since their access to pastures and water is limited by rising population pressure on available land, particularly from the marginally less poor arable farmers.

Farm incomes of less than a dollar a day per capita—albeit in families with 10-15 members—are complemented where possible by revenue from a variety of sources, such as wage labor in the locality, family remittances from city dwellers, small-scale processing and commerce, gathering of natural forest products, and fishing.

Though small family farms have few transactions in local and livestock markets, their focus on staple products and raw commodities does not mean that they are unable or unwilling to engage in commercial production of tradable products. Given means and opportunity "subsistence" farmers will upgrade production to meet the demands of physically remote markets.[7] This willingness to diversify sources of income, often through off-farm employment, is proof of the strong economic rationale that guides family farmers. Part of that rationale requires that these farmers also avoid unnecessary risk in order to ensure the physical survival of numerous family members—especially the very young and the elderly. Thus, under severely limited agronomic and economic conditions the farmers use traditional crop and livestock husbandry practices that provide reliable food crop outcomes for limited cash expenditure. Most of the region's estimated 140 million rural poor use these low-input, low-output practices. Yet, given the right technological and institutional environment, family farmers are capable of much greater involvement in a commercial economy and higher levels of economic growth, so long as doing so does not put their ability to meet basic needs at risk.

Evidence from West Africa indicates that small family farms—producers of both cash crops and staples—have developed and prospered over the last 30-40 years despite periodic drought, switches in policy, devaluations, and cutbacks in state support.[8] Their food production has kept pace with population growth; their exports of key commodities, such as cotton and cocoa, have increased; and despite a reduction in transhumance and extensive grazing, they have maintained their livestock numbers thanks to greater use of mixed farming practices, especially in southernmost areas of the Sahelian countries. In response to urban demand, family farms have also shifted their cropping patterns to a more diverse range of commodities, from basic grains to maize, cowpeas, sesame, and market gardening. The widely experienced trough in agricultural productivity of the late 1970s to the mid-1980s was

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[7] For example, Kenyan farmers produced Asian vegetables for the United Kingdom in the 1970s, Sahelian herders traditonally exported livestock to coastal countries, Mali's farmers produced green bean for Rungis market in Paris throughout the 1980s and 1990s

[8] A recent OECD study of West African concluded that agriculture in five West African countries (Ghana, Côte d'Ivoire, Nigeria, Niger, Senegal, Mali and Burkina Faso) had positive growth between 1970 and 2000.

corrected by changes in government policy, such as liberalization of commodities markets and abandonment of price controls on basic grains. Equally important, tight controls over choice of crops within state-managed irrigation districts have been lifted. Farmers within such schemes (e.g., the Office du Niger in Mali) are now able to take full advantage of new markets, particularly for higher value crops such as fruit and vegetables, as well as intensifying production of staple grains such as rice. Where they have received consistent support, such as in Mali's cotton zone, farmers have demonstrated great capacity to increase output and yields. Such support usually consists of technical assistance, credit, access to inputs, or marketing. Exhibit 2- 1 shows how rich the same region is in agricultural resources and its potential to develop a more prosperous and commercially active small farm sector.

Exhibit 2-1
Potential for Intensification in West Africa

Less densely populated than areas nearer the coast, the Guinea savannas still have land that is very lightly used, particularly at a distance from the roads. Easily accessible land is used largely for annual crops, generally with low external inputs and producing low yields. Crops include maize and sorghum; millets in the northern part; cotton, cassava, soybean and cowpea; yam near the southern border; and wetland rice in parts of the river plains and valleys. Homesteads often have some vegetables and fruits. Cattle, mainly N'Dama, are held on many farms for draught or for milk but are less common near the southern border because of the tsetse threat. Small livestock is often held in the homesteads. Manure is used to maintain the productivity of the homestead garden, and some manure may be applied on the nearest fields as well. Some farms have draught power, mainly oxen, some of the largest farms have a tractor, but many farmers cultivate their land with hoes, so the extent of their cultivated land is severely limited. The household usually consumes a large part of the farm produce; some is sold at harvest time.

The opportunities and development interventions with the greatest effect on poverty, productivity, and sustainability of farming and household systems in the Guinea Savannas focus on intensifying mixed crop-livestock farming systems. Intensification includes localized irrigation; improved services to the pastoral/agro-pastoral system; improved crop-livestock integration (draft animals, feed from cover crops and crop by-products, manure from intensive livestock production); diversification through crop introduction and rotations; promoting local post-harvest value-adding enterprises; and improved infrastructure, services, and institutions that serve the region's people and enterprises.

SOURCE: Farming Systems and Poverty, FAO, 2002. Case Study of the West African Savannas.

COMMERCIAL FARMS

Commercial farming for profit is less common in SSA, but with larger farm size—from ten to several hundred or even thousands of hectares—its contribution to the rural economy and national food supply is significant, particularly in Eastern and Southern Africa, where white farmers were well established before the end of colonial rule. Commercial farms'

specialization by crop or livestock species and greater use of modern inputs and techniques—thanks to access to bank financing—leads to much higher physical yields than family farms. With their ability to market products beyond the immediate vicinity of the farm and achieve better unit prices than smallholders, commercial farmers are financially sustainable without recourse to off-farm income. Even those with smaller farms are upwardly mobile and belong to the entrepreneurial class. It is within this sector that high-value crops for export (e.g., fruit, specialist vegetables, ornamentals) are commonly produced.

Plantations fall into the category of commercial farming. Most plantation crops, such as tea, coffee, cocoa, bananas, oil palm and rubber, were established during the colonial period. Despite declining output prices and a global trend toward oversupply, plantations still play a central role in the agricultural economies of many countries, employing rural populations and attracting foreign currency revenue. Employment of the rural population within the plantation's domain is divided between direct hire by the plantations or the processing plants attached to them, and the farms of smallholders who have contracted with the plantations to supply unprocessed product. These smallholders and other contract farmers often benefit from technical assistance and input credit, but their product yield and quality can be inferior to that of plantations, so their prices tend be below average, leading to precarious conditions for some farmers.

Types of Crops

TRADITIONAL COMMODITY CROPS

Long hampered by adverse market conditions, producers of traditional commodity crops still have potential for development given the right opportunities. Some crops lend themselves more to smallholder production. For example, annual crops such as cotton and tobacco may be more appropriate for small family farms than tree crops, such as rubber and oil palm, which are more appropriate for plantations. Tea, cocoa, and coffee are equally well-suited to both, especially tea and coffee, which have high labor requirements at harvest time. Cocoa production in West Africa, once an estate activity, has long been dominated by small growers. Tea remains an estate crop in Malawi but the few elite operations are vastly outnumbered by 7,000 or more smallholders producing tea on average plots of 0.4 hectares, earning net annual income of $100 per farm. Because commodity crops are also essentially smallholder crops, development assistance in the commodity sector can have a significant impact on poverty.

A recent study[9] of Malawi agriculture shows that small farmers benefit from producing traditional export commodities like tea, cotton, and tobacco. Farmers that grow such crops are

[9] Integrated Framework. 2003. Malawi, Diagnostic Trade Integration Study. March 28.

substantially better off than those who grow none at all. They have much bigger farms than those that grow just staple food crops: not only do they benefit from the cash income but they also grow more food crops, since more than a third of their land is put to maize cultivation. They generate a substantial portion of their income from sales of agricultural crops. Moreover, while export crop ("cash crop") farmers rely less on agricultural wage income and have larger households and heavier dependency ratios, their per capita income is substantially higher than incomes of other farmers and of those who grow no cash crops at all.

NON-TRADITIONAL EXPORT PRODUCTS

The region's commercial farms and agro-processors have established a major industry in exporting non-traditional agricultural products, such as fruits and vegetables, to Europe's tightly controlled food markets. Their success shows the strong potential for economic growth in the agricultural sector and builds on a long tradition of agricultural exports.

South Africa's Outspan led the way in citrus in the 1960s, followed by Cape grapes and top fruit, and more recently wines. Kenya has excelled in fresh and prepacked vegetables since the 1970s and is now a world class exporter of cut flowers, with Uganda, Zimbabwe, and Tanzania following. In West Africa, Cote d'Ivoire and Cameroon dominate banana exports; Ghana is progressing fast in pineapple production while Mali, Burkina, and Senegal export mainly off-season green beans.

Such development is due largely to privately owned commercial farms making the investments necessary to to supply distant and complex markets with commercial deliveries that meet strict specifications while facing strong international competition. These farms have invested in land, irrigation systems, machinery and equipment, modern technology and inputs for production and packaging, packhouses, cold storage and transport facilities, business linkages, and marketing arrangements. Few businesses involved in production for export have drawn on national and international financing to build their businesses. The number of suppliers, however, can be considerable, because of the prevalence of outgrowers. Jaffee (1995) estimates that 13-16 thousand smallholders were growing fresh produce for export in Kenya in the 1980s. They accounted for 40-65 percent of the supplies of French beans, Asian vegetables, mango, avocado, and passion fruit for export. By 1990, a single scheme had 24,000 contracted smallholder farmers growing French beans and other vegetables.

Until 1974 Del Monte relied on smallholders for its pineapple processing operation in Kenya. Cote d'Ivoire's banana export industry sector employed 7,000 smallholders during the rapid growth of the 1980s and 1990s. At present, fierce global competition and falling margins have led to vertical integration and the introduction of high quality specifications involving considerable local value-adding through the use of pre-labeled packs. Over a period of 10 years, the industry has shed the entire smallholder sector, which has reverted to cash crop production for the local market. Only 40 producer-exporters remain, and two multinational

giants dominate production: Compagnie Fruitière, linked to Dole, and Chiquita. Nevertheless, 25,000 people are employed in the industry as hired labor, production is higher at 220,000 tons annually, and market access is more secure thanks to quality improvement and enhanced market linkages.

Conclusions

As a precursor of general economic growth, agricultural growth is the most effective way to reduce poverty in SSA. Small family farms producing food staples, local cash crops, internationally traded commodities, and non-traditional agricultural exports in SSA have the most to contribute to poverty reduction through increased trade on domestic, regional, and international markets. At present, even subsistence farmers produce tradable goods for national, regional, and global markets, though individual volumes are low and farmer-market linkages are weak or absent. The region's farms have significant untapped potential for sustaining much higher physical and financial yields. To encourage intensification, especially among small farmers, better production technology and market linkages must be made available. At the same time, care must be taken to avoid damage to the environment, which is often vulnerable to acute population pressure. Development assistance must focus on increasing the proportion of tradable goods generated by small farmers. Increased domestic and external trade generated by more market-oriented production would also benefit producers of non-tradables by increasing on-farm employment and income and food consumption.

3. Trade and Agriculture Trends in Sub-Saharan Africa

In this section we examine trends in SSA's trade in agricultural products in domestic, regional, and global markets in order to identify opportunities for increasing productivity, profitability, and competitiveness through improved market access and to identify related policy issues.

Domestic and Regional Markets

Rapid growth in urban populations through natural increase and migration, monetized economies, and changes in consumption patterns due to urban lifestyles characterize SSA's domestic and regional markets. These characteristics are globally influenced by better communications and entertainment links, leading to increasing adoption of urban dietary patterns and greater consumption of poultry, dairy products, fresh fruit and vegetables, and processed foods and beverages (e.g., flours, pastas, sauces, canned goods, juices, soft drinks). These markets therefore offer rural producers opportunities for immediate economic growth through trade.

South Africa, the powerhouse of southern African economies, trades heavily in agricultural goods, particularly with Malawi, Mozambique, and Zambia**.** While the region's agricultural exports have grown rapidly, especially since 1990, agricultural imports have grown even faster. But South Africa's total exports and imports have been growing even faster (Table 3-1).

These changes in South Africa's agricultural trade patterns provide valuable commercial opportunities for neighboring countries, given that South Africa's exports of processed foods have been expanding rapidly and its imports of agricultural goods include more and more non-traditional imports. South Africa has become a base in which agricultural goods are processed into food products that are exported to the rest of southern Africa, and this trade has become an increasingly important part of the country's agricultural trade. At least some of

this trade is linked to the greater penetration of South Africa's retail chains into the southern African market, and also into West Africa, Ghana and Nigeria in particular.[10]

Table 3-1
Trends in South Africa's Agricultural Exports, 1980-1999

	1980	1990	2000
EXPORTS			
Total SA exports (Rm)	19, 915.4	60, 770.0	253, 809.0
Total agricultural exports (Rm)	2, 052.5	5, 289.8	15, 819.0
Agricultural exports as % of total exports	10.3	8.7	6.2
IMPORTS			
Total SA imports (Rm)	14, 381.3	44, 141.5	227, 918.0
Agricultural imports (Rm)	369.2	2, 203.3	9,643,7.0
Agricultural imports/total imports (%)	2.6	5.0	4.2
Exports + imports/Total production (%)	34.5	34.5	57.5

SOURCE: Nick Vink, Norma Tregurtha, and Johann Kirsten. 2002. South Africa's Changing Agricultural, Food and Beverage Imports: Implications for SADC Suppliers, A Report to the World Bank. Universities of Pretoria and Stellenbosch. March.

In addition to major changes at work in cross-border southern African trade, food markets in South Africa itself are changing radically and may presage similar changes throughout the subregion. Competing supermarket chains in middle class and low-income areas, urban and peri-urban, are emerging, introducing an as-yet unquantified effect on food producers. We can safely predict that product grades and standards will improve, following those practiced in developed countries. This will be especially relevant for livestock products and horticultural perishables because the quality of meat, dairy, fresh fruits, and vegetables most directly influences shoppers' choice of store. The introduction of extended payment terms for suppliers (30 days after delivery) enforced by large-scale buyers will favor larger, more organized producers that have access to bank credit (Exhibit 3-1).

While South Africa is a hub for economic growth in southern Africa, traditional cross-border trade in food staples, livestock, and rural raw materials continues across the continent. This trade demonstrates the close integration of African national markets, which often goes unnoticed because of weak reporting capacity and the dominance of informal trade. For example, Uganda maintains a significant export trade in beans and maize into neighboring

[10] The broad impact of supermarket growth in SSA on food consumption and supply and deserves more attention from researchers and policymakers. Urban consumers and large and small producers of raw or processed products will all feel the effects of supermarket growth.

Kenya, Rwanda, and Burundi (viz. www.ugandaidea.org). West African regional trade[11] is diversified and expanding to include products such as

- Onions (violette de Galmi), which are exported from Niger to coastal countries;
- Shallots, which are exported from Segou and Bandiagara/Bankasse in Mali to Burkina Faso;
- Potatoes, which are exported from Sikasso in Mali to Northern Cote d'Ivoire;
- Mangoes from Burkina and Mali, which feed the Cote d'Ivoire export trade;
- Pigeon peas from Niger and Burkina, which are exported throughout the region;
- Livestock shipped by trek and by truck throughout the region;
- Small grains and increasingly maize, which are traded throughout the region;
- Bananas and pineapples from coastal countries, especially Cote d'Ivoire and Ghana, which are exported to hinterland countries; and
- Mangoes and tomatoes from southern regions, which are shipped to drier and more isolated northern areas.

Exhibit 3-1
The Rise of Supermarkets in Africa

The rise of supermarkets in Africa since the mid-1990s is transforming the food retail sector. Supermarkets have spread fast in southern and eastern Africa, already proliferating beyond middle class big-city markets into smaller towns and poorer areas. Supplying supermarkets presents big opportunities and big challenges for producers. Supermarket procurement systems involve purchase consolidation, shift to specialized wholesalers, and tough private quality and safety standards. To meet these requirements, producers have to make investments and adopt new practices. That is hardest for small producers, who thus risk exclusion from dynamic urban markets increasingly dominated by supermarkets. There is an urgent need for development programs and policies to assist them in adopting the new practices demanded by supermarket procurement systems.

SOURCE: *Dave D. Weatherspoon and Thomas Reardon. 2003. The Rise of Supermarkets in Africa: Implications for Agrifood Systems and the Rural Poor.* Development Policy Review. *May 21 (3).*

Such increased regional trade not only gives rise to commercial opportunities but also has secondary consequences that help make economic growth sustainable, such as

- Stronger trade associations with close producer linkages that are better able to develop viable long-term commodity strategies and dialogue with government and regional bodies on trade issues;
- Improved capacity along the value chain to adapt to market requirements and maintain market access in a dynamic trading environment;

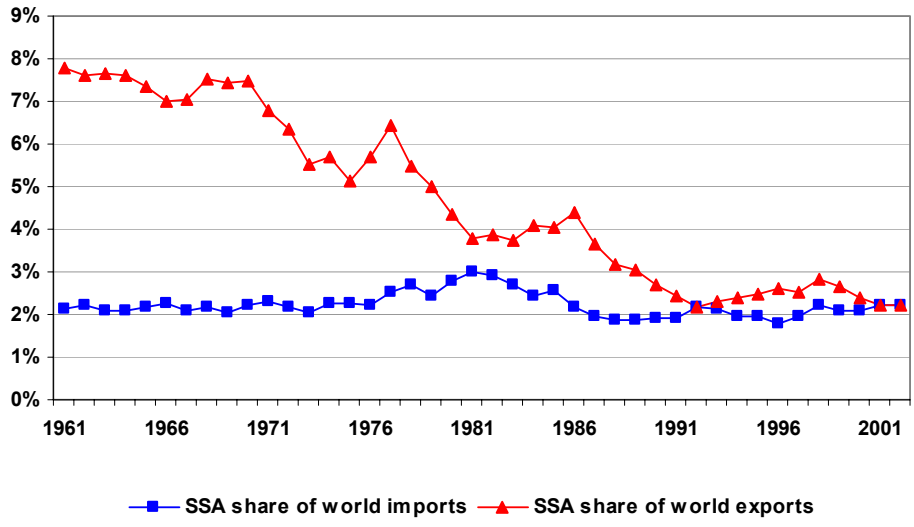
[11] Lambert, A.M. 2003. The Role of Agricultural Market Information Systems, Trader Organizations and Regional Trade. Presentation to IFDC. Alabama. November.

- Stronger capacity among national producers and traders to supply new and more distant markets effectively, including global markets;
- Advanced market information systems for inputs and outputs that enable better price-discovery and market-oriented business decisions and anticipation of market conditions and that reduce production and transaction risks; and
- Improved logistics and better border crossing and port services, which in turn increases efficiency and capacity for global trade.

Global Markets

Africa's share of world agricultural exports has declined dramatically over recent decades (Figure 3-1). This decline is due principally to the downward trend in prices of traditional commodity market staples, such as coffee, tea, cocoa, cotton, and rubber. It is therefore unlikely that Africa will experience vigorous growth in these exports. But they will continue to be the mainstays of many rural economies, especially if modernization and rationalization policies are implemented.[12] Fresh growth for African agriculture, as various recent studies have demonstrated conclusively, will come from non-traditional agricultural exports.[13]

Figure 3-1
Sub-Saharan Africa's Declining Share of World Agricultural Trade



SOURCE: *FAOStat Data, 2004. http://faostat.fao.org*

[12] Such policies have been outlined for Malawi tea; see Exhibit 4-1 in this paper.
[13] See S. Jaffee's "The many faces of success: The development of Kenyan horticultural exports. " in Jaffee, S. and J. Morton (eds.) *Marketing Africa's High-Value Foods.* ,The World Bank Washington, D.C., 1995; Lambert, A.M.: *Non traditional exports from SubSaharan Africa*, World Bank, 2002; Gabre-Madhin, Eleni and Minot, Nicholas *Successes And Challenges For Promoting African Horticultural Exports*, International Food Policy Research Institute, Washington, D.C., 2003.

PERFORMANCE OF TRADITIONAL AGRICULTURAL EXPORTS

The average prices of nearly all basic foodstuffs have declined steadily from peaks reached in the mid-1990s to levels not seen for nearly two decades.[14] Tropical products, such as coffee, are experiencing their lowest prices in more than 30 years, and quotations for other beverage crops are also very low. Cotton, a staple of many rural poor in SSA, especially West Africa, has suffered extremely low prices for many years. Supply contractions since 2001, however, appear to be reversing this long-term downward trend.

For some net-food-importing countries declining prices bring balance of trade benefits, but the negative effect of falling export earnings probably outweighs these. Forty-three countries, concentrated in SSA and Latin America and the Caribbean, earn more than 20 percent of their merchandise export revenue and more than 50 percent of their agricultural export revenue from just one agricultural commodity. Declining real prices often undermine food security in these countries.

The principal cause of falling prices is increased supply resulting from improved production technology. The lack of coordinated approaches to commodity development—for example Vietnam's expanded coffee production—has also weakened prices. Some analysts also believe that domestic agricultural support policies for cotton and sugar in economically advanced countries also contribute to oversupply.

Market Access

Trade in agricultural products generally—North-South and South-South—faces higher tariffs than other products, particularly for processed items. SSA exporters therefore tend to be confined to lower value raw, unprocessed products. Relatively few producers benefit from the substantial additional returns to be gained from the added value of processing, retail packaging, and product differentiation through fair trade, organic, and other niche product forms. Moreover, support programs for domestic agriculture in developed countries such as the EU, Japan, and the United States can depress the prices of commodities that SSA exports, thus affecting farm incomes within the region (see Exhibit 3-2 for West Africa's position on cotton; other examples are EU sugar beet, wheat, beef, and dairy export subsidies.) The FAO believes that if these market distortions were removed, price levels and the long-term sustainability of SSA exporters could improve.

The failure of the September 2003 Ministerial in Cancún to achieve significant progress on agriculture reflects the intense political and economic forces at work on decision-makers. Consensus can only arise where common interests are at stake and where all parties are prepared to share the commercial costs and benefits of a settlement. Sugar, dairy, and cotton

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[14] See the FAO's Major Developments and Issues in Agricultural Commodity Markets and its Report of the Consultation on Agricultural Commodity Price Problems, both published in March 2003.

subsidies and quotas in the developed world have proven to be formidable obstacles to WTO consensus; democratically elected politicians are far more influenced by their domestic producer constituencies than the development agenda of LDC producers, regardless of the ideological case that can be made for free trade. Similarly, the governments of developing countries encounter stiff domestic opposition to removing agricultural tariffs. Nevertheless, WTO efforts to achieve consensus on all three pillars of agricultural liberalization—export competition, domestic support, and market access—are continuing under the Doha Development Round of global trade talks.

Exhibit 3-2
Importance of Cotton in West and Central African Countries

Cotton is essential to the economies of West and Central African countries (WCA). In Benin, Burkina Faso, Chad, Mali and Togo, cotton production accounts for 5–10 percent of GDP. WCA exports are dominated by cotton: around 30 percent of export earnings and more than 60 percent of earnings from agricultural exports derive from cotton. This performance is the result of substantial investment and restructuring of the cotton sector over the past two decades.

Since the early 1980s, production in WCA countries has increased fivefold, rising from 200,000 tons to almost one million tons. WCA countries are the seventh largest producer after China, the United States, India, Pakistan, Uzbekistan, and the European Union. With about 15 percent of global exports, WCA countries together are the second largest exporter after the United States, almost on par with Uzbekistan. In addition, WCA countries produce high-quality cotton and production costs are among the lowest in the world.

The expansion of cotton production has made it possible to improve the physical and social infrastructure—roads, schools, health centers—in cotton-producing regions Expanded production is also responsible for improved health in cotton-growing regions. Cotton/maize rotation, for instance, results in a better diet than simply growing cow pea plants. In addition, surveys of households in Benin, Burkina Faso, and Mali show that poverty levels fell more rapidly where cotton production had developed rapidly.

Unsurprisingly, cotton occupies a strategic position in the development policies and poverty reduction programs of WCA countries. More than 10 million people depend directly on cotton production and several millions more are indirectly affected by the problems faced by cotton producers on global markets, as well as by a suboptimal structure of production in a number of cotton-producing developing countries.

SOURCE: WTO Negotiations On Agriculture Poverty Reduction: Sectoral Initiative In Favour Of Cotton, Joint Proposal by Benin, Burkina Faso, Chad and Mali, Committee on Agriculture, Special Session, WTO, May 2003.

The U.S. Government has sought to improve Africa's access to the U.S. market through the Africa Growth and Opportunity Act. In some cases, the impact has been striking: South Africa now accounts for nearly half of the oranges imported into the U.S. market. According to Nouve and Staatz, however, the impact on SSA agricultural exports to the United States has been marginal:

> Results indicate that AGOA may have contributed to an average of $376,000 additional (quarterly) increase in agricultural export earnings for an average SSA beneficiary country. For the top 8 agricultural exporters, AGOA may have contributed an increase of over a million dollars in their quarterly agricultural exports to the United States. … none of the figures is statistically significant, thus casting doubts on the robustness of the observed positive impact of AGOA on SSA's agricultural exports …. [and] have a rather weak explanatory power.[15]

Certainly, the "newness" of AGOA and the global economic slowdown during its implementation phase, begun in May 2000, have affected its impact. But Nouve and Staatz do not mention that many products are excluded from AGOA preferences. Excluded products are in categories that face significant tariffs in the United States: meat, dairy, sugar, cocoa products, peanuts and peanut products, and tobacco.

In addition, SSA producers are not familiar with U.S. markets; lack contacts in those markets; face higher freight costs to the United States than to the more accessible West European markets; and are unfamiliar with U.S. grades, standards, and import procedures. Growth of agricultural trade between SSA and the United States, particularly in fresh produce, is also discouraged by competition from suppliers already established in the U.S. market (e.g., Latin American suppliers). Hence the prospects for dynamic growth in SSA exports to the United States are poor, while other world markets, such as the European Union, Eastern Europe and Russia, and the Middle East, may prove much more viable.

Technological advances in agro-processing are allowing simple process-based product grades to replace varied botanical or geographic categories.[16] These new grading systems tend to erode producer margins through higher costs and place additional barriers on value adding by SSA producers. For example, cotton fiber can now be more accurately tested for strength and length using high volume instrument (HVI) classification techniques. While these techniques lower costs for spinners they also lower prices for bulk suppliers, who are more likely to be among the rural poor than those who produce high-quality cotton. And now that cocoa can be milled to more exacting standards grinders can emulate higher quality products using lower grade raw material, weakening the price differential between high- and low-grade cocoas. Producers of bulk low-grade coffee cannot benefit from the high prices of niche coffees such as shade-grown, fair-trade, or organic. For producers, these new grading systems either raise the quality standards—and hence production costs—or lower the average farm gate prices. In both cases, producers must respond by becoming more productive.

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[15] Kofi Nouve and John Staatz. 2003. Has AGOA Increased Agricultural Exports from Sub-Saharan Africa to the United States? Conference paper presented at Agricultural Policy Reform and the WTO: Where are We Heading? Capri, Italy. June 23-26.

[16] Peter Gibbon. 2003. Commodities, Donors, Value-Chain Analysis and Upgrading. UNCTAD, Danish Institute for International Studies. November.

Demand-Driven Value Chains

SSA producers of traditional commodities supply international markets that are increasingly buyer-driven, reducing opportunities for suppliers to "play the market" for their own benefit. As Gibbon (2003) points out, the governance of these commodity value chains is firmly in the hands of traders and processors:

> [E]nd-user industrial concentration based on mergers and acquisitions has accelerated sharply. In coffee and cocoa, 4-5 branded processing companies jointly control 60-70% of world production. The leading cocoa processors are all integrated vertically into trading, where their joint market share is similar. Most coffee processors tend not to be integrated forward, but in this chain there has been a similar process of concentration amongst independent international traders. The GVC for cotton is much less concentrated at all its main links (production, consumption-spinning and trading) than those for most other agro-commodities, but even here the 19 companies that traded more than 200,000 tons/year in 1995 saw their share of world trade increase from 35% in that year to 39% in 2000. (18)

Hence, competition among suppliers of commodity markets from other exporting regions tends to be expressed in terms of volume not product properties.[17] The more unique and differentiated a product, the less it is a commodity. In bulk markets branding is not an issue. For competing suppliers the main issues are oversupply and falling prices. These, in turn, weaken the production base and give rise to problems with quality, and eventually even lower prices. Hence, commodity exporters turn to coordinated production policies, particularly within regions such as SSA that are anxious to promote their own internal growth without reference to regional strategies. With better understanding of how global events affect their subsectors, SSA suppliers can improve intraregional coordination and avoid some of the same oversupply problems that have been afflicting the coffee sector as new suppliers have entered the international market.

PERFORMANCE OF NON-TRADITIONAL EXPORTS

SSA has enjoyed spectacular success with non-traditional exports over the past decade. The average annual growth rate of fruits and vegetable exports from the region between 1990 and 1999 was 4.9 percent. The combined value of such exports rose from $1.07 billion in 1990 to $1.65 billion in 1999.[18] A major factor behind the growth has been the initial high returns to exporters able to meet the quality, delivery and SPS requirements of EU importers, some of whom have also invested in expanding SSA production capability. This has induced exporters of cut flowers, fresh fruit, vegetables, or herbs and spices from other regions to upgrade their production, processing, and marketing capabilities to retain or regain market share. Barriers to entry then drop as supply increases and the value chains become increasingly governed by the retail chains in importing countries. This squeezes producers' margins and increases their

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[17] Other exporting regions and their commodities include Latin America (coffee, cocoa, cotton), North Asia (cotton), the Indian subcontinent (tea), and Southeast Asia (coffee, rubber).

[18] Gabre-Madhin and Minot, IFPRI 2003.

management burden. Thus, to keep and expand its market share SSA must implement competitive practices, such as

- Conforming to evolving product standards, including ethical standards and food quality and safety criteria);
- Creating environments conducive to investment and business;
- Offering effective support services;
- Continuously improving communications and transport infrastructure; and
- Integrating smallholders into the production system.

Keeping and expanding SSA market share, while benefiting the rural poor and without exacerbating competition between SSA suppliers, will require sound policies, inspired vision, and keen commercial awareness. A coordinated approach is vital.

Studies of non-traditional agricultural exports sponsored by the Rural Development Division of the World Bank[19] stress the market entry criteria resulting from national and EU food health and safety regulations (Exhibit 3-3). Imports of fresh produce into the EU market must meet stringent criteria for appearance, organoleptic (flavor and scent) quality, uniformity within grades, freshness, physiological maturity, freedom from pests and diseases, absence of physical defects and damage, adequate packaging, and presentation. Exporters who are capable of providing a reliable supply of products meeting these criteria can become viable trading partners with wholesale and retail distributors in Europe. For SSA businesses, which operate without the efficient transport, communication, and utilities infrastructure of distant destination markets, simply meeting these criteria is a considerable accomplishment.

Exhibit 3-3

Power of Global Retailers over Agricultural Production

Twenty supermarket chains dominate the retail sectors in tropical fruits in Japan, the United States, and Europe. These chains are rapidly expanding elsewhere. They prefer to deal with a few large suppliers, impose their own certification and food safety criteria, and eliminate middlemen. This has left some smaller farmers and developing country suppliers struggling, since they do not have the capital to invest in the equipment or pay for the certifications needed by the supermarkets.

For bananas some supermarkets have gone a step further, signing contracts with single multinational suppliers, thereby excluding competition from smaller exporters. In all three major import markets multinationals already have more than 80 percent of the market. The coffee processing industry is similarly concentrated: five companies buy almost 50 percent of world coffee production each year.

SOURCE: FAO. 2003. Major Developments and Issues in Agricultural Commodity Markets. Rome. March.

[19] Lambert, 2002; Gabre-Madhin and Minot, 2003.

In the mid-1990s, the advent of certification increased market entry requirements. Non-EU suppliers of fresh agricultural produce, whether ornamental or edible, must now also comply with rigorous certification schemes. These schemes are intended to ensure not only that phytosanitary and hygiene standards are on a par with those applicable to EU farmers, but also that toxic residue levels and conditions of production (i.e., labor, social, and environmental conditions) are above reproach for each item imported. Each carton must be traceable to a certified grower. An importer of uncertified produce, or of produce that does not comply with certification standards, is held accountable for non-compliance. The end result is that a producer or producing country can be barred from supplying a market.

Food quality standards in destination markets can be expected to rise indefinitely, as increased demand for organic products clearly shows. World demand is expected to triple between 2001 and 2008, when the market is estimated to be worth about US$80 billion.[20] European consumption of organics doubled between 1997 and 2000.[21] Most SSA producers lack the resources to adopt the rigorous standards required for organic production and so cannot profit from this trend. In addition, the high "food mileage" (distance from producer to market) on SSA organic products would render them less attractive than locally grown seasonal products among consumers.

The long-term viability of investing in organic production is also in question. Better pest and soil fertility management under Eurepgap[22] protocols for conventionally grown produce is narrowing quality differences between organic and non-organic products. This could slow demand and reduce the price differential for organic products and the incentive for producers to adopt organic standards. Nevertheless, compliance requirements of increasingly "organic" production techniques will widely affect SSA's traditional and non-traditional exports.

Competition

Producers of non-traditional exports compete with each other for market share. This is especially so among off-season and tropical suppliers of the EU market, where retailers' category managers have plenty of alternatives to choose from. Chile has quickly established itself as a major supplier of temperate fruit to the developed world. Morocco took away Kenya's share of the EU zucchini squash market in the mid-1990s. Cameroon and Cote d'Ivoire have displaced the Caribbean in EU banana supply.

Madagascar still has supremacy in vanilla and Kenya has achieved phenomenal growth in the EU rose market, pulling with it Zimbabwe, Zambia, Uganda and Tanzania. But for all the high quality product and niche marketing, every success is vulnerable to equally dramatic setbacks. Aggressive marketing of Latin American bananas could reverse West Africa's

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[20] Fresh Produce Deskbook. 2002. UK.
[21] Ibid.
[22] Euro Retailer Produce Working Group (Eurep) and Good Agricultural Practice (Gap).

market lead as the EU quota system is dismantled. Kenyan avocadoes and West African mango and papaya could easily be displaced by product from Brazil, Mexico, Central America, or the Caribbean. Vanilla can be produced in a wide variety of locations in Latin America and Asia. The increasing commoditization of fruit and vegetables and the power of retailers to regulate supply according to their own priorities leaves exporters of these products with little leverage to improve their own terms of trade. Protecting SSA's ascendancy in certain areas will require

- Paying close attention to market requirements on all fronts;
- Adapting production and logistical systems rapidly to exploit profitable new opportunities or to maintain and upgrade current product lines;
- Constantly investing in higher quality and yields; and
- Integrating further into the market, either through direct investment in distribution[23] or through direct marketing agreements with category managers that supply supermarkets on an exclusive basis or, where appropriate, with the supermarkets themselves.

The nature of the global value chain for high value products also presents challenges. In the value chains for fresh fruit and vegetables and canned fruits, for example, the best sources of profit have been shifting from production to marketing, product development, and biotechnology (Table 3-2). Consequently, profit is accruing more and more to value chain agents closer to the consumer and remote from agricultural production. This reduces opportunities for higher rural returns and increases returns to higher skilled marketing and technologically intense activities. For rural producers, the trends presented in Table 3-2 mean that

- Growing capabilities (within climatic zones) have become generalized, creating intense competition and a decline in the terms of trade for growers;
- Economic rents are increasingly concentrated in intangibles, such as seed design (fresh produce) and marketing (particularly for canned goods);
- Differentiation among growers occurs less on the basis of cost and more on the basis of conformity with certain standards (e.g., relating to growing practices, phytosanitary practices); and
- The final consumer benefits from lower prices and higher quality that result from competition among retail chains and brand names for shelf space, but everyone in the value chain suffers a relative decline in profit margins.[24]

To respond effectively to these trends, SSA producers must attempt to shorten the value chain through vertical integration or move into higher-return portions of the chain

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[23] For example, Kenya's Homegrown, Chile and RSA marketing arrangements.

[24] Based on Raphael Kaplinsky's "Spreading the gains from globalisation: what can be learned from value chain analysis," IDS working paper 110, Institute of Development Studies, UK, 2000, p. 20.

Table 3-2
Trends in Sources of Profit in Two Agriculture Sectors

Steps in Value Chain	Level of Importance as Source of Profit			
	Past		Present	Future
FRESH FRUIT AND VEGETABLES				
1. Seed design and new product development	Medium	Coordination of value chain efficiency	Medium	High
2. Growing	Medium		Medium to Low	Low
3. Post-harvest processing	Medium		Medium	Medium
4. Exporting	High		Medium	Medium
5. Wholesaling and retailing	High		High	High
6. Retailing	High		High	High
CANNED DECIDUOUS FRUIT				
1. Variety development	Low		Low	Low
2. Growing	Medium (South Africa and Australia)		Medium (European and U.S. growers.)	Low
3. Post-harvest processing	Medium		Medium (European and U.S. canners.)	Low
4. Exporting	Low		Low	Low
5. Wholesaling	High		Medium	Medium
6. Retailing	High		High	Medium

4. Recommended Policy Interventions

In this section we propose poverty-reducing policy interventions that promote closer integration between SSA's agriculture sector and the domestic, regional, and global markets for rural products. We emphasize the small farms subsector, in which most African farmers work and in which poverty is widespread. We also view the continued development of all forms of commercial farming—high value and commodities, plantation mono-crops, and diversified—as central to a poverty-reduction strategy given commercial farming's contribution to economic growth through employment and foreign exchange revenue. A commercially and technologically sophisticated agricultural sector, fully integrated into global trade, will benefit the entire farming community, as it sets high management, production, processing, packaging, and marketing standards. It also attracts foreign investment, which can help encourage the international competitiveness of commercial agricultural operations.

Assist Conversion from Subsistence to Tradable Goods Agriculture

Considerable assistance will be required for poor agricultural communities to move from subsistence to commercial agriculture. As Louise Cord of the World Bank[25] points out, a major cause of rural poverty is reliance on natural resources for livelihoods. Such reliance is risky for poor households, making them vulnerable to climatic fluctuations, plant and animal disease, price volatility, and macroeconomic policy shifts (e.g., devaluation, interest rates). The resulting seasonal interruptions in incomes and food supply are incompatible with sustained commercial agriculture. Assistance for conversion should focus on infrastructure, institutional, and technological improvements.

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[25] Louise Cord. 2002. Rural Poverty. In *Agriculture, Trade, and the WTO: Creating a Trading Environment for Development*. World Bank.

INFRASTRUCTURE DEVELOPMENT

Development of roads, water, energy, and communications infrastructure is probably the single most effective way to improve the productive capacity of poor rural communities and reduce livelihood vulnerabilities. Infrastructure improvements stimulate economic growth, help build poor people's capabilities, and strengthen the involvement of the poor in markets and social and political processes. In addition, infrastructure services can be a tool for improving governance by engendering participatory decision-making at the local level and reducing vulnerability to risk. According to Cord, the benefits of infrastructure are numerous:

- ***Economic opportunity***. Essential infrastructure increases agricultural and non-farm opportunities in rural areas by increasing agricultural productivity, cutting costs of inputs and outputs, and encouraging greater use of efficiency-generating technologies. Transport and telecommunication services promote communication and information flow between communities and with urban centers, fixing information asymmetries and linking farmers to markets for goods and input supply as well as agricultural extension advice.
- ***Capabilities.*** Safe water and sanitation improve general health by reducing the incidence of diarrhea-related sicknesses and death; convenient access to water and energy improves efficiency; and better roads promote access to more and better education.
- ***Social inclusion***. Better communications provide access and influence over political and local decision making. Electrification broadens access to electronic communication and radio. Well-delivered, quality infrastructure attracts better teachers and agriculture extension agents and stimulates agro-industrial development.
- ***Enhancing security and risk management***. High quality essential infrastructure reduces the vulnerability of the poor to disasters and shock. Good drainage, a well maintained network of roads, and telecommunications facilitate relief and food redistribution and help alleviate the effects of flooding, drought, famine, and earthquakes. Good transport facilities help stabilize food prices and through arbitrage ensure that poor sellers receive fair prices. Because of their employment potential, infrastructure works programs can be important components of crisis mitigation packages during times of economic shock.

INSTITUTIONAL DEVELOPMENT

Infrastructure development should be accompanied by development of an institutional environment for small-scale commercial agriculture in poor rural areas. In such areas all commercial farming is constrained by high transaction costs in financial, input, and output markets. These costs are high because of the low density and high risk of transactions. Market dysfunction depresses economic activity and leads to cycles of underdevelopment. Support by the state and other development agencies for institutional development, particularly in the smallholder sector, could be very helpful. Such support should focus on domestic capital markets, market information systems, property rights, and rights enforcement.

At the same time, state involvement in the production and marketing of agricultural produce hampers sector development and should end. State intervention in agriculture persists throughout the region (e.g., with cotton in Mali, cocoa marketing in Ghana, fertilizer distribution in Nigeria).

Domestic capital markets serving the rural sector should be strengthened to increase access to capital, enhance business skills, and encourage risk-taking. Most agencies have abandoned large donor-funded loans channeled through rural credit banks because they encourage credit delinquency, compete with commercial private banking, and are usually unsustainable. But many schemes are helping farmers gain access to working capital loans for the purchase of critical inputs (e.g., seeds, fertilizer, crop protection products, livestock feed, pharmaceuticals) reimbursable from the sale of the outputs. These schemes are particularly helpful when farmers organize into groups with mutual responsibilities. Drawing on Grameen-type experiences,[26] these schemes could leverage the productive potential of small farms when linked to secure markets for their products (e.g., Rural Sector Enhancement Project, IITA/USAID, Nigeria).

Loan guarantees linked to business services development for market-led production systems can provide larger agribusiness enterprises with the means to develop productive capacity in commercial farming (e.g., the experience of the Development Credit Authority of USAID). Donors bear limited risk and success with such integrated packages may encourage commercial banks to venture more frequently into agricultural credit.

Timely, accurate market information is a key development tool, even for areas that lack a clear commercial vocation. Rural assembly markets are the most common destination of smallholders' crops, yet many farmers do not know the prices until they arrive at the market, having already incurred transportation costs. Urban market prices are seldom disseminated soon enough to be useful. Regional market prices are even less transparent, yet small farm harvests make up the bulk of cross-border transactions in staple grains and legumes. Livestock producers in hinterland countries are ignorant of market conditions in distant destinations. Post-harvest losses, physical and financial, resulting from poor storage and sales decisions are often estimated to be 30 percent of production. Better marketing systems could dramatically cut these losses and are a fertile area for development using a private sector approach and cost recovery mechanisms.

Establishment of clear property ownership and enforcement of property rights could also improve the environment for commercial farming. For example, the lack of clear use and property rights has obscured itinerant herders' access rights for grazing and has sometimes led to violent conflict between farmers and herders. The general weakness of property rights for rural poor in SSA has stymied agricultural production by discouraging investment,

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[26] World Bank. 1994. The Grameen Bank Experience, HRO Dissemination Notes. *Human Resources Development and Operations Policy,* Number 23. February.

complicating succession rights, preventing access to credit, blocking consolidation of land parcels into optimally sized holdings, and subordinating the decisions of individual farmers to the rulings of community leaders, many of whom follow traditional criteria far removed from commercial realities.

Most SSA countries include on their development agenda clarification of community rights to land, the role of individual use and property rights in communities, and promotion of registries of conventional freehold. But progress in land titling is slow, especially where land has been abundant until recently and customary rights went unquestioned. It is these areas that now hold the greatest potential for commercial farming (e.g., the moist savannas of West Africa).

TECHNOLOGY TRANSFER

The transition from subsistence to commercial agriculture requires technological change and corollary improvements in agricultural and livestock extension services. Given the parlous state of most agricultural ministries in Africa, attention over the past decade has shifted to private sector provision of extension services, albeit using public funds to some extent. But the public–private mix of service delivery is less important than the services themselves. The impact of extension services is notoriously erratic, depending very much on the medium and how well the services are tailored to farmers' needs.

A recent study on agricultural extension in Africa and its potential to reduce poverty[27] notes that the rural poor face exceptionally high transaction costs and considerable risks in pursuing production and trade opportunities. In addition, many rural poor are more in need of safety nets than production-focused interventions. Thus,

- Extension services must address vulnerability as well as productivity and offer new options from which poor households can choose according to their circumstances.
- Extension strategies must take into account the varying levels of market integration among the poor because these levels determine the degree to which the poor can take advantage of market opportunities.
- Extension strategies need to distinguish between highly and weakly integrated areas and acknowledge the need to either support production strategies or provide broader-based livelihood services.
- Service providers should offer a wider range of services, some supporting production and others supporting wider livelihood, depending on the area's market integration, degree of vulnerability, and production prospects.

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[27] Robert Chapman and Robert Tripp. 2003. Changing Incentives for Agricultural Extension – A Review of Privatised Extension in Practice. Agricultural Research & Extension Network, Network Paper No. 132, July.

For Malawi's tea sector, which has established access to global markets, Integrated Framework studies propose specific interventions that can profoundly improve sector productivity and workforce welfare (Exhibit 4-1). Many of the SSA's agricultural export sectors have similar potential for trade and poverty reduction. Sector development plans could become effective tools in reducing poverty across the region while creating sustainable linkages into regional and global markets. Such plans require detailed development strategies, clearly identified beneficiaries and institutional stakeholders, and full mobilization of the necessary financial and human resources.

Exhibit 4-1

The Need for Integrated Support Packages: Case Study of Malawi

The diversity of support measures for market-led agricultural growth and poverty reduction is illustrated by the IF study of Malawi Tea. The study identifies steps that can regenerate the tea sector, a vital export industry that affects more than 7,000 poor smallholder families and many more estate workers. For example:

Improve Productive Infrastructure

- Invest in irrigation for as little as $1,500 per hectare to quickly improve tea quality and field and factory yield.
- Invest $2.5 –3.5 million in factory refurbishment to improve tea quality and reduce operating costs to.achieve at least a 10 percent price premium.

Improve Technology and Extension

- Increase replanting with new clonal varieties to achieve long-term sector viability through increased output per hectare and better quality, resulting in price premiums of about 25 percent. High cost ($3000/ha); returns are.

More Effective Market Linkages

- Stimulate development of smallholder tea by encouraging estates to buy, collect, and pay cash for smallholder tea; introduce a premium for sorting poly-clonal from seedling green leaf; and improve access to fertilizer loans and technical support through the estates.
- Improve compliance with ethical trading and other buyer/consumer initiatives through technical assistance to meet the requisite standards and to help to make required transitions.

Improve Institutional Environment

- Develop the role and function of the merged Smallholder Tea Authority/ Malawi Tea Company.
- Strengthen the tea lobby's capacity to influence public policy in proportion to its contribution to export earnings, taxes, employment, and social welfare.

The region's commercial farmers need to strengthen their technical and managerial skills, which implies long-term investment in education and training at secondary and tertiary levels. The skills of field labor and administrative staff must also be brought up to international standards, particularly as industry quality protocols become more rigorous and far-reaching. Apart from the inherent benefits of a more productive local workforce, the

development or adaptation of indigenous agricultural technology helps reduce the financial and administrative costs of foreign inputs and management skills.

Support Individual Poor Farmers and Laborers Directly

Alleviating acute poverty among rural populations whose natural resources and productive infrastructure have been insufficient for even modest growth may require directly supporting poor farmers and laborers while more long-term support, such as infrastructure development, is initiated. Direct support may constitute humanitarian assistance but it goes beyond emergency aid if it is linked to increased productive capability and the development of market-led agriculture. Removing the most binding constraints of extreme poverty and providing initial assistance in agricultural development fosters the emergence of more sustainable growth and enhances trade on local and domestic markets, and even international markets.

For example, in Malawi, a country with an established but debilitated commercial sector, half a million households require a package of basic services to ensure subsistence before they can progress to production of tradable surpluses. In Nigeria, the FAO's Special Programme for Food Security provides technical assistance packages—including input credit in kind—to poor farmers in selected villages. These packages are intended to create a foundation for sustainable commercial farming by enabling production of marketable products, such as poultry and vegetables, and development of local market linkages.

If focused on market linkages, such assistance can mitigate acute poverty while nurturing small rural enterprises. Assistance should be linked to infrastructure development and to the provision of education, health, and judicial services. By providing the most vulnerable with sustainable sources of income and food, such assistance can be important in meeting the basic conditions for growth.

Support Agribusiness

USAID has long supported private-sector-led agricultural development. The performance reviews of the past decade draw some practical conclusions that are relevant here:

- Agribusiness programs should focus on improving a country's policy, regulatory, and institutional environment, while assistance to individual enterprises should be secondary.
- USAID missions should formulate realistic, coherent, and flexible long-term strategies before initiating agribusiness interventions, and agribusiness development programs should follow the private sector's lead, instead of taking the lead.

- USAID should continue to design interventions for small and medium-size firms (focusing on transfer of production technology and developing export market links).
- Contract-farming arrangements should continue to be explored for smallholder linkages to poverty reduction.
- Interventions should support cooperatives only when they demonstrate the will and ability to conform to the discipline of the marketplace.
- Sunset clauses (i.e., a finite term on assistance) should be built into all agribusiness assistance.

Support High-performing Non-traditional Exports

Donor or public sector support for high performing non-traditional exports needs to take account of the prevailing market and production conditions under which exporters will operate. Recent World Bank studies on non-traditional exports by Lambert (2002) and IFPRI (2003) provide useful guidance. Both studies identify a similar set of basic economic conditions that exporting countries must meet if significant sustainable development is to take place. First and foremost, profitable market opportunities must exist in accessible hard-currency markets. For SSA, this is likely to be the EU, though Eastern Europe and the Middle East also have potential. The following are other institutional and technical prerequisites for sustainable development of non-traditional exports:

- Institutional Factors
  - A cadre of skilled agricultural producers with secure access to land for commercial production.
  - Easily trainable, low-cost field labor and administrative staff.
  - A liberal, cost-effective import and export regime for inputs and outputs with streamlined and transparent procedures.
  - Competitively priced finance for working and investment capital.
  - A favorable macroeconomic, fiscal, and regulatory environment.
  - Industry development driven by private sector criteria, not public sector priorities.
  - Effective trade associations to protect and promote the industry's interests.
  - Close links between the industry and target markets and ability to adapt quickly to the changing needs of target markets, including increasingly rigorous certification.
  - Flexible and adaptive forms of vertical coordination (e.g., contract farming, farmer credit groups, marketing cooperatives, or farmer associations) and effective contract enforcement.

- Technical Factors
  - — Favorable growing conditions for cost-effective production of off-season or exotic vegetables, fruits, or flowers.
  - — A location and logistical services that allow cost-effective access to profitable markets.
  - — Adequate internal transportation infrastructure for inputs (equipment, fuel, electricity, seed and vegetative materials, agrochemicals, packaging materials) and outputs.
  - — A communications infrastructure that permits development of market knowledge and contacts.
  - — Secure access to up-to-date production and processing technology and inputs.

Increase Market Leverage, Improve Terms of Global Trade

Improved market and production infrastructure, more efficient production techniques, and better management will all boost the competitiveness of SSA agriculture. But more needs to be done to improve the region's terms of trade. These terms are deteriorating under pressures from oversupply exacerbated by domestic support for developed country agriculture (e.g., cotton, sugar, dairy), technological developments in the processing industry that decrease producer margins for bulk commodities (e.g., cocoa, cotton), and by a trend toward high-quality niche products that have higher cost profiles and major marketing components (e.g., coffee).

Producer countries can respond to these challenges in several ways. They may, for example, cooperate in global fora to strengthen negotiating positions and facilitate consensus on topics of mutual concern. To do this they may require technical assistance to build capacity in trade policy and to identify strategic interests and potential allies, foreign as well as domestic. Such assistance might encompass diverse topics such as

- Training in trade negotiations,
- Institutional strengthening of negotiating teams,
- Trade-related regulations and disciplines,
- Intergovernmental coordination,
- Consultation with and participation of civil society and the private sector,
- Statistics and information,
- Impact of free trade on public finance through lower central government revenues from tariffs, and
- Publication and transparency of laws and regulations.

Capacity building prior to negotiations within the context of supranational trade bodies, including WAEMU, ECOWAS, SADC and COMESA, as well as WTO, can help SSA countries

prepare viable negotiating positions that further the case of producer countries and lead to sustainable regional initiatives.

Producers' market leverage can also be increased through producer associations that are often critical to a number of export industries. Cote d'Ivoire's OCAB has been instrumental in developing logistical and marketing infrastructure and capabilities, while Kenya's FPEAK initiated export industry coordination that allowed Kenya to adopt standards of agricultural practice that meet EU norms. Strengthening such associations in less developed industries facilitates coordination of production and distribution, adoption of codes of practice and quality standards, input acquisition, technological development, monitoring and assessment of performance, public-private sector dialogue, and institutional framework development.

Lowering regional barriers to intraregional agricultural trade would also do much for market-led agriculture. Experience in West Africa, with its historic trade links between coast and hinterland and the trans-Sahara trade that dates back millennia, shows how resilient such trade is in the face of the many barriers that national institutions and individuals in positions of authority (e.g., customs, port and border officials, police, forestry inspectors, army personnel) habitually erect.

The region's four major regional bodies—WAEMU, ECOWAS, SADC, and COMESA—all want to see internal trade levies removed and common external tariffs established, but progress has been uneven. The following statement from the WAEMU annual report 2003 speaks volumes:

> One has to deplore, in the context of the circulation of goods, the persistence of non tariff barriers such as technical norms imposed on community products and the multiplicity of obstacles along the Union's transport corridors. Note has also been taken of the existence of tariff barriers such as certain levies only on community products imported from member states of the Union, while equivalent locally produced goods are exempt.

West African Ambassadors to Ghana in Accra in May 2003 provided a statement supporting this view.[28] They cited as the main constraints on cross-border trade excessive bureaucracy and corruption.

Finally, trade facilitation can also boost trade by cutting customs clearance delays and transportation and transaction costs. Both ECOWAS and SADC have developed proposals to cut red tape by improving documentation (adopting single administrative documents for cross-border trade), harmonizing customs procedures, training customs officials, and automating data management.

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[28] Internal report of the West Africa Trade Hub.

Assist with Analysis and Response to Changing Regional and Global Market Conditions

Key figures in SSA national governments and in donor organizations have a sophisticated understanding of trade development and of what pro-poor, trade-oriented agricultural development requires. Bridging the gap between this understanding and the ability to implement a development agenda requires (1) building awareness among the general public, institutional and political decision makers, and the international community of the potential for trade to reduce poverty; and (2) empirical evidence to support development solutions so that development agencies, policymakers, and entrepreneurs can adopt those solutions with confidence.

Empirical evidence, for example, is needed to understand the impact of agricultural growth and change on employment. Using incomplete but sound household data, an OECD study of family farms in West Africa draws hopeful conclusions that contrast with the gloomy scenarios painted by national indicators of poverty and agricultural growth, indicators which are grounded in the terrible reality of grinding poverty suffered by millions of farmers and farm workers. Dynamic development in non-traditional agricultural exports and encouraging signs of traditional commodity export growth from around the continent[29] seem to indicate a significant potential for employment that would require only modest investment in productive capacity and trade capacity building. This would be more manageable than overhauling SSA's internal trade environment and major portions of the multinational system, as some analyses recommend.

The costs of export trade development and the effect of such development on poverty also need to be quantified. About 35,000 workers are employed in banana and pineapple production in Cote d'Ivoire, but the number employed in banana production in Cameroon is unknown. Changes likely to result under increased global competition for the EU market are not quantified. The number employed, directly and indirectly, in cut flower and fresh vegetable production in Kenya, Tanzania, Zambia, Zimbabwe, and Uganda is unknown, as is the likely impact of retail category managers' constant search for alternative sources of supply. In addition, the role for smallholders in internationally traded products needs to be better understood. Smallholders in the Ivory Coast and Cameroon were forced out of banana production because only vertically integrated large-scale plantations could survive recent price levels. Unlimited smallholder production of cut flowers in Colombia, unsupported by outgrower contracts, led to oversupply and falling prices.[30] Kenya's pre-packed vegetable industry, which until now has operated under similar arrangements, could suffer a similar fate. Policymakers need to understand the structural changes that underlie current trends.

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[29] Bananas, pineapples, mangoes, and beans from West Africa, cut flowers and pre-packed vegetables from East and Southern Africa, deciduous fruits, citrus and wines from South Africa.

[30] Fairbanks, Michael and Stacey Lindsay. 1997. *Plowing the Sea, Nurturing the Hidden Sources of Growth in the Developing World*. Harvard Business School Press.

Donors should recognize the untapped potential of SSA's internal and regional markets. Policymakers should support further analysis, on a country-by-country basis, of measures to improve internal and regional trade in agricultural commodities. Such trade can provide a firm base for global trading as the pattern of development of U.S. and European agriculture clearly shows.[31]

Some requirements for competitiveness in the global trading environment include

- Strong trade associations with close producer linkages;
- Improved capacity along the value chain to adapt to market requirements;
- Trust between traders and producers;
- Market information systems for inputs and outputs;
- Price-discovery skills in remote markets;
- Market-oriented business decisions;
- Lobbying ability among producers and traders;
- Improved logistics; and
- Better border crossing and port services.

Operational Guidelines for Poverty-reducing Agriculture and Trade Programs

Programs to implement pro-poor agriculture and trade policies should

- Harness private sector and community resources and minimize reliance on outside funding.
- Enable local and national farmer/trader organizations to take increasing responsibility for strategic direction and operation.
- Ensure increasing self-funding of the development process.
- Contribute directly to improving the enabling environment for dynamic growth, with only limited short-term assistance to individual enterprises.
- Prioritize the development of transportation and communication links between farms and final markets.
- Build capacity in trade facilitation measures, such as customs and cross-border activities.
- Be geared to small and medium-size farms and firms, focusing on transfer of production technology and the development of regional and global export market links.
- Facilitate linkages between the market and smallholders, such as contract farming, to enhance the poverty reduction impact.

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[31] Most cultivated fruits, grains, legumes, and livestock breeds that dominate world agricultural trade first emerged from responses to domestic rather than export demand.

5. Conclusions

African agriculture possesses the physical, human, and technological resources necessary for a foundation for broad-based economic growth. And pro-poor agricultural growth can significantly reduce poverty in SSA. Many of the region's agricultural sectors are not performing up to their potential, but others are—and on a global scale. In fact, sales of agricultural exports have far outperformed domestic agriculture sales. Exporting to markets with greater purchasing power can accelerate growth, and developing regional markets can benefit internal markets where growth opportunities are frequently underestimated.

SSA farming livelihoods could be much improved if developed nations reduced domestic subsidies and all nations reduced tariff protections on imported processed agriculture products. But SSA countries do not control the agenda nor the means and pace of implementation of the WTO Agreement on Agriculture. They therefore should not rely on this path to relieve poverty among rural dwellers in the immediate future.

SSA countries, however, can and do determine and implement their own policies of pro-poor agricultural development, with some assistance from the international community. By following sound principles of inclusive agricultural development SSA can achieve its development objectives while lobbying for a more open and less distorting multilateral trading environment. The international community can help provide the means for both of these objectives by

- Facilitating investment in economic and social infrastructure in rural areas;
- Following through with capacity building activities in farm production, marketing, export development, and trade; and
- Nurturing a more outward-looking approach to the multilateral trading system through policy dialogue on domestic, global, and regional platforms that will eventually lead to reform of farm subsidies and tariff protection in developed countries.

If these measures are implemented in a coordinated and balanced fashion, poverty in SSA could be substantially reduced.

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